NHS Audit Committee Handbook

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NHS Audit Committee Handbook

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NHS Audit Committee Handbook
FOREWORD

This new version of the Audit Committee Handbook has been developed by the HFMA’s Governance and Audit Committee and takes account of developments since the 2005 edition was published. It reflects the structure of the NHS in 2010/11 and will be updated once the coalition government’s proposals for the restructuring of the NHS in England are introduced.

In terms of our approach, the Handbook builds on the principles set out in 2005, but has been restructured, updated and expanded so that it now provides Audit Committee members with both a succinct summary of what is expected from them and a series of practical tips and pointers to help them put the theory into practice.

Audit Committees have a crucial role to play in the governance of every NHS organisation – unless they report effectively on the relevance and rigour of the underlying structures and processes and on the assurances that the Board receives, the entire governance framework can be compromised. Audit Committee members must therefore take seriously their responsibility for scrutinising the risks and controls affecting every aspect of the business. At the same time, they must maintain the more traditional focus on finance and financial management.

While there can be no doubt that the role of an Audit Committee member is extremely demanding, it can also be an enriching and rewarding experience and we trust that this Handbook will help you as you discharge your responsibilities.

John Yarnold,
Chairman,
HFMA Governance and Audit Committee.
ACKNOWLEDGEMENTS

This Handbook has been written for the Department of Health and the HFMA by Roger Chapman, a former member of the HFMA’s Governance and Audit Committee with over 19 years of experience in the NHS. The editor was Anna Green.

The project was directed by the Association’s Governance and Audit Committee and we are grateful to all those committee members who have contributed to its development, namely:

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Paul Baulcombe
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INTRODUCTION

The guidance, examples and model terms of reference in this Handbook are designed to assist NHS Boards and Audit Committees as they review and continually reassess their system of governance, risk management and internal control to ensure that it remains effective and ‘fit for purpose’ in providing them with the assurance they require. This Handbook recognises that the requirement for a Statement on Internal Control, informed by an embedded system of assurance, and clear evidence of fitness to register with the Care Quality Commission, means that Boards and Audit Committees must consider the whole system of internal control. To carry this out effectively:

- Boards and their Audit Committee need to review their respective terms of reference and scheme of delegation to ensure that their roles and authority are distinct, appropriate and effective
- Audit Committees must have a broad remit, encompassing clinical, financial and all operational risks in order that they are able to take a comprehensive view of governance, risk management and internal control across the organisation
- Both Boards and Audit Committees must recognise the pivotal role the Assurance Framework should play in managing the organisation’s strategic objectives
- Audit Committees need to look at the ways that they work and consider how they can be more effective
- While broadening their remit, Audit Committees should continue to maintain a focus on achieving strong financial management across the organisation that will underpin operational developments
- In the context of future funding constraints, Audit Committees need to maintain a systematic approach that considers and measures the potential impact of proposed cost reductions on the quality of healthcare.

This Handbook is in five sections, starting with the corporate significance of an effective Audit Committee and going on to look at the importance of the Board’s Assurance Framework and ways in which the Audit Committee can ensure this works effectively for the organisation. It then looks at the Audit Committee’s specific role in scrutinising the assurances the Board relies on and the statements the Board must issue. There is also a section giving guidance on working with providers of assurance and finally the structure and practical working of the Committee itself. In each section, the Handbook includes practical examples and case studies to bring the guidance to life and illustrate how it can be implemented.
SECTION 1: WHY THE BOARD NEEDS AN AUDIT COMMITTEE

1.1 Why have an Audit Committee?

The formal requirement for every NHS Board to establish an Audit Committee originated in the Codes of Conduct and Accountability, issued by the Department of Health in April 1994. These Codes were re-issued in 2004 and remain in place today. For foundation trusts (FTs), the requirement to have an Audit Committee is set out in Monitor’s Code of Governance.

NHS Board members have a daunting task in overseeing some of the largest and most complex organisations in the country. To fulfil this role it is the Board’s responsibility to put in place governance structures and processes to:

- Ensure that the organisation operates effectively and meets its strategic objectives
- Provide the Board with assurance that this is the case.

However, even the best structures and processes can let down an organisation if they and the assurances they provide are not operated with sufficient rigour. Boards can, and should, look to their Audit Committee to review and report on the relevance and rigour of the governance structures in place and the assurances the Board receives.

It is important to bear in mind that an organisation’s line managers have the prime responsibility for managing risk, which they do by applying controls to mitigate it. However, the Board needs to monitor actions taken to reduce risk to its strategic objectives. The Audit Committee can support the Board in this area by:

- Obtaining assurance that controls work as designed
- Challenging poor sources of assurance.

1.2 What does the Audit Committee do?

The Audit Committee supports the Board by critically reviewing governance and assurance processes on which the Board places reliance. At the corporate level these will include a risk management system and a performance management system underpinned by an Assurance Framework.

The Assurance Framework is the ‘lens’ through which the Board examines the assurance it requires to discharge its duties. The key question Board members need to ask is ‘How do we know what we know?’ The Assurance Framework should provide the answer.

No Audit Committee can now afford to limit itself to the long-established focus on internal financial control matters. The importance of that financial scrutiny has never diminished, but the need for similarly rigorous control over all activities has led to a much wider focus by the Audit Committee in the public sector, and in particular the NHS, where Boards have to meet a broad range of stakeholder requirements.

As far as the Board is concerned there are two key areas on which it should look to the Audit Committee for assurance: its Assurance Framework and the public disclosure statements that flow from the assurance processes.
1.3 Assurance Framework

As Boards increasingly rely on their Assurance Framework to monitor strategic objectives and identify significant inherent risks, the Audit Committee’s primary role is to look behind the Framework to provide assurance that it is valid and suitable for the Board’s requirements. Through its work, the Audit Committee can review whether:

- The format of the Assurance Framework is appropriate for the organisation
- The processes around the Framework are robust and relevant
- The objectives in the Framework are appropriate for the organisation
- The controls in place are sound and complete
- The assurances are reliable and of good quality
- The data the assurances are based on is reliable.

In this way the Audit Committee provides valuable assurances to the Board that the organisation has sufficient controls in place to manage the significant risks to achieving its strategic objectives and that these controls are operating effectively. This activity is described in more detail in Section 2.

1.4 Disclosure statements

The Audit Committee also has a pivotal role to play in reviewing the disclosure statements that flow from the organisation’s assurance processes. In particular these comprise the Statement on Internal Control (informed by the Head of Internal Audit Opinion), the evidence required to demonstrate fitness to register with the Care Quality Commission, the annual report and accounts and the quality account. These and similar statements should be reviewed by the Audit Committee prior to submission to the full Board. The Audit Committee will seek assurance about the rigour of the processes and the quality of the data which lie behind the statements and provide its own assurance about the reliability of the disclosures when they are subsequently submitted to the Board for approval. This activity is described in more detail in Section 3.

1.5 What does the Audit Committee NOT do?

To establish and cement its role, it is important that the Audit Committee does not take on any responsibilities which are not those of an Audit Committee.

In particular, it is not the job of the Audit Committee to establish and maintain processes for governance.\(^1\) This is clearly the responsibility of executive directors and the Accountable Officer (the organisation’s Chief Executive).

\(^1\) Governance is defined by the Audit Commission in its 2003 guide *Corporate Governance: Improvement and Trust in Local Public Services*, as ‘The framework of accountability to users, stakeholders and the wider community, within which organisations take decisions, and lead and control their functions, to achieve their objectives’.
It is also important that the Audit Committee is neither a finance committee nor an investment committee, with responsibility for regular review and approval of financial reports or investment proposals.

Finally, the Audit Committee does not oversee the risk agenda. The organisation will have an executive structure for this. Risk is explored further in sections 2.3 and 4.1.

1.6 What authority does the Committee have?

The Audit Committee must be invested with sufficient authority to act with independence. It should be constituted as a committee of the Board and the terms of reference should be set out in the minutes of the Board. Specimen terms of reference are included at Appendix A.

The Audit Committee should have explicit authority to receive full access to information and the ability to investigate any matters within its terms of reference, including the right to independent professional advice. The Trust (or Company) Secretary (or other senior officer if this role does not exist) should ensure that the Committee receives the resources that it needs to fulfil its role. Membership of the Committee should be disclosed in the annual report.

1.7 What relationship does the Committee have with auditors?

The Audit Committee’s relationship with the organisation’s internal and external auditors is central to its role, as they can provide both assurance and insight into the management arrangements within the organisation. Indeed, the Head of Internal Audit is required to provide the Audit Committee with an annual opinion on the overall adequacy and effectiveness of the organisation’s risk management, control and governance processes. Increasingly, and to support their wider role, Audit Committees are also working with clinical auditors. These relationships, as well as those with counter fraud, are explored more fully in Section 4, which also refers to the Audit Committee’s role in monitoring the quality of internal and external auditors and, in certain circumstances, playing a part in their appointment.

1.8 How does the Committee report to the Board?

Audit Committee meetings and their minutes should be formal. The minutes should be presented at the following Board meeting and these should be made public, as far as possible.

The Board should agree with the Audit Committee what assurances it requires and when it needs to receive them. This point is emphasised in the Audit Commission’s 2009 report *Taking it on Trust* which states:

‘The Board needs to agree with the Audit Committee what assurances it requires and when, to feed its annual business cycle. In order to meet these expectations the Audit Committee needs a clear view of its programme across the year. In reality, these expectations are likely to relate to certifications that the Board must make, including returns to Monitor and the Care Quality Commission . . . . However, increasingly, this might also involve assurances over the control of major projects or business processes.’
Therefore, in addition to its minutes, the Audit Committee should provide the Board with formal reports of its work and the assurances that have been received and validated. The Board should receive an annual summary report but will be helped in its own work if the Audit Committee also provides one or more interim reports on matters relevant to, or specified by, the Board. This is discussed in more detail in Section 3.
SECTION 2: THE AUDIT COMMITTEE AND THE FRAMEWORK OF ASSURANCE

2.1 How should the Audit Committee focus its work?

This section expands on the Audit Committee’s role in relation to the Assurance Framework and then addresses the Committee’s focus on financial, clinical and other matters.

The Assurance Framework is the key source of evidence that links strategic objectives to risks, controls and assurances, and the main tool that the Board should use in discharging its overall responsibility for internal control. The primary role of a modern Audit Committee is to continually review the relevance and rigour of the Assurance Framework and the arrangements surrounding it. To this end the Committee should use the Assurance Framework both as the central tool for planning its work and as a key topic for its scrutiny. If it does this, the Committee is able to provide the Board with assurances about the content and operation of the Framework.

2.2 How does the Committee use and support the Assurance Framework?

The work of the Audit Committee is not to manage the process of populating the Assurance Framework or to become involved in the operational development of risk management processes, either at an overall level or for individual risks. These are the responsibility of the Board supported by line management. The role of the Audit Committee is to satisfy itself that these operational issues are being carried out appropriately by line management.

However, the Committee should review the processes and, indeed, the format of the Assurance Framework to ensure that these remain relevant and effective for the organisation. In this way, the Committee can provide assurance that the Framework concentrates on the high risk areas, either where the inherent risk is high and the level of dependence upon the operation of controls is critical, or where the residual risk is high and the situation needs monitoring.

2.3 Assessing risk

For an organisation’s Assurance Framework to be effective there must be a robust system in place for the identification, assessment and prioritisation of risk. All risks identified must be scored using a system that enables them to be ranked in terms of their inherent severity. This normally takes account of the likelihood of a risk occurring and the impact on the organisation if it does. Once risks have been ranked, a decision can be made as to whether they need to be mitigated or managed through the application of controls or avoided, transferred or accepted.

Good risk management encourages organisations to take well-managed risks that allow safe development, growth and change. However, as it is impossible to eliminate all risks every organisation has to live with a degree of risk. It is for the Board to decide the balance between the cost of mitigating risks, tolerating risks and accepting the risk which is not mitigated. Once decided, this is known as the ‘risk appetite’ of the organisation. It is defined in terms of the severity of residual risk which can be tolerated. There is, therefore, a very close relationship between the system for scoring risk and the criteria for defining the risk appetite. Appendix G sets out an example of a risk scoring system and criteria for a risk appetite matrix.
Having defined the risk appetite, an organisation’s risk management framework should also establish the structures and responsibilities for managing all risks and for escalating to a higher level those that are rated above the defined risk appetite. Although the Audit Committee will not be directly involved in the process of risk management, the organisation’s risk management system will underlie the Assurance Framework and, therefore, much of the Audit Committee’s work in scrutinising assurance about the robustness of internal control within the organisation.

**CASE STUDY**

**A comprehensive risk assurance process**

This trust has an effective ‘top down, bottom up’ approach to the identification and stratification of risk. The ‘top down’ element is the establishment of a risk stratification matrix which enables it to define clearly its risk appetite (see paragraph 2.3). The ‘bottom up’ is the system whereby every employee may enter risks onto the risk register. These are moderated and classified consistently in accordance with the corporate risk management policy. If the classification ranks them as high in relation to the Board’s risk appetite, they are escalated to the Board’s Assurance Framework.

The Assurance Framework is formulated in a way which allows the Board to focus on key controls and key sources of assurance on all the inherent risks to strategic objectives classified as high. Over each twelve month period the Board requires an update from the lead Executive Director on each of the key controls and key sources of assurance. The strength of these assurances is reviewed by the Audit Committee annually. Sometimes this review will involve commissioning internal audit to assess the quality of the assurance. In this organisation, a compliance team (which is part of the governance team but is managed by internal audit) ensures that both the key controls and key sources of assurance with respect to all strategic risks are verified during each annual cycle.

**2.4 Reviewing the arrangements in place**

For many organisations the Assurance Framework is a lengthy document that is not always well understood. This can be an impediment to its effective use for managing the business and its strategic priorities.

To be of most use to an organisation, it is important that the Assurance Framework and the processes for using it suit that particular organisation. As Assurance Frameworks mature, they can be expected to vary in style and content. Appendix E discusses the nature and uses of an Assurance Framework and Appendix F provides examples of how the format may be varied to suit individual organisations.

The Audit Committee can make a significant contribution to the organisation by questioning whether the format of its Assurance Framework and the arrangements in place really do work for their particular organisation or whether a change would be beneficial. This is separate from any work on the Framework’s detailed content and questions the Committee may want to
consider include:

- Is it clear what the organisation’s Assurance Framework is for?
- Is there clarity over the ways in which the Assurance Framework is used within the organisation (for example, different committees will focus on different elements, see Appendix E)?
- Are the existing processes for compiling, maintaining and using the Assurance Framework appropriate to the purposes identified?
- Is the existing format appropriate for the purposes identified?

The Committee will also want to think about how the Framework could develop – issues that need to be thought through are set out below:

<table>
<thead>
<tr>
<th>Assurance Framework development – questions for the Audit Committee to consider</th>
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</thead>
<tbody>
<tr>
<td>- How do you currently use your Assurance Framework?</td>
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<tr>
<td>- How would you like to use it?</td>
</tr>
<tr>
<td>- Who else/what other groups do you think could use it?</td>
</tr>
<tr>
<td>- What do you think of the current format?</td>
</tr>
<tr>
<td>- What areas do you think need changing, if any?</td>
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<tr>
<td>- How would you change them?</td>
</tr>
<tr>
<td>- What is the process for adding new items to this document?</td>
</tr>
<tr>
<td>- What do you think the Assurance Framework is there to do?</td>
</tr>
<tr>
<td>- How much comfort does it give you in relation to the running of the organisation?</td>
</tr>
<tr>
<td>- What else gives you comfort and how can you capture those things on the Assurance Framework?</td>
</tr>
<tr>
<td>- How does it link to the risk register?</td>
</tr>
<tr>
<td>- How does it fit with the Board agenda?</td>
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</table>

Assessing and reporting on the suitability of the format and processes around the organisation’s Assurance Framework will assist the organisation in maximising the value of its Assurance Framework and will provide a sound basis for the Audit Committee to comment on the key aspects, namely:

- Whether the objectives in the Framework are appropriate for the organisation
- That controls in place are sound and complete
- That assurances are reliable and of good quality
- That the data the assurances are based on is sound and accurate.

2.5 Strategic objectives and how they link to the Assurance Framework

The Assurance Framework should follow the structure of the organisation’s strategic objectives. The Audit Committee should look at the process by which these are compiled and satisfy itself that the objectives are sufficiently strategic, clearly stated and not too numerous to be unmanageable. This point is highlighted in *Taking it on Trust*, which states that ‘trusts should review their strategic aims and objectives and make sure that they are clearly defined and sufficiently few in number so they can be widely understood and clearly cascaded throughout the organisation*. 
In particular, the Committee should review:

- Who was involved in compiling the strategic objectives (whether enough or too many people, whether all relevant parts of the organisation had an input)
- How the final objectives were decided upon (by whom, by what criteria)
- Whether the resulting objectives are clearly defined, of a manageable number and clearly cascaded through the organisation.

It is important to note that operational risks should be outside the Assurance Framework.

CASE STUDY
Review of the strategic objectives

One Audit Committee holds a workshop to review the initial Assurance Framework for the year, following the Board's approval of the corporate strategic objectives. This review takes account of all the considerations in the section above. About six months later, a mid-year review takes place to help ensure that any new risks arising have been appropriately included in the Assurance Framework.

2.6 Controls in the Assurance Framework

The controls in the Framework are what the organisation relies on from day to day. In assessing these, the Audit Committee should question whether:

- The controls described are relevant to the risk
- The risks they cover relate to the organisation’s strategic objectives
- The controls are complete in terms of adequately covering all of the key risks.

The Committee should then seek assurances from management, auditors and any other external sources of assurance as to whether they are sound in the way they are designed and operated and that they operate consistently over time.

The Committee should also consider the overall 'audit needs' of the organisation in terms of the sources of assurance, both independent and from line management, and ensure that there is a plan for these assurances to be received. This should form a key part of the audit planning process and involve a detailed review of the current sources of assurance and the prioritisation process. This can be reviewed in-year using the Assurance Framework and knowledge of Board priorities to reconfirm the audit plans, particularly in relation to internal audit.

2.7 Assurances in the Assurance Framework

As its name suggests, the assurances in the Framework are the key element which enables the Board to distinguish those areas that are being well managed and those that may be a cause for concern. These assurances can be outcome data, process data or reports from inspections or reviews carried out. The Audit Committee’s role in understanding whether the various assurances received are reliable and of good quality is therefore critical. Matters the Committee should consider include:
• The nature and source of the body providing the assurance (internal or external, independent of management or not, status and reputation of the body)
• The skills and experience of those providing the assurance
• The nature and extent of the work that lies behind their assurance (the approach taken, did they visit the organisation? was it a brief overview or an in-depth study? was comparative data used?)
• How current the assurance is (was it received recently? is the work behind it recent?)
• What was the purpose of the review?

Both the Board and the Audit Committee are seeking ‘positive’ assurances that risks are controlled. It is useful to distinguish positive assurances from potential sources of assurance. Potential sources are those where the organisation may gain evidence that controls on which it is placing reliance are effective. Positive assurances mean that the Board has actual evidence that shows the organisation is reasonably managing its risks and strategic objectives are being delivered. Through its scrutiny, the Audit Committee can report to the Board where assurances are both positive and reliable.

The Audit Committee may also identify ‘negative assurance’, for example, a source giving a poor opinion or a conflict between two sources of assurance. In such cases, the Audit Committee will expect management to put in place actions to strengthen the controls and to seek independent assurance about the effectiveness of these.

CASE STUDY
Reviewing the assurances
This Audit Committee’s annual schedule of work ensures that at least two of the organisation’s strategic objectives, as included in the Assurance Framework, are on the agenda for each meeting. The Executive Director responsible for that objective is asked to provide the evidence recorded in the ‘assurance’ column of the Assurance Framework to members in advance of the meeting. The Executive Director is also required to attend the next meeting and present a one page paper on the assurance available. The Committee members review the information provided and ask questions to assess the adequacy and completeness of the assurances in relation to that objective.

CASE STUDY
Quality of assurances
A number of events between 2007 and 2010 in the private, financial and public healthcare sectors have demonstrated that senior teams/Boards can be blinded by quantity of evidence that lacks quality and relevance.

Many NHS organisations suffer from the symptom of having a huge quantity of evidence giving a false sense of assurance. Instead they should be assessing the quality of the evidence based on a number dimensions:
2.8 Underlying data

The fourth and critical element for the Audit Committee to consider is whether the data on which assurances are founded is reliable. In particular, the Committee should ask whether the data used is:

- Valid (what sources were used, if internal what assurance do we have over validity? if externally generated how was it validated?)
- Complete (did the data collection include all relevant elements and factors?)
- Up to date (what period does the data relate to? how recently was it collected?)

The detailed content of an Assurance Framework will vary from organisation to organisation but the overall approach should be broadly the same – some examples are set out in Appendix F.

2.9 Reviewing the results of assurances and the Framework

Having satisfied itself as to the quality of assurances received, the Audit Committee should review the results of these assurances (either in whole or specific to a risk or objective) and the implications that these have for the achievement of objectives. In doing so, the Committee should concentrate on whether the overall objective is being met, that the main controls are operating as expected and that agreed actions for improvement are being implemented. The Committee should also seek practical evidence that the Assurance Framework is operating effectively in the organisation. Examples of effectiveness include:

- Issues identified in the Statement on Internal Control being picked up the following year
- Whether there is a link between the corporate risk register and the performance management system.

2.10 How should the financial focus be maintained?

The maintenance of sound public accountability, through financial reporting and the maintenance of sound systems of internal financial control remains a critical element of the Audit Committee’s work. Financial reporting in this context includes both actual and forecast revenue and capital income and expenditure, and cash flow.

A key role of the Committee is to review, agree and recommend to the Board for approval the annual report and accounts. Given the importance of financial management in the NHS, the Committee should also ensure that it is reviewing regularly the risks and controls around
financial management, and assure itself that the most effective means of management are operating to meet the organisation’s statutory duties and business/operational needs. In particular, the robustness of monitoring management accounts and Board reports should be reviewed.

In doing this work the Committee will need to consider the integrity, completeness and clarity of financial reporting, taking into consideration the views of external and internal auditors and considering issues of judgement and estimates that could have a bearing on the accounts. Should concerns arise, the Committee should bring these to the attention of the full Board.

Although the Director of Finance does not have the same reporting relationship to the Audit Committee as the respective sets of auditors, he or she is critical to the successful operation of the Committee. The Director of Finance has operational responsibility for establishing and maintaining a sound system of internal financial control, is responsible for the production of the annual accounts, is the key contact for the external auditors and is increasingly taking on wider risk management responsibilities. Consequently, the Director of Finance will be a key executive contact with the Committee and its Chair and it will be the Director of Finance that the Committee will turn to for explanations, clarification and support in relation to financial matters. The Committee can also offer the Director of Finance a high profile forum of support when potentially difficult financial control decisions are required.

2.11 Should the Audit Committee consider clinical governance issues?

Because the core business of every NHS organisation is healthcare, the Audit Committee should, and must, spend time reviewing the healthcare aspects of the business. In particular, it falls to the Audit Committee to consider the clinical objectives and risks in the Assurance Framework and to report to the Board on the controls and assurances in relation to these. Provider trusts will be concerned with the clinical care provided within their organisations whereas PCTs need to take account of the arrangements made by their providers and the extent to which their Professional Executive Committees (PECs) can obtain confirmation of assurances.

There may be a perceived concern of duplication in the Audit Committee looking at such matters but its role in relation to clinical services is clearly distinguishable. Its role, at all times, is to satisfy itself that the same level of scrutiny and independent audit over controls and assurances is applied to the risks to all strategic objectives, be they clinical, financial or operational. As with financial and operational objectives, the Assurance Framework is the foundation for the Audit Committee’s work in addressing risks to clinical objectives and satisfying itself that controls are adequate and assurances are sound and sufficient.

2.12 Clinical risks arising from financial pressures

Financial pressures, when they arise, may lead to changes in clinical services. Both the pressures themselves, and the changes that follow, create the potential for increased risk in the organisation’s operations and clinical services. It is for management to identify and mitigate such risks but there is a key role for the Audit Committee to play in recognising the increased risk and satisfying itself that adequate controls are in place and reliable assurances are reported.
2.13 What other assurances should be sought?

Some assurances will come from sources external to the organisation (such as the Royal Colleges or the NHS Litigation Authority), and Committee members should ensure that they are informed of relevant reports and recommendations that are issued. Executive directors, when they attend meetings of the Audit Committee, should bring such assurances to the Committee. However, the Trust/Company Secretary (or other senior officer if this role does not exist) should advise the Audit Committee Chair of such reports and when and how they will be brought to the Committee.

Other assurances will be internal to the organisation (such as infection control, clinical audit and counter fraud). Whether internal or external, the Committee will wish to understand the basis on which they have been prepared and thereby the extent of assurance or otherwise which the Committee may take from them. Appendix 3 of Taking it on Trust lists commonly used sources of assurance (both internal and external) and is a useful source of reference, as shown below (please note that the table has been updated to reflect the fact that the Care Quality Commission is now in place):

<table>
<thead>
<tr>
<th>Commonly used sources of assurance from Assurance Frameworks</th>
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<tbody>
<tr>
<td><strong>Source:</strong> adapted from the Audit Commission report Taking it on Trust</td>
</tr>
<tr>
<td><strong>Internal sources of assurance</strong></td>
</tr>
<tr>
<td>Internal audit</td>
</tr>
<tr>
<td>Key performance indicators</td>
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<td>Performance reports</td>
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<td>Sub-committee reports</td>
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<td>Compliance audit reports</td>
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<td>Local counter fraud work</td>
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<td>Clinical audit</td>
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<tr>
<td>Staff satisfaction surveys</td>
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<td>Staff appraisals</td>
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<td>Training records</td>
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<tr>
<td>Training evaluation reports</td>
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<tr>
<td>Results of internal investigations</td>
</tr>
<tr>
<td>Serious untoward incident reports</td>
</tr>
<tr>
<td>Complaints records</td>
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<tr>
<td>Infection control reports</td>
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<tr>
<td>Declarations to Care Quality Commission</td>
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<tr>
<td>Information governance toolkit self-assessment</td>
</tr>
<tr>
<td>Patient advice and liaison services reports</td>
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<tr>
<td>Human resource reports</td>
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<tr>
<td>Internal benchmarking</td>
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</table>
SECTION 3: THE WORK OF AN AUDIT COMMITTEE

3.1 How does the Audit Committee work in practice?

The previous sections have defined the position and role of the Audit Committee within the organisation and its key role in relation to the over-arching Assurance Framework. The Handbook now turns to more specific guidance on how the Audit Committee conducts its business and fulfils the role that has been described.

The Committee conducts most of its business through regular meetings. However, the Chair will do a certain amount of work outside the Committee’s meetings (see 5.2), much of which is in preparation for the meetings.

Section 2 described what the Committee can do in relation to the Assurance Framework and this section describes what Committee members can expect to do with regard to other key items that are within their remit and on their agenda – specifically, reviewing corporate disclosure statements and reporting to the Board.

3.2 How does the Committee review the Statement on Internal Control?

The Committee is required to review the annual Statement on Internal Control (SIC) before it is submitted to the Board for its scrutiny. To ensure that deadlines are met, this usually involves considering a report from the Chief Executive before the end of May. The Committee will wish to consider:

- Whether the statement includes all the elements required in guidance from the Department of Health (or Monitor in the case of foundation trusts)
- Whether there are any inconsistencies between the statements made and reports the Committee has received from auditors or other sources of assurance
- Any significant control issues or gaps in control or assurance recorded are consistent with reports the Committee has received.

The Committee will then report to the Board confirming that the draft SIC is consistent with the view of the Committee on the organisation’s system of internal control and that it supports the Board’s approval of the Statement, subject to any reasonable limitations that the Committee may draw attention to. This is likely to coincide with the annual Head of Internal Audit Opinion, which is designed to be one of the elements which informs the SIC.

CASE STUDY

Review of the Statement on Internal Control

The Trust’s Audit Committee plays a pivotal role in the review of the SIC and this is included on the Audit Committee’s annual schedule of business. A draft Statement is prepared by the Chief Executive and presented to the internal and external auditors and the Audit Committee for scrutiny and comment.
3.3 How does the Committee review the annual accounts?

The Committee is required to review the annual accounts before they are submitted to the Board. Usually this involves considering a report from the Finance Director in April or May. The case studies in the box below indicate how the Committee might approach its review of the annual accounts, before recommending them to the Board.

**CASE STUDIES**

**Reviewing the annual accounts**

**Case study 1**

The presentation of the audited accounts to the Audit Committee was accompanied by a particularly good briefing which outlined:

- Performance against all financial targets,
- Reasons behind the big moves between financial years
- Changes in, and compliance with, accounting policies and practices
- Major areas of judgement
- Significant adjustments arising from the audit
- The sources of assurance available to the Audit Committee which would help it to support the recommendation to the Board to adopt the accounts.

This was followed by a lengthy and informed discussion on a range of issues by the non-executive directors (NEDs).

**Case study 2**

This PCT arranged an informal meeting of the Audit Committee, one week prior to its formal meeting, where the Director of Finance presented the full financial statements. The external audit manager also attended to provide details of audit findings and what these mean for the accounts approval process. Time invested in the informal meeting enabled a more productive formal Audit Committee meeting. Questions asked at the formal meeting were more informed, relevant and demonstrated non-executive directors’ understanding of the financial statements and the accounts and audit process.

3.4 How does the Committee review the evidence required to demonstrate fitness to register with the Care Quality Commission?

The Committee will wish to review the evidence required to demonstrate fitness to register with the Care Quality Commission. The Committee will wish to consider the rigour of the...
process for compiling the evidence and the quality of the data available to demonstrate compliance as well as comparing the statements made with the Committee’s own knowledge and assurances. The Committee will then report to the full Board that the evidence compiled to demonstrate fitness to register with the Care Quality Commission is consistent with the Committee’s understanding, gained through the Assurance Framework.

CASE STUDY
Terms of Reference of an internal audit review of the CQC registration arrangements

Introduction and background
The Care Quality Commission (CQC) introduced a new regulatory framework, assessment and registration process that applied to Trusts with effect from 1 April 2010. In this Trust, the 2009/10 Audit Plan was amended to enable internal audit to undertake an assessment of the Trust’s readiness in relation to the CQC registration requirements.

Objectives of the audit
The overall objective of this review was to provide the Audit Committee with an in-year assessment of the Trust’s approach to this development with a view to raising awareness.

Conclusion – audit assurance opinion
Our assurance opinion has been limited to the design of the system as it is too early to test its implementation. This review has been conducted to provide assurance that the Trust is doing its reasonable best to enable an informed decision to be made about the registration to the new CQC regulatory framework.

We are in the process of producing a benchmark of progress for all clients within the Consortia and across another consortium to enable a reasonable comparison of practice to be made. We are also working with our strategic partner to identify any potential sources of good practice nationally. This will be fed back in due course.

3.5 How does the Committee review the quality accounts?
From 1 April 2010, all providers of NHS care are required to produce ‘quality accounts’ to provide the public with information on the quality of care they deliver. The Audit Committee will wish to review this account before its submission to the Board. The Board is required to sign a statement of accountability for the quality account, which has two elements. The first is whether the data reported in the quality account is reported accurately, which is not only about the reliability of the data but also about its interpretation. The second is whether the quality account is representative in its reporting of the services provided and the issues of concern to its stakeholders. The Committee will wish to consider the rigour of the processes for identifying and defining the services to be reported and the improvements to be planned for as well as the processes for compiling and interpreting the data used as indicators of performance. The Committee will then report to the full Board on the robustness of the processes behind the quality accounts.
3.6 How should the Committee report at year end?

In line with best practice in other sectors, the Audit Committee should prepare a report to the full Board that sets out how the Committee has met its terms of reference.

The report should include, as a minimum:

- That the system of risk management in the organisation is adequate in identifying risks and allowing the Board to understand the appropriate management of those risks
- That the Committee has reviewed and used the Assurance Framework and believes that it is fit for purpose and that the ‘comprehensiveness’ of the assurances and the reliability and integrity of the sources of assurance are sufficient to support the Board’s decisions and declarations
- That there are no areas of significant duplication or omission in the systems of governance in the organisation that have come to the Committee’s attention and not been resolved adequately.

In addition, the report should highlight to the Board the main areas that the Committee has reviewed and any particular concerns or issues that it has addressed. These could include:

- The reliability and quality of the organisation’s financial reporting systems that ‘sit’ behind the financial position reported to the Board
- Any major break-down in internal control that has led to a significant loss in one form or another
- Any major weakness in the governance systems that has exposed, or continues to expose, the organisation to an unacceptable risk
- The reliability and quality of clinical information systems and clinical auditing processes and the extent to which the Board can take assurance from these.

The Committee’s annual summary report is presented to the Board promptly after the financial year end and before it considers the annual report and statutory declarations. As a result, the annual report will make a general reference to the Committee’s role in these matters but its detailed opinions will be the subject of subsequent, specific reports to the Board.

**BEST PRACTICE**

**The Audit Committee’s annual report**

- The report should not be long (3 or 4 pages should be sufficient) and may be drafted by the Trust/Company Secretary (or other senior officer if this role does not exist) under the direction of the Chair of the Audit Committee
- The Committee Chair should take overall responsibility for the report’s preparation and share drafts of the report with the non-executive members of the Committee
- The final draft report should be shared with the internal and external auditors, to ensure that it is consistent with their understanding, and with any other regular attendees to the Committee, such as the Director of Finance. However the final ownership of the report should be with the Committee members
- The report should go to all members of the Board in advance of the meeting to agree the annual report and accounts
- If the report includes any significant issues, this should be discussed by the Audit Committee Chair with the Chair of the organisation prior to the report being presented to the Board.
An example annual report from one Trust’s Audit Committee is set out in Appendix D.

3.7 How should the Committee report during the year?

As the Audit Committee’s work becomes increasingly aligned to the Board’s agenda, its in-year reporting to the Board will be of increasing significance. Specifically, the Committee will alert the Board to the results of its reviews of assurances as well as any ‘exceptional’ issues that arise during the year and which fall within its area of interest. In addition, the Board will expect to receive reports arising from the Committee’s review of the annual report and statutory declarations as well as any other matters requested by the Board at the start of the year. Normally, reports from the Audit Committee should take the form of clear concise minutes, presented by the Audit Committee Chair with an oral summary or a written preface highlighting the key messages – for example, new risks, new assurances, progress with actions to close gaps in control or assurance.
SECTION 4: WORKING WITH OTHER COMMITTEES AND AUDITORS

In fulfilling the roles described in the previous sections, the Audit Committee will want to rely on the organisation’s internal arrangements and auditors. This chapter describes its relationship with other committees, with internal, external and clinical auditors and with counter fraud. It also makes reference (in 4.7) to governance between organisations, which is of increasing importance with the expansion of shared services and partnership working. This section sets out the assurances the Audit Committee can expect to derive from each and suggests how the Committee can assess the value and reliability of assurances received from the auditors.

4.1 How should the Committee relate to a Governance or Risk Management Committee?

The Audit Committee will need to have an effective relationship with any Governance or Risk Management Committee that exists within an organisation so that it can understand the processes in operation. The Audit Committee’s role is not to manage risks, but rather to ensure (on behalf of the Board) that the overall system for risk management is in place and effective as described in section 2. Operational responsibility for the management of risk lies with a Risk Management or Governance Committee and senior managers. It is very important that the roles of such committees are not merged with those of the Audit Committee, as this would impair the independence the latter needs to be able to review and comment on the effectiveness of the risk management arrangements. Rather the respective terms of reference of each committee should make clear their very distinct roles.

CASE STUDY

Relationship with other important committees

The Audit Committee Chair invites the chair of the Governance and Risk Management Committee to sit in at Audit Committee meetings at least once a year to explore their respective roles and to assess the effectiveness of the relationship between the committees. A similar invitation is extended to the chairs of other key committees (for example, clinical governance and quality) from time to time.

4.2 How do the auditors support the Audit Committee’s work?

While the Committee’s name refers to ‘Audit’, this does not alter the fact that the majority of assurances to the Committee should come from management. In addition to this the Committee will quite rightly look to auditors (internal, external and clinical) to provide a critical element of independent assurance.

It is not the role of the Audit Committee to manage the organisation’s audit functions; rather it should use the internal, external and clinical auditors to assist it in meeting its needs, along with other sources of advice and assurance.

In particular, the Committee should actively review the plans of the auditors, understanding the distinct and separate roles that each plays. While the role of external auditors is set out...
clearly in the Audit Commission’s *Code of Audit Practice* (or Monitor’s *Audit Code for Foundation Trusts*), there is more scope for the Audit Committee to be pro-active in influencing the internal audit strategy and requesting work from internal audit that focuses on its assurance needs, and thereby the needs of the Board. In a similar way the Committee may work closely with clinical audit.

At present, external auditors are appointed by the Audit Commission, or by the Governors in NHS foundation trusts. In the case of NHS foundation trusts, the Audit Committee is required to monitor the quality of external audit work and to make a recommendation to the Board of Governors annually regarding their reappointment. While Audit Committees in other NHS bodies have no formal role in the appointment of external auditors, they will still wish to monitor the quality of external audit.

Internal audit may be employed directly or on the basis of a shared service with other trusts, provided through an NHS consortium, or contracted in from a commercial firm. In all cases the Audit Committee will want to assess the quality of the service and the extent to which it meets the organisation’s needs. If a new appointment is under consideration, the Audit Committee will expect to be consulted and involved in the process.

The expectations set out in the following paragraphs and in the best practice boxes will assist the Audit Committee in:

- Understanding and maximising the support and assurance it can receive from auditors
- Monitoring the quality of the audit services being provided.

### 4.3 How does internal audit support the Audit Committee’s work?

An effective Audit Committee is dependent, in many respects, on the existence of an effective internal audit function. The *NHS Internal Audit Standards* describe internal audit as an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. As such, its role embraces two key areas:

1. The provision of an independent and objective opinion to the Accountable Officer, the Board, and the Audit Committee on the degree to which risk management, control and governance support the achievement of the organisation’s agreed objectives
2. The provision of an independent and objective consultancy service specifically to help line management improve the organisation’s risk management, control and governance arrangements.

The Audit Committee will find the *NHS Internal Audit Standards* (or *Government Internal Audit Standards* in a foundation trust) an essential source of reference for understanding what they can expect from internal audit and also when assessing the service provided.

It is important that internal audit is viewed as part of the organisation’s internal control environment and internal auditors should attend every Audit Committee meeting. The cycle of

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2 The coalition government has announced that the Audit Commission is to be abolished.
approving and monitoring the progress of internal audit plans and reports, culminating in the Head of Internal Audit’s Opinion on the system of internal control, are a key feature of the work of the Committee across the year.

The Head of Internal Audit should have a right of access to the Chair of the Audit Committee at any time, and it should be clear that management should not be allowed to restrict or censor this access. It is good practice for the Chair to meet informally with the Head of Internal Audit from time to time, perhaps in advance of each Audit Committee meeting. The Audit Committee should be able to direct internal audit to particular areas of concern in-year and internal audit providers should be flexible enough to react to any such requests.

**Risk based approach**

The value of internal audit to the Audit Committee derives from the ‘risk based approach’ to internal audit, which current professional standards require. The benefits manifest themselves in two key areas:

- Internal audit opinions – these are not limited to the extent of compliance with known controls but report on the relevance of the controls themselves in relation to the risks to the organisation
- Internal audit plans – the risk based approach informs the planning of internal audit’s strategy and programme of work. This means that the annual plan is based on a risk assessment of all activities in the organisation (clinical, financial and other), using the organisation’s objectives and risk assessment processes recorded in the Assurance Framework as a primary source. It leads to the existence of a multi-year audit plan (typically 3 years), rather than individual yearly plans, and this is subject to review in the light of changing circumstances.

**4.4 How should the Audit Committee review the internal audit plan?**

Each year’s internal audit annual plan should set out details of the assignments to be carried out, providing sufficient detail for the Audit Committee and other recipients to understand the purpose and scope of the assignments and their level of priority. The relationship between the plan and the Assurance Framework is critical and the Chief Executive will normally attend the discussion of the internal audit plan in recognition of his/her responsibility for, and ownership of, both. The Committee should be clear about those risks and controls that internal audit will be addressing and identify where else the Committee needs to turn to be assured on the risks and controls that are not covered within the internal audit plan. The Assurance Framework should be the mechanism that informs this task.

Internal audit should be able to describe its planning process in a way that satisfies the Committee that it is risk based and drawn up with an understanding of the whole organisation. This will normally be presented as part of the planning document submitted at the beginning of each year.
It is not possible to publish a model internal audit plan which applies in all cases but being aware of some of the key aspects of a good internal audit plan may help to assess whether or not the risk based approach has been applied effectively. The five headings in the box below give an example:

**Sources for a risk based audit plan**

1. **Core financial systems**  
   Like the Audit Committee, internal audit’s origins lie in financial controls but the value of applying similar standards of risk assessment and control to all aspects of the business has extended this remit. However, a prioritisation of core financial systems remains one element of a good internal audit plan.

2. **Governance and risk management**  
   A good internal audit plan will include a small allocation for review of high level governance and risk management arrangements in the organisation.

3. **Assurance Framework**  
   Because of the central role of the Assurance Framework, the Audit Committee will expect internal audit to review the effectiveness of internal control in selected areas of activity identified in the Framework.

4. **Audit risk assessment**  
   In applying the risk based approach to its planning internal audit will not only take account of the Assurance Framework but will also build on its own knowledge based on audit work and consultations with managers and executive directors. This can be expected to introduce topics which are not identified elsewhere. The ability of internal audit to bring forward new and appropriate topics might be considered one measure of the quality of the internal audit service.

5. **Consultancy**  
   This is a demand-led element of the internal audit service and while some topics may be identified in an annual plan, part of the value of consultancy lies in providing the capacity and flexibility to respond to priorities which emerge during the year.

The relative resources applied to each of the key areas identified above and the overall resources applied to internal audit are a matter for each Head of Internal Audit to recommend and for each organisation’s management and Audit Committee to take a view on. In making these judgements, the risk based approach can offer useful options in two respects:

1. The plan is unlikely to be static and topics will move in and out of the plan as the assessment of risk and control in each area changes, hopefully for the better. This means that over a period of years assurance on a wider range of topics will be received by the Audit Committee.

2. Not every topic that warrants a review needs to be covered every year. Long-term plans based on risk can include some topics on a two or three-yearly cycle. Where this is appropriate it has the added advantage of allowing a greater range of topics to be covered over the cycle.
internal audit arrangements and planning: best practice and questions to consider

- Does a formal internal audit ‘charter’ exist – in other words is there a written statement defining internal audit’s objectives, responsibilities, authority and reporting lines? Does the Committee see and review this?
- Does the internal audit ‘charter’ comply with the NHS Internal Audit Standards (or Government Internal Audit Standards in an FT) and set out the scope of internal audit activities, internal audit’s position within the organisation, its authority to access records, personnel and physical properties relevant to the performance of audit assignments/reviews and a set of performance indicators that monitor the overall quality of the service (an example of possible performance measures is included at Appendix H).
- The Audit Committee should expect to see audit plans that are derived from clear processes based on risk assessment and corporate objectives that can be reconciled to the Assurance Framework. However, the degree to which this is the case will depend upon the risk maturity of the organisation.
- How is the scope of internal audit work decided? What are the relative emphases given to internal control reviews, policy compliance reviews, value for money audits and consultancy assignments?
- Are any scope restrictions placed on internal audit and, if so, who establishes them?
- Does internal audit report directly to an appropriate level of management that will ensure that audit findings are given due weight and attention?
- Are the internal auditors free from any operational responsibilities that could impair their objectivity?
- Is the technical knowledge and experience of internal audit staff sufficient to ensure that duties are performed to an appropriate standard?
- Is there clarity about the quality and reliability of third party assurances and an indication of where the auditor has relied on these?
- Is the work of the internal auditors properly planned, completed, supervised and reviewed?
- Is the internal audit plan prepared following consultation with the external auditors?
- Are internal auditors asked about their internal systems of quality assurance and quality control, and do they provide feedback on the results of this?
- Does the Audit Committee receive an independent external report on the adequacy of internal audit (for example, from the external auditors)?

4.5 How should the Committee review internal audit assignment reports?

Having been involved in agreeing internal audit’s plan for the year, the Committee will expect to see regular reports of the results of each assignment. A periodic summary report of audits completed against the plan will enable the Committee to monitor progress in receiving the assurances anticipated. The Committee may wish to see the full report from each assignment as it is completed but in any case will need to know the level of assurance that has been given and the recommendations for improvement that have been made to management. In this way the Committee will receive prompt notification of the findings and assurances that internal audit has reported.
An important role for the Audit Committee is to monitor the implementation of agreed audit recommendations. The Audit Committee should ensure that the organisation adopts a robust process for monitoring the implementation of agreed audit recommendations and that regular progress reports are provided to the Audit Committee identifying any that have not been implemented within agreed timescales. Where the Audit Committee or Head of Internal Audit are concerned about the lack of implementation in a particular area, the Audit Committee can assist by asking the operational manager to attend and explain.

### Internal audit assignments: best practice and questions to consider

- The Audit Committee will wish to establish that the report arising from each assignment is issued to management on a timely basis.
- The Audit Committee will wish internal audit to prioritise its findings against defined levels of assurance, to indicate the importance of each finding and the urgency of action.
- The Audit Committee should ensure that once internal audit has agreed its findings and recommendations with management, the resultant agreed actions should identify individuals responsible for taking things forward and timescales for implementation.
- The Audit Committee should monitor the implementation of agreed actions by a variety of means, to review whether important recommendations have been actioned by management and that either assurance levels have improved or risks reduced.
- In each case the Committee will wish to consider whether to invite a relevant senior manager to report on progress.

4.6 How should the Committee review the Head of Internal Audit’s annual opinion?

The Head of Internal Audit is required to give a formal annual opinion to the Accountable Officer (or Accounting Officer in a foundation trust) and Audit Committee on the overall adequacy and effectiveness of the organisation’s risk management, control and governance processes. This will include opinions on:

- The design and operation of the Assurance Framework
- The evidence required to demonstrate fitness to register with the Care Quality Commission
- A summary opinion from the range of internal audit assignments completed during the year.

The Audit Committee will receive an annual report from the Head of Internal Audit expanding on these opinions and informing it about internal audit performance.

### Annual Head of Internal Audit Opinion: best practice and questions to consider

- The Audit Committee will wish to establish that the scope of the opinion covers all of the key areas planned for, including any areas that were requested in-year.
- The Audit Committee will wish to satisfy itself that the opinion is consistent with the detailed reports they received during the preceding year and that it takes account of any post year-end events if necessary.
- The Audit Committee Chair will want to report the opinion to the Board as evidence to be used in compiling the Statement on Internal Control.
4.7 What is the Audit Committee’s role in relation to third party assurances and hosted bodies?

The Audit Committee will wish to know if their organisation ‘hosts’ another organisation which serves the wider NHS. One example is a PCT which hosts a regional specialised commissioning group. Such a group has its own Board structure but the group’s budget may be significantly larger than that of the PCT which hosts it. The Audit Committee will wish to consider whether there is sufficient internal audit in place to provide assurance over any risks to their own organisation that the hosted body might represent. Such assurance might come from the internal audit arranged by the hosted body but if nothing is in place the Audit Committee will want to take the initiative in ensuring that internal audit is established.

Similarly, the Audit Committee will wish to be aware if a significant activity is shared with (or bought in from) another organisation. Shared financial services are an important example and it is likely that the provider organisation will have internal audit arrangements in place. Audit Committees of user organisations will expect to receive assurances from those internal auditors that risks in the services provided to them are adequately managed and mitigated with appropriate controls. Audit Committees of those organisations providing such services will wish to satisfy themselves that their own internal audit is sufficient to provide assurance that risks to the host are adequately controlled. They will also wish to ensure that it is adequate to provide the third party assurances that user organisations will require. Some organisations have used a standard known as SAS 70 as the template for assurance to their users. In December 2009, a new standard – ISAE 3402: Assurance reports on controls at a service organisation – was approved and is now available to organisations if they wish to adopt it.

The increasing trend for partnership working in the provision of services adds a third dimension to governance between organisations and this often involves organisations outside the NHS. In such arrangements, risks tend to arise at the borders between one organisation or team and another and are exacerbated if the respective roles and responsibilities of the partners are not clearly defined, understood and written down.

4.8 How does external audit support the Audit Committee’s work?

External auditors are usually invited to attend every Audit Committee meeting, and the cycle of approving and monitoring the progress of external audit plans and reports, culminating in the opinion on the annual report and accounts, is central to the work of the Committee. The appointed external auditor should have a right of access to the Chair of the Audit Committee at any time.

The objectives of the external auditors fall under two broad headings – to review and report on:

- The audited body’s financial statements, and on its Statement on Internal Control
- Whether the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

In each case, the Audit Committee will expect to see the resulting conclusions.
The appointed auditor (at present, either a District Auditor from the Audit Commission or Partner/Director from a firm) should prepare an audit strategy. The strategy should be developed to deliver an opinion on the accounts and a conclusion on proper arrangements, and will take into account the audit needs of the organisation, as assessed by the appointed auditor, using a risk-based approach. The Audit Committee should agree the strategy.

External audit should also prepare an annual audit plan, designed to implement the audit strategy, for approval by the Audit Committee. This annual plan should set out details of the work to be carried out, providing sufficient detail for the Audit Committee and other recipients to understand the purpose and scope of the defined work and the level of priority. The Audit Committee should discuss with the external auditors the main issues and parameters for audit planning in the meeting before the annual audit plan is due to be approved. This allows the Committee members time and space to:

- Discuss the organisation’s audit needs
- Reflect on the previous year’s experience
- Be updated on likely changes and new issues
- Ensure co-ordination with other bodies.

In reviewing the draft plan presented to the Committee, members should concentrate on the outputs from the plan, and what they will receive from the external auditors, balanced against an understanding of the auditors’ statutory functions. Review of the audit fee is an important role, but the focus should be on consistency with the Audit Commission’s/Monitor’s guidelines and appropriateness in the context of the organisation’s needs and the statutory functions of the external auditors.

The annual audit plan should be kept under review to identify any amendments needed to reflect changing priorities and emerging audit needs. The Audit Committee should approve material changes to the annual audit plan.

External audit should be working with both management and other assurance functions to optimise their level of coverage. The Committee will want to see, and gain assurance, that duplication with internal audit is minimised wherever possible, consistent with the requirements of ISA (UK and Ireland) 610 that external audit should never direct the work of internal audit and must be satisfied as to the role of internal audit as a whole and review and re-perform similar items for any piece of work on which it intends to place reliance. The Audit Committee will also find external audit’s view on the adequacy of internal audit valuable.

**External audit arrangements: best practice and questions to consider**

- The Audit Committee should expect to see audit plans that are based on a clear assessment of audit risk that recognises the business risks of the organisation
- The Audit Committee should approve the annual plan and the associated fees, although in so doing it needs to recognise the statutory duties of the external auditors
- External auditors need to plan work to discharge their responsibilities but the Audit Committee should review the work they propose, to address the risks identified, and seek to ensure that it adds value to the organisation. This work should not be used to replace work that is part of the management function, or could be achieved by a better
use of other resources (for example, by re-allocating management duties or coverage by an internal assurance function)

- The Audit Committee should discuss and understand the organisation’s wider position in the health economy and consider the risks associated with partners/other stakeholders, and the potential impact on the quality of healthcare services
- External auditors should be asked about their own internal systems of quality assurance and quality control, and be prepared to feedback on the results of this. The Audit Commission has its own quality assurance process for its appointed auditors
- The Chair of the Audit Committee should have good relationships with the lead from external audit, at the Partner/Director/District Auditor level, so that any adverse reports (for example, a Public Interest Report) do not come as a surprise
- Are any scope restrictions placed on external audit and, if so, who establishes them?
- Are the external auditors free from any conflicts that could impair their objectivity?
- Is the technical knowledge and experience of the external audit staff sufficient to ensure that duties are performed to an appropriate standard?

4.9 How does the Committee review external audit assignment reports?

External audit will issue a number of reports over the year, some of which are required under the Codes of Audit Practice and International Standards on Auditing (UK and Ireland), while others will depend upon the contents of the audit plan.

Before reviewing the findings of any report, the Committee should ensure that the scope of the work is absolutely clear. Committee members should be clear about what has, and more importantly what has not, been included within the audit review. The Committee should concentrate on the overall conclusion to start with as this should indicate what issues the external auditor wishes to draw to the attention of the Committee.

Committee time should focus on the major findings along with an assurance that line management are dealing with the other (less significant) issues. The main question for the Committee should be whether the findings are consistent with their own appreciation of the issues from other information received, either in the Committee or as a Board member. If they are inconsistent then Committee members should probe further and challenge the findings.

The response of management to audit findings is vital. The Committee should consider:

- Whether management has responded to the audit appropriately?
- Whether the report highlights issues relating to policies and processes, or with the people implementing them?
- Whether management has agreed a realistic and timely action plan to remedy any problems?
- When the action plan will be followed up by management and the external auditors?
- What further work is required to complete the audit?
External audit assignments: best practice and questions to consider

- The Audit Committee will wish to establish that the report arising from each external audit assignment is issued to the organisation’s management on a timely basis.
- Audit Committees should receive regular reports arising from work planned by external audit summarising activity in the period. The reports should describe the major audit issues, and report outcomes against the audit plan.
- The Audit Committee should monitor the implementation of agreed actions by a variety of means, to review whether important recommendations have been actioned by management and that either assurance levels have improved or risks reduced. In each case the Committee will wish to consider whether to invite a relevant senior manager to report on progress.
- The Audit Committee should discuss the results of the use of resources assessment (other than for NHS foundation trusts), comparing the external auditors’ assessment with committee members’ own views, and those of executive management.
- Are external audit reports and audit recommendations given due weight and attention?
- Is there clarity about the quality and reliability of third party assurances and where the auditor has relied on these?

4.10 How does the Committee review the annual audit letter and the report to those charged with governance?

The external auditors’ main mandatory reports are:

- Report to those charged with governance (incorporating the report required under ISA (UK and Ireland) 260 that sets out the main matters arising from the audit of the financial statements and use of resources work)
- Statutory report and opinion on the accounts and use of resources conclusion
- Annual audit letter.

In addition to these reports, the external auditors may issue a Public Interest Report (PIR) or referral to the Secretary of State, (or to Monitor in the case of NHS foundation trusts). A PIR is made where auditors consider a matter is sufficiently important to be brought to the attention of the audited body or public as a matter of urgency. A referral to the Secretary of State (or Monitor) is made where it is believed that a decision has led to unlawful expenditure or that an action is unlawful and likely to cause a loss. Whenever a PIR is being considered the Committee should receive a briefing from the external auditors on the statutory background and potential consequences of such a report. This should include the reasons why such a report is considered necessary and the steps taken to date by the auditors and the organisation. The Committee should consider the contents of such a briefing and look in detail at the implications and necessary actions. In such instances, the issue should immediately be taken for consideration by the whole Board.

4.11 How can clinical audit support the Audit Committee’s work?

The National Institute of Health and Clinical Excellence (NICE) and the Healthcare Quality Improvement Partnership (HQIP) define clinical audit as ‘a quality improvement process that
seeks to improve patient care and outcomes through systematic review of care against explicit
criteria and the implementation of change’.

_Taking it on Trust_ describes clinical audit as ‘the review of clinical performance, the
measurement of performance against agreed standards and the refining of clinical practice as a
result’. As such, ‘it is one of the key compliance tools at management’s disposal and has an
important role within the assurance agenda’. PCTs, perhaps through their Professional
Executive Committees (PECs), need to satisfy themselves that their providers have adequate
clinical audit arrangements in place to meet recommended practice.

The components of clinical audit are:

- Setting standards
- Measuring current practice
- Comparing results with standards
- Changing the way things are done
- Re-auditing to make sure practice has improved.

For NHS Boards, managing clinical risk is of equal, or greater, importance than managing
financial and business risk and good clinical audit is, therefore, an enormous asset and source
of assurance. In addition, organisations are required to declare their participation in clinical
audit in the annual quality accounts.

_Clinical Audit: a simple guide for NHS Boards_, published by the Healthcare Quality Improvement
Partnership, sets out twelve criteria for good local clinical audit (see below). The Audit
Committee can provide the Board with assurance concerning these criteria. For example, by
seeking to understand:

- How the programme of clinical audit work is decided upon
- Whether the programme is at an appropriate level and reflects the organisation’s
  strategic objectives
- The rigour of the processes for conducting clinical audits
- Whether all clinical audits are reported, in what form and to whom
- How matters arising are dealt with and followed up.

<table>
<thead>
<tr>
<th>Criteria for good local clinical audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Clinical audit should be part of a structured programme.</td>
</tr>
<tr>
<td>2. Topics chosen should be in the main be high risk, high volume or high cost or reflect national clinical audits, National Service Frameworks or NICE guidance.</td>
</tr>
<tr>
<td>3. Service users should be part of the clinical audit process.</td>
</tr>
<tr>
<td>4. Should be multidisciplinary in nature.</td>
</tr>
<tr>
<td>5. Clinical audit should include assessment of process and outcome of care.</td>
</tr>
<tr>
<td>6. Standards should be derived from good quality guidelines.</td>
</tr>
<tr>
<td>7. The sample size chosen should be adequate to produce credible results.</td>
</tr>
<tr>
<td>8. Managers should be actively involved in clinical audit and in particular in the development of action plans from clinical audit enquiry.</td>
</tr>
<tr>
<td>9. Action plans should address the local barriers to change and identify those responsible for service improvement.</td>
</tr>
</tbody>
</table>
10. Re-audit should be applied to ascertain whether improvements in care have been implemented as a result of clinical audit.

11. Systems, structures and specific mechanisms should be made available to monitor service improvements once the clinical audit cycle has been completed.

12. Each clinical audit should have a local lead.


The Audit Committee should expect to see regular reports of the outcomes of clinical audit work and should invite to its meetings senior managers responsible for planning and delivering clinical audits. Historically, clinical audit processes have not been designed to provide the organisation with assurance on a risk based approach to clinical practices. The Audit Committee should consider, with the Clinical Governance Committee, how best to engage with clinical audit to meet its own need for assurances.

CASE STUDY

An internal audit review of clinical audit

Recognising the need to gain assurance on the systems in place to support high quality clinical care, a number of NHS Audit Committees have incorporated a review of the trust-wide clinical audit system into their internal audit plans.

Clinical audit is one of the main components of (clinical) governance and is a central mechanism for reviewing clinical practice against extant standards, guidelines, policies and procedures. Effective clinical audit programmes enable staff to critically (and routinely) review how care is provided, to make changes in their practice and demonstrate (through re-audit) improvements in care quality. As part of local arrangements for high quality care, all NHS organisations are required to have in place a comprehensive programme of service improvement activities that includes clinicians and other professional staff participating in regular clinical audit and clinical audit is a core component of professional codes of practice. The need for all trusts to ensure that their clinical audit systems are robust was highlighted in the Kennedy Report (produced following concerns about standards of care in a major provider of paediatric cardiothoracic surgery) which reinforced the need for all health professionals to engage in regular clinical audit activity as part of their continuing professional development.

In 2006, two national reports looking into patient safety called for local clinical audit to be re-vitalised, and the role of clinical audit as a key component of good governance is reflected in a range of NHS standards (for organisations and clinicians alike). It is essential therefore, that all organisations are able to evidence that their clinical audit system is robust, reflects both national and local priorities, is comprehensive and embedded across all clinical teams, with the outcomes from audit used to drive improvement and to enhance the overall quality of clinical care.
A 10-day clinical audit review provides an independent review of the arrangements in place with regard to clinical audit across the Trust, focusing on:

- Accountability and management arrangements
- Strategic capacity and planning
- Reporting mechanisms, communication and learning – linking into wider clinical governance/clinical effectiveness activity
- The linkages between the clinical audit programme and the Trust’s objectives, the scope and focus of audit activity (for example; national audits, NHSLA audits, audits which reflect Trust priorities and those which are deemed specific to a service/individual), training, capacity and, critically, how the outcomes from audit are shared and how improvements are evidenced through re-audit.

The output from a review provides an assurance level with regard to the system, and also identifies areas for further development where appropriate. Audit Committees and executive teams have used the outputs (and associated action plans) from the reviews to strengthen and improve clinical audit systems and to further support the achievement of Trust/service clinical and quality objectives.

When thinking about working arrangements between internal and clinical audit, the Department of Health’s joint protocol for internal and clinical audit may be a useful source of reference – it is available on the archived pages of the Department’s website and provides guidance for internal auditors on working with clinical audit when assessing the clinical governance aspects of the Assurance Framework underpinning the Statement on Internal Control.

4.12 How does the Local Counter Fraud Specialist support the Audit Committee’s work?

All NHS organisations, except foundation trusts, are required to have a Local Counter Fraud Specialist (LCFS), under Secretary of State’s Directions. Foundation trusts will normally have equivalent counter fraud arrangements in place and a ‘memorandum of understanding’ exists between Monitor and the NHS Counter Fraud and Security Management Service (CFSMS). The Committee should satisfy itself that adequate arrangements are in place to counter fraud and they will want to consider the results of counter fraud work, in so far as they have a bearing on the wider role of the Committee. The LCFS should have a right of access to the Audit Committee.

The NHS counter fraud strategy is based around seven generic areas:

- Creating an anti-fraud culture
- Prevention
- Investigation
- Redress
- Deterrence
- Detection
- Sanctions.

The LCFS’s annual plan and reports should come to the Audit Committee. The Committee should assure itself that the plan gives adequate coverage for the seven areas and formally agree the annual work plan. The Committee should consider the implications of the findings from their pro-active and re-active work, particularly in the light of its wider knowledge of the
organisation. At the end of the year the work of the LCFS should be summarised in an annual report that is received by the Committee.

To assess performance in each of the seven generic areas, CFSMS publishes qualitative assessments that require NHS organisations to make an annual declaration of the counter fraud work they have completed during the financial year. The declaration is expected to provide evidence of planned tasks being both completed and effective. The Audit Committee should review the declaration with the LCFS.

From time to time the CFSMS carry out quality inspections of the whole NHS organisation's approach to countering fraud, and any report arising from such a review should be discussed at the Committee.

Every organisation is also required to have a Local Security Management Specialist (LSMS). The LSMS is required to undertake work to reduce the levels of violence and abuse against staff and patients, but is also required to help safeguard NHS resources from damage and theft. By its nature the work of the LCFS and LSMS will sometimes overlap and it is therefore helpful for the Audit Committee to be aware of the LSMS role. However, contact between the Audit Committee and LSMS is likely to be rare.

Review of counter fraud: questions to consider

- Do formal terms of reference exist, defining the LCFS's objectives, responsibilities and reporting lines?
- How is the scope of counter fraud work decided?
- Are any scope restrictions placed on counter fraud and, if so, who establishes them?
- Does the LCFS report directly to an appropriate level of management that will ensure that counter fraud work is given due weight and attention?
- Is the LCFS free from any operating responsibilities that could impair his/her objectivity?
- Is the technical knowledge and experience of the counter fraud staff sufficient to ensure that duties are performed to an appropriate standard?
- Is the work of the LCFS properly planned, completed, supervised and reviewed? Are there any quality assurance procedures?

4.13 What is the value of private discussions with the auditors?

Private discussions between Audit Committee members and each (or either) of the sets of auditors, without management present, is an important part of building up a relationship of trust and supporting the independence of the audit functions. These should be formally scheduled to generally take place before at least one meeting a year and can use a standard set of questions (example below) or cover specific issues.

The value of these discussions is to allow the Committee members and the auditors freedom to discuss, without any perceived or actual management influence, a range of matters. They also provide an opportunity for the auditors to feedback to the Audit Committee on its own
performance. These discussions should not be minuted, unless both the Committee and auditors agree that a note to the Committee’s full minutes would be pertinent. The Chair of the Committee may wish to retain his/her own note of the discussion.

Non-executive directors on the Audit Committee may also wish to meet alone from time to time.

<table>
<thead>
<tr>
<th>Private discussions with external and internal auditors: questions to consider</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Do the internal auditors have adequate resources to provide the objective assurances required by the Audit Committee?</td>
</tr>
<tr>
<td>• Have the external auditors quoted for enough resources to meet their statutory functions?</td>
</tr>
<tr>
<td>• Did the auditors receive all the co-operation they desired?</td>
</tr>
<tr>
<td>• Was any attempt made to restrict the scope of the auditors' work in any way?</td>
</tr>
<tr>
<td>• Was the original audit strategy or plan modified due to deficiencies in internal control or accounting records?</td>
</tr>
<tr>
<td>• Did the auditors have any significant disagreements with management (however resolved)?</td>
</tr>
<tr>
<td>• How were these resolved?</td>
</tr>
<tr>
<td>• Do the auditors have any concerns about management’s control consciousness or operating style?</td>
</tr>
<tr>
<td>• What is the auditors’ view of their relationship with management?</td>
</tr>
<tr>
<td>• Do the auditors believe they are under any undue pressure to give a particular opinion?</td>
</tr>
<tr>
<td>• Do the auditors believe management are under undue pressure – for example, to report performance in a particular way?</td>
</tr>
<tr>
<td>• Are there any other matters which, in the opinion of the auditors, should be considered by the Audit Committee?</td>
</tr>
<tr>
<td>• Do the auditors have any comments on the way the Audit Committee operates and its effectiveness?</td>
</tr>
</tbody>
</table>
SECTION 5: HOW TO ORGANISE AND SUPPORT AN AUDIT COMMITTEE

5.1 Who are the members of the Audit Committee?

The distinctive characteristic of the Audit Committee is that it comprises only non-executive directors. This condition of membership provides the basis for the Committee to operate – and to be seen as operating – independently of any executive management processes and to apply an objective approach in the conduct of its business.

Audit Committees comprise not less than three non-executive directors, with a quorum of two. The Chair of the organisation should not be a member of the Audit Committee and will not normally attend. The Chief Executive and all other executive directors will attend whenever they are invited by the Committee Chair and, in particular, to provide assurances and explanations to the Committee when it is discussing audit reports or other matters within their areas of responsibility. For example, as a minimum, the Chief Executive would be expected to be present when the Committee considers the draft internal audit plan, the draft Statement on Internal Control and the annual accounts.

It is for the Committee Chair to plan the meeting agendas and invite executive directors and other senior managers according to the requirements of each agenda. Representatives from internal and external audit, together with the Trust/Company Secretary, if there is one, would normally be present.

Given the importance and complexity of the Committee’s work it is unlikely that membership is best suited to non-executives who are new to their role or who do not have a background of operating on equivalent committees in other organisations. As a minimum one member of the Committee must have recent relevant financial experience, and the other members must ensure that they receive induction and training in their role, including some basic financial literacy and an understanding of internal control. Increasingly, there is value in more than one member of the Committee bringing relevant skills or experience, including financial, risk management and clinical, given the nature of the business.

Rotation of members will be a matter of judgement for the organisation’s Chair and Board, but a balance needs to be struck between bringing in a fresh perspective and maintaining an experienced membership that has established effective relationships with those that attend the Committee. Any conflicts of interest should be dealt with in accordance with existing codes that operate within the organisation.

5.2 Who chairs the Audit Committee?

The selection of the Chair is a critical appointment for the organisation as the role’s responsibilities differ from those of other non-executive directors. In most cases, the person appointed to this role will possess a prior understanding of finance and internal control or other relevant expertise such as risk management. In the case of PCTs, the special responsibilities of the Audit Committee Chair are now recognised in their remuneration and in
the fact that they are appointed by the Appointments Commission after advert and interview specific to the post.

It is considered best practice that an organisation’s vice chair does not chair the Audit Committee.

The table below gives an example of the tasks performed by one Audit Committee Chair.

CASE STUDY

The tasks of one Audit Committee Chair

- Liaise with Trust Secretary to plan and prepare the Audit Committee’s work and papers (agendas/minutes/annual plan/annual report/terms of reference)
- Invite executive directors and senior managers to attend according to the agenda
- Review full internal and external audit reports (other Audit Committee members receive summaries prepared by the auditors of significant findings and recommendations)
- Meet privately with internal and external auditors, Chief Executive and Director of Finance to discuss Audit Committee matters
- Visit both internal audit and finance staff at least twice a year
- Receive papers from the Integrated Governance Committee
- Attend national/regional groups as appropriate
- Report regularly to the Trust Board on Audit Committee activities
- Report to the Foundation Trust Board of Governors on relevant issues (for example, the re-appointment of external auditors).

5.3 What are the ongoing training needs of Committee members?

The Committee should consider its own training needs and ensure that members have the skills to perform their role effectively. Essential to the role of every member is an appropriate understanding of finance and internal control and some members will have this before being appointed to the Audit Committee. Others should be provided with suitable training at an early stage, as part of their induction. Training specific to the further development of Audit Committee members should include:

- Background to their role and what distinguishes it from that of other Board members. This is likely to include exploring current trends in good governance (including clinical), risk management and assurance, the role of internal and external auditors and improving Audit Committee effectiveness
- The issues an Audit Committee should focus on. This will include background to the declarations and statements the Audit Committee should review, good practice in oversight of such declarations and understanding the organisation’s risk profile and control environment.

Opportunities arise from time to time for meetings of Audit Committee members, where they can share knowledge and experience and listen to expert speakers. Informal meetings of
Audit Committee Chairs also provide a valuable opportunity to share knowledge and best practice. In addition literature and advice on Audit Committees is available, much of it online. Sources specific to the NHS include strategic health authorities, the Department of Health, the Audit Commission (and in particular, its 2009 publication *Taking it on Trust*) and other external audit firms and professional associations such as the HFMA. Helpful guidance is also available from professional accountancy bodies and from risk management and audit organisations.

### 5.4 How frequently should the Audit Committee meet?

The frequency of meetings needs to be driven by the nature and timing of the business to be considered, any complementary work conducted by other committees and any work that can be carried out between meetings. This all needs to be determined at the outset of the financial year so that the Committee is not considering unnecessary issues, reacting to foreseeable events or commenting on matters that can no longer be influenced. Prior to the 2005 edition of this Handbook, Audit Committees typically met 3 to 4 times per year but in implementing the wider remit identified here as well as the need to retain a more focused financial scrutiny role, they are unlikely to be able to fulfil all their responsibilities in fewer than 5 meetings per annum. This decision is one for the Board and the Committee to make, in order to ensure that the Committee meets its terms of reference. Reducing the commitments of the Committee Chair, and perhaps the other Committee members, may create additional capacity to ensure more frequent meetings, but this needs to be balanced with their need to understand in sufficient breadth the organisation’s activities.

Appendix C provides an example Audit Committee timetable tracking key agenda items over the year.

### 5.5 What administrative support should the Committee expect?

As with any committee, really effective work is best achieved if there is strong administrative support that allows the members of the Committee to concentrate on their role in preparing for, and contributing to, the meeting. What is also important is that all members of the Committee should participate actively, and that the Chair of the Committee is not too dominant.

For an Audit Committee to make effective use of its limited time it needs to have a Secretary. Ideally the role would be assumed by the Trust/Company Secretary, where that post exists. In any case, it should be carried out by a senior officer of the organisation so that the Audit Committee’s influence continues to be felt between meetings. The Secretary should not be the Director of Finance or the Head of Internal Audit or somebody reporting to them.

The timing of meetings is critical in helping the Committee to discharge its various responsibilities. It needs to be discussed with all the parties involved, including the Head of Internal Audit, the external auditors, the Chief Executive and the Director of Finance, to ensure that key tasks, such as the approval of accounts, are accommodated. The planning of meetings is likely to be the responsibility of the Secretary to the Audit Committee.
5.6 How should the Committee assess its own performance?

Audit Committees should assess their performance annually. Appendix B includes a checklist that will help support this assessment.

As with any self-assessment it is important that the Committee members should be constructively critical in their responses, rather than take false assurance that their current interpretation of the requirements is correct.

**BEST PRACTICE**

Audit Committee self-assessment

- Audit Committee members should complete the checklist outside the meeting and the results should be collated by someone independent of the members, such as the Trust/Company Secretary (if one exists)
- The involvement of the auditors, either internal or external, may help in interpretation of the questions or discussion on best practice, given their likely experience with other Audit Committees
- In areas of doubt, the Committee may wish to look at other self-assessment checklists for Audit Committees, or ask for advice on best practice in other parts of the public and private sectors.

The Committee should draw up its own plan for improvement as a result of the self-assessment, either in requesting future training or development for members, or in changes to its processes and procedures.
APPENDIX A: SPECIMEN TERMS OF REFERENCE

These specimen terms of reference build on original work based around the Cadbury Committee report and Combined Code\(^3\) and subsequent guidance and best practice in the private and public sector. They reflect the particular nature of Audit Committees in the NHS and the growing role of the Committee in developing integrated governance arrangements and providing assurance that NHS bodies are well managed across the whole range of their activities.

Terms of Reference

**Constitution**

The Board hereby resolves to establish a Committee of the Board to be known as the Audit Committee (the Committee). The Committee is a non-executive committee of the Board and has no executive powers, other than those specifically delegated in these terms of reference.

**Membership**

The Committee shall be appointed by the Board from amongst the non-executive directors of the Authority/Trust/PCT and shall consist of not less than three members. A quorum shall be two members. One of the members will be appointed Chair of the Committee by the Board. The Chair of the organisation shall not be a member of the Committee.

**Attendance**

The Director of Finance and appropriate internal and external audit representatives shall normally attend meetings. At least once a year the Committee should meet privately with the external and internal auditors.

The Chief Executive should be invited to attend and should discuss at least annually with the Audit Committee the process for assurance that supports the Statement on Internal Control. He or she should also attend when the Committee considers the draft internal audit plan and the annual accounts. All other executive directors should be invited to attend, particularly when the Committee is discussing areas of risk or operation that are the responsibility of that director.

The Trust/Company Secretary shall be Secretary to the Committee and shall attend to take minutes of the meeting and provide appropriate support to the Chair and Committee members.

**Frequency**

The Committee must consider the frequency and timing of meetings needed to allow it to discharge all of its responsibilities. A benchmark of five meetings per annum at appropriate times in the reporting and audit cycle is suggested. The external auditors or Head of Internal Audit may request a meeting if they consider that one is necessary.

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\(^3\) The Combined Code is now known as the UK Corporate Governance Code.
**Authority**

The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee. The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

**Duties**

The duties of the Committee can be categorised as follows:

**Governance, risk management and internal control**

The Committee shall review the establishment and maintenance of an effective system of integrated governance, risk management and internal control, across the whole of the organisation’s activities (both clinical and non-clinical), that supports the achievement of the organisation’s objectives.

In particular, the Committee will review the adequacy and effectiveness of:

- All risk and control related disclosure statements (in particular the Statement on Internal Control), together with any accompanying Head of Internal Audit statement, external audit opinion or other appropriate independent assurances, prior to endorsement by the Board
- The underlying assurance processes that indicate the degree of achievement of corporate objectives, the effectiveness of the management of principal risks and the appropriateness of the above disclosure statements
- The policies for ensuring compliance with relevant regulatory, legal and code of conduct requirements and related reporting and self-certification
- The policies and procedures for all work related to fraud and corruption as set out in Secretary of State Directions and as required by the NHS Counter Fraud and Security Management Service.

In carrying out this work the Committee will primarily utilise the work of internal audit, external audit and other assurance functions, but will not be limited to these sources. It will also seek reports and assurances from directors and managers as appropriate, concentrating on the over-arching systems of integrated governance, risk management and internal control, together with indicators of their effectiveness.

This will be evidenced through the Committee’s use of an effective Assurance Framework to guide its work and that of the audit and assurance functions that report to it.

**Internal audit**

The Committee shall ensure that there is an effective internal audit function that meets mandatory *NHS Internal Audit Standards* (or *Government Internal Audit Standards* in an FT) and
provides appropriate independent assurance to the Audit Committee, Chief Executive and Board. This will be achieved by:

- Consideration of the provision of the internal audit service, the cost of the audit and any questions of resignation and dismissal
- Review and approval of the internal audit strategy, operational plan and more detailed programme of work, ensuring that this is consistent with the audit needs of the organisation as identified in the Assurance Framework
- Considering the major findings of internal audit work (and management’s response), and ensuring co-ordination between the internal and external auditors to optimise audit resources
- Ensuring that the internal audit function is adequately resourced and has appropriate standing within the organisation
- An annual review of the effectiveness of internal audit.

**External audit**

The Committee shall review the work and findings of the external auditors and consider the implications and management’s responses to their work. This will be achieved by:

- Consideration of the appointment and performance of the external auditors, as far as the rules governing the appointment permit
- Discussion and agreement with the external auditors, before the audit commences, of the nature and scope of the audit as set out in the annual plan, and ensuring co-ordination, as appropriate, with other external auditors in the local health economy
- Discussion with the external auditors of their local evaluation of audit risks and assessment of the Authority/Trust/PCT and associated impact on the audit fee
- Review of all external audit reports, including the report to those charged with governance, agreement of the annual audit letter before submission to the Board and any work undertaken outside the annual audit plan, together with the appropriateness of management responses.

**Other assurance functions**

The Audit Committee shall review the findings of other significant assurance functions, both internal and external to the organisation, and consider the implications for the governance of the organisation.

These will include, but will not be limited to, any reviews by Department of Health arm’s length bodies or regulators/inspectors (for example, the Care Quality Commission, NHS Litigation Authority, etc.) and professional bodies with responsibility for the performance of staff or functions (for example, Royal Colleges, accreditation bodies, etc.)

In addition, the Committee will review the work of other committees within the organisation, whose work can provide relevant assurance to the Audit Committee’s own scope of work. In particular, this will include the Clinical Governance Committee and any risk management committees that are established.
In reviewing the work of the Clinical Governance Committee, and issues around clinical risk management, the Audit Committee will wish to satisfy itself on the assurance that can be gained from the clinical audit function.

**Counter fraud**

The Committee shall satisfy itself that the organisation has adequate arrangements in place for countering fraud and shall review the outcomes of counter fraud work.

**Management**

The Committee shall request and review reports and positive assurances from directors and managers on the overall arrangements for governance, risk management and internal control.

The Committee may also request specific reports from individual functions within the organisation (for example, clinical audit) as they may be appropriate to the overall arrangements.

**Financial reporting**

The Audit Committee shall monitor the integrity of the financial statements of the Trust and any formal announcements relating to the Trust’s financial performance.

The Committee should ensure that the systems for financial reporting to the Board, including those of budgetary control, are subject to review as to completeness and accuracy of the information provided to the Board.

The Audit Committee shall review the annual report and financial statements before submission to the Board, focusing particularly on:

- The wording in the Statement on Internal Control and other disclosures relevant to the terms of reference of the Committee
- Changes in, and compliance with, accounting policies, practices and estimation techniques
- Unadjusted mis-statements in the financial statements
- Significant judgements in preparation of the financial statements
- Significant adjustments resulting from the audit
- Letter of representation
- Qualitative aspects of financial reporting.

**Other matters**

The minutes of Audit Committee meetings shall be formally recorded by the Trust/Company Secretary and submitted to the Board. The Chair of the Committee shall draw to the attention of the Board any issues that require disclosure to the full Board, or require executive action.
The Committee will report to the Board at least annually on its work in support of the Statement on Internal Control, specifically commenting on the fitness for purpose of the Assurance Framework, the completeness and ‘embeddedness’ of risk management in the organisation, the integration of governance arrangements, the appropriateness of the evidence compiled to demonstrate fitness to register with the CQC and the robustness of the processes behind the quality accounts.

The Committee shall be supported administratively by the Trust/Company Secretary, whose duties in this respect will include:

- Agreement of agendas with Chair and attendees and collation of papers
- Taking the minutes
- Keeping a record of matters arising and issues to be carried forward
- Advising the Committee on pertinent issues/areas
- Enabling the development and training of Committee members.
## APPENDIX B: SELF-ASSESSMENT CHECKLIST

### Status key
1 = must do  
2 = should do  
3 = could do

<table>
<thead>
<tr>
<th>Status</th>
<th>Issue</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Comments/Action</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Composition, establishment and duties</strong></td>
<td></td>
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<tr>
<td>1</td>
<td>Does the Audit Committee have written terms of reference that adequately define the Committee’s role in accordance with Department of Health/Monitor guidance?</td>
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<td>1</td>
<td>Have the terms of reference been adopted by the Board?</td>
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<td>1</td>
<td>Are the terms of reference reviewed annually to take into account governance developments (including integrated governance principles) and the remit of other committees within the organisation?</td>
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<td>1</td>
<td>Has the Committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?</td>
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<tr>
<td>2</td>
<td>Are changes to the Committee’s current and future workload discussed and approved at Board level?</td>
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<td>1</td>
<td>Are Committee members independent of the management team?</td>
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<tr>
<td>1</td>
<td>Does the Committee report regularly to the Board?</td>
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<tr>
<td>1</td>
<td>Has the Chair of the Committee a prior understanding of, or received training in, finance and internal control or other relevant expertise?</td>
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<tr>
<td>Status</td>
<td>Issue</td>
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<td>Comments/Action</td>
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<td>1</td>
<td>Are new members provided with appropriate induction?</td>
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<tr>
<td>1</td>
<td>Does the Board ensure that members have sufficient knowledge of the organisation’s business to identify key risk areas and to challenge both line management and the auditors on critical and sensitive matters?</td>
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<tr>
<td>1</td>
<td>Does the Committee prepare an annual report on its work and performance in the preceding year for consideration by the Board?</td>
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<tr>
<td>1</td>
<td>Does the Committee assess its own effectiveness periodically?</td>
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</tbody>
</table>

**Meetings**

<table>
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<th>Status</th>
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<th>Comments/Action</th>
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<tbody>
<tr>
<td>1</td>
<td>Has the Committee established a plan of matters to be dealt with across the year?</td>
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<td>1</td>
<td>Does the Committee meet sufficiently frequently to deal with planned matters and is enough time allowed for questions and discussion?</td>
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<td>Does the Committee’s calendar meet the Board’s requirements and financial and governance calendar?</td>
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<td>2</td>
<td>Are Committee papers distributed in sufficient time for members to give them due consideration?</td>
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<td>Are Committee meetings scheduled prior to important decisions being made?</td>
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<td>2</td>
<td>Is the timing of Committee meetings discussed with all the parties involved?</td>
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<td><strong>Compliance with the law and regulations governing the NHS</strong></td>
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<td>Does the Committee review assurance and regulatory compliance reporting processes?</td>
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<td>Has the Committee formally assessed whether there is a need for the support of a ‘Trust/Company Secretary’ role or its equivalent?</td>
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<td>Does the Committee have a mechanism to keep it aware of topical, legal and regulatory issues?</td>
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<td><strong>Internal control and risk management</strong></td>
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<td>1</td>
<td>Has the Committee formally considered how it integrates with other committees that are reviewing risk – for example, risk management and clinical governance?</td>
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<tr>
<td>1</td>
<td>Has the Committee formally considered how its work integrates with wider performance management and standards compliance?</td>
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<td>1</td>
<td>Has the Committee reviewed the robustness and effectiveness of the content of the organisation’s Assurance Framework?</td>
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<td>1</td>
<td>Has the Committee reviewed the robustness and content of the draft Statement on Internal Control before it is presented to the Board?</td>
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<td>Has the Committee reviewed whether the reports it receives are timely and have the right format and content to enable it to discharge its internal control and risk management responsibilities?</td>
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<td>Has the Committee reviewed the robustness of the data behind reports and assurances received by itself and the Board?</td>
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<td>Is the Committee satisfied that the Board has been advised that assurance reporting is in place to encompass all the organisation’s responsibilities?</td>
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<td>Is the Committee’s role in reviewing and recommending to the Board the annual report and accounts clearly defined?</td>
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<td>Does the Committee consider the External Auditor’s report to those charged with governance including proposed adjustments to the accounts?</td>
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<td>Does the Committee review management’s letter of representation?</td>
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<td>1</td>
<td>Is there clarity over the timing and content of the assurance statements received by the Committee from the Head of Internal Audit?</td>
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**Internal audit**

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<td>1</td>
<td>Is there a formal ‘charter’ or terms of reference, defining internal audit’s objectives, responsibilities and reporting lines?</td>
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<td>1</td>
<td>Are the terms of reference approved by the Committee and regularly reviewed?</td>
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<td>2</td>
<td>Are the key principles of the terms of reference set out in the Standing Financial Instructions?</td>
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<td>Does the Committee review and approve the internal audit plan at the beginning of the financial year?</td>
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<td>Does the Committee approve any material changes to the plan?</td>
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<td>2</td>
<td>Are audit plans derived from clear processes based on risk assessment with clear links to the Assurance Framework?</td>
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<td>1</td>
<td>Does the Audit Committee receive periodic reports from the Head of Internal Audit?</td>
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<tr>
<td>1</td>
<td>Do these reports inform the Audit Committee about progress or delays in completing the audit plan?</td>
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<td>3</td>
<td>Has the Committee established a process whereby it reviews any material objection to the plans and associated assignments that cannot be resolved through negotiation?</td>
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<td>2</td>
<td>Does the Committee effectively monitor the implementation of management actions arising from audit reports?</td>
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<td>1</td>
<td>Does the Head of Internal Audit have a direct line of reporting to the Committee and its Chair?</td>
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<td>2</td>
<td>Is internal audit free of any scope restrictions and, if not, what are they and who establishes them?</td>
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<td>2</td>
<td>Is internal audit free from any operating responsibilities or conflicts of interest that could impair its objectivity?</td>
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<td>2</td>
<td>Has the Committee determined the appropriate level of detail it wishes to receive from internal audit?</td>
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<td>1</td>
<td>Does the Committee hold periodic private discussions with the Head of Internal Audit?</td>
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<tr>
<td>2</td>
<td>Does the Committee review the effectiveness of internal audit and the adequacy of staffing and resources within internal audit?</td>
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### Status Issue

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<th>Comments/Action</th>
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<tbody>
<tr>
<td>2</td>
<td>Has the Committee evaluated whether internal audit complies with the NHS Internal Audit Standards (or Government Internal Audit Standards in an FT)?</td>
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<td>3</td>
<td>Has the Committee agreed a range of internal audit performance measures to be reported on a routine basis?</td>
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<tr>
<td>1</td>
<td>Does the Committee receive and review the Head of Internal Audit’s annual report and opinion?</td>
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<td>2</td>
<td>Is there appropriate cooperation with the external auditors?</td>
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<tr>
<td>2</td>
<td>Are there any quality assurance procedures to confirm whether the work of the internal auditors is properly planned, completed, supervised and reviewed?</td>
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### External audit

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<td>1</td>
<td>Do the external auditors present their audit plans and strategy to the Committee for approval?</td>
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<tr>
<td>2</td>
<td>Has the Committee satisfied itself that work not relating to the financial statements is adequate and appropriate?</td>
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<tr>
<td>2</td>
<td>Does the Committee receive and monitor actions taken in respect of prior years’ reviews?</td>
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<td>1</td>
<td>Does the Committee review the External Auditor’s annual audit letter?</td>
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<tr>
<td>1</td>
<td>Does the Committee review the External Auditor’s use of resources conclusion?</td>
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<tr>
<td>1</td>
<td>Does the Committee hold periodic private discussions with the external auditors?</td>
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<tr>
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<tr>
<td>2</td>
<td>Does the Committee assess the performance of external audit?</td>
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<tr>
<td>3</td>
<td>Does the Committee require assurance from external audit about the policies for ensuring independence and compliance with staff rotation requirements?</td>
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<tr>
<td>3</td>
<td>Does the Committee review the nature and value of non-audit work carried out by the external auditors?</td>
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**Clinical audit**

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<tbody>
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<td>1</td>
<td>Is the Committee clear about where clinical audit assurances are received and monitored?</td>
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<td>2</td>
<td>If it is the Audit Committee that receives and monitors clinical audit assurances does it: &lt;ul&gt; &lt;li&gt;Review the clinical audit plan at the beginning of each year?&lt;/li&gt; &lt;li&gt;Confirm that clinical audit plans are derived from clear processes based on risk assessment with clear links to the Assurance Framework?&lt;/li&gt; &lt;li&gt;Receive periodic reports from the person responsible for clinical audit?&lt;/li&gt; &lt;li&gt;Effectively monitor the implementation of management actions arising from clinical audit reports?&lt;/li&gt; &lt;li&gt;Ensure that the person responsible for clinical audit has a direct line of access to the Committee and its Chair?&lt;/li&gt; &lt;li&gt;Hold periodic private discussions with the person responsible for clinical audit?&lt;/li&gt; &lt;li&gt;Review the effectiveness of clinical audit and the adequacy of staffing and resources available for clinical audit?&lt;/li&gt; &lt;/ul&gt;</td>
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</table>
| 2      | • Evaluate clinical audit against the Healthcare Quality Improvement Partnership’s publication *Clinical Audit: A simple guide for NHS Boards*?  
• Confirm that there are quality assurance procedures in place to confirm whether the work of clinical auditors is properly planned, completed, supervised and reviewed?  
• Confirm that there are terms of reference for clinical audit that define its objectives, responsibilities and reporting lines?  
• Review clinical audit’s terms of reference regularly?  

**Counter fraud**                                                                 |     |    |     |                 |
<p>| 1      | Does the Committee review and approve the counter fraud work plan at the beginning of the financial year?                                                                                         |     |    |     |                 |
| 1      | Does the Committee satisfy itself that the work plan adequately covers each of the seven generic areas defined in NHS counter fraud policy?                                                        |     |    |     |                 |
| 1      | Does the Committee approve any material changes to the plan?                                                                                                                                          |     |    |     |                 |
| 2      | Are counter fraud plans derived from clear processes based on risk assessment?                                                                                                                        |     |    |     |                 |
| 1      | Does the Audit Committee receive periodic reports from the Local Counter Fraud Specialist?                                                                                                |     |    |     |                 |
| 2      | Does the Committee effectively monitor the implementation of management actions arising from counter fraud reports?                                                                                 |     |    |     |                 |
| 1      | Does the Local Counter Fraud Specialist have a right of direct access to the Committee and its Chair?                                                                                            |     |    |     |                 |</p>
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<td>Does the Committee review the effectiveness of the local counter fraud service and the adequacy of its staffing and resources?</td>
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<tr>
<td>1</td>
<td>Does the Committee receive and review the Local Counter Fraud Specialist’s annual report of counter fraud activity and qualitative assessment?</td>
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<tr>
<td>1</td>
<td>Does the Committee receive and discuss reports arising from quality inspections by CFSMS?</td>
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**Annual accounts and disclosure statements**

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<tr>
<td>1</td>
<td>Is the Committee’s role in the approval of the annual accounts clearly defined?</td>
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<td>2</td>
<td>Is a Committee meeting scheduled to discuss proposed adjustments to the accounts and issues arising from the audit?</td>
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<td>Does the Committee specifically review:</td>
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<td>• Changes in accounting policies?</td>
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<td>• Changes in accounting practice due to changes in accounting standards?</td>
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<td></td>
<td>• Changes in estimation techniques?</td>
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<td>• Significant judgements made?</td>
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<td>Does the Committee review the draft accounts before the start of the audit?</td>
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<tr>
<td>1</td>
<td>Does the Committee ensure it receives explanations as to the reasons for any unadjusted errors in the accounts found by the external auditors?</td>
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<td>Does the Committee receive and review a draft of the organisation’s Statement on Internal Control?</td>
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### Appendix B: Self-assessment Checklist

<table>
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<td>Does the Committee receive and review the evidence required to demonstrate fitness to register with the Care Quality Commission?</td>
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<td>2</td>
<td>Does the Committee receive and review a draft of the organisation’s annual report?</td>
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**Other issues**

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<td>3</td>
<td>Has the Committee considered the costs that it incurs: and are the costs appropriate to the perceived risks and the benefits?</td>
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<td>Has the Committee reviewed its performance in the year for consistency with its:</td>
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<tr>
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<td>• Terms of reference?</td>
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<td></td>
<td>• Programme for the year?</td>
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<td>3</td>
<td>Does the annual report and accounts of the Authority/Trust include a description of the Committee’s establishment and activities?</td>
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## APPENDIX C: EXAMPLE AGENDA AND TIMETABLE

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<th>Agenda item/Issue</th>
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<th>2 May</th>
<th>3 July</th>
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<td><strong>Governance</strong></td>
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<td>Review the Assurance Framework</td>
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<td>Review the risk management system</td>
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<td>Note business of other committees and review inter-relationships</td>
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<td>X</td>
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<tr>
<td>Review draft Statement on Internal Control</td>
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<td>Receive other sources of assurance</td>
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<td>Review the Trust’s annual report</td>
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<td>Review of other reports and policies as appropriate – for example, changes to standing orders</td>
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<td><strong>Financial focus</strong></td>
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</tr>
<tr>
<td>Agree final accounts timetable and plans</td>
<td></td>
<td></td>
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<td>X</td>
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<tr>
<td>Review annual accounts progress</td>
<td>X</td>
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<td></td>
<td></td>
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<tr>
<td>Review of audited annual accounts and financial statements</td>
<td></td>
<td>X</td>
<td></td>
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<tr>
<td>Review risks and controls around financial management</td>
<td>X</td>
<td></td>
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<td>X</td>
</tr>
<tr>
<td>Review changes to standing financial instructions and changes to accounting policies</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Review of losses and special payments</td>
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<td>X</td>
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<td><strong>Internal audit</strong></td>
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</tr>
<tr>
<td>Review and approve annual internal audit plan</td>
<td>X</td>
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<td></td>
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</table>


<table>
<thead>
<tr>
<th>Agenda item/Issue</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
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<tbody>
<tr>
<td>Review and approve internal audit terms of reference</td>
<td>March</td>
<td>X</td>
<td>May</td>
<td>July</td>
<td>Sept/Oct</td>
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<tr>
<td>Review the effectiveness of internal audit</td>
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<tr>
<td>Review internal audit progress reports</td>
<td>X</td>
<td></td>
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<tr>
<td>Receive annual internal audit report and associated opinions</td>
<td>X</td>
<td>X</td>
<td></td>
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<td><strong>External audit</strong></td>
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<tr>
<td>Agree external audit plans and fees</td>
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<tr>
<td>Review the effectiveness of external audit</td>
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<tr>
<td>Review external audit progress reports</td>
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<td>X</td>
<td>X</td>
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<td>Receive the External Auditor’s report to those charged with governance</td>
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<tr>
<td>Receive the External Auditor’s annual audit letter</td>
<td></td>
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<td></td>
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<td>X</td>
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<tr>
<td><strong>Clinical audit (if applicable)</strong></td>
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<td></td>
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<tr>
<td>Review annual clinical audit plan</td>
<td>X</td>
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<tr>
<td>Review clinical audit terms of reference</td>
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<td>Review the effectiveness of clinical audit</td>
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<td>Review clinical audit progress reports</td>
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<td>Review and approve annual counter fraud plan</td>
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<td>Review the organisation’s assessment against CFSMS qualitative assessments</td>
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<tr>
<td>Agenda item/Issue</td>
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<td>May</td>
<td>July</td>
<td>Sept/Oct</td>
<td>Jan X</td>
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<tr>
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<tr>
<td><strong>Audit committee</strong></td>
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<tr>
<td>Plan how to discharge Audit Committee duties</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self-assess Committee’s effectiveness</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Review Committee’s terms of reference</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Briefing/update sessions</td>
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<td>X</td>
<td></td>
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<tr>
<td>Produce annual Audit Committee report</td>
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<tr>
<td>Private discussions with internal and external audit</td>
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</tbody>
</table>
APPENDIX D: EXAMPLE AUDIT COMMITTEE ANNUAL REPORT

This example report was prepared for 2008/09 and so follows the recommendations set out in the 2005 Audit Committee Handbook. It is reproduced to give an indication of what an annual report may look like.

Introduction

The Audit Committee is established under Board delegation with approved terms of reference that are aligned with the Audit Committee Handbook 2005, published by the HFMA and Department of Health. The Committee consists of five non executive directors, has met on seven occasions throughout the financial year and has discharged its responsibilities for scrutinising the risks and controls which affect all aspects of the organisation’s business.

Principal review areas

This annual report is divided into five sections reflecting the five key duties of the Committee as set out in the terms of reference.

1. Governance, risk management and internal control
   • The Committee has reviewed relevant disclosure statements, in particular the Statement on Internal Control (SIC) together with the Head of Internal Audit Opinion, external audit opinion and other appropriate independent assurances and considers that the SIC is consistent with the Committee’s view on the Trust’s system of internal control. Accordingly the Committee supports Board approval of the SIC.
   • The Committee has reviewed the Assurance Framework. It believes that the Framework used during the year was fit for purpose and has reviewed evidence to support this. The Framework is in line with Department of Health expectations and has been reviewed by internal audit and external audit to give additional assurance that this opinion is well founded.
   • The Committee has reviewed the completeness of the risk management system and the extent to which it is embedded in the organisation. The Committee believes that while adequate systems for risk management are in place, more work is required to ensure that these are embedded throughout the whole organisation. The Committee’s opinion is that this issue requires continuing executive management focus and sponsorship.

2. Internal audit: throughout the year the Committee has worked effectively with internal audit to strengthen the Trust’s internal control processes. The Committee has also in year:
   • Received and considered the external audit review of the effectiveness of internal audit and considers the provision of the internal audit service sufficient in supporting the Committee in fulfilling its role.
   • Reviewed and approved the internal audit strategy, operational plan and more detailed programme of work at its April meeting.
   • Considered the major findings of internal audit and are assured that management have responded in an appropriate manner and that the Head of Internal Audit Opinion and SIC reflect any major control weaknesses.

3. External audit
   • The Committee reviewed and agreed external audit’s annual plan.
   • The Committee reviews and comments on the reports prepared by external audit.
4. Management
The Committee has continually challenged the assurance process when appropriate and has requested and received assurance reports from Trust management and various other sources both internally and externally throughout the year. This process has also included calling managers to account when considered necessary to obtain relevant assurance. The Committee also works closely with the Trust Performance Manager to ensure that the assurance mechanism within the Trust is fully effective and that a robust process is in place to ensure that actions falling out of external reviews are implemented and monitored by the Committee.

5. Financial reporting
The Committee has reviewed the annual financial statements before submission to the Board and considers them to be accurate.

Other matters worthy of note
The Committee has reviewed the process and controls the Trust has put in place to achieve its financial obligations throughout the year. It further notes that the Trust has achieved these financial obligations.

The Committee recognises the hard work that delivered the financial outcome for the year ending 31 March 2009. Both the financial surplus and proximity of the actual outcome to forecast are a reflection of sound management. The achievement of a provisional level 3 in the ALE assessment for the same period is also testament to the quality of financial management within the Trust.

Review of the effectiveness and impact of the Audit Committee
The Committee has been active during the year in carrying out its duty in providing the Board with assurance (or not) that effective internal control arrangements are in place. Specifically the Committee has:

- Reviewed the Assurance Framework and Risk Register and has influenced the drafting and ongoing development of these tools
- Reviewed its compliance with the *Audit Committee Handbook* and has undertaken a self assessment. Actions arising from this self assessment are included in the Audit Committee action plan.

Cost/benefit analysis
The direct costs of the Committee for the year ended 31 March 2009 have been included as Appendix 1, attached to this report.

It is not possible to accurately quantify the benefits of the work of the Committee during the year as it is impossible to determine the financial impact of risks mitigated and costs avoided and the proportion of those that could be apportioned to the Committee work. However, in respect of the work of the Committee, it is clear that the risk profile of the Trust has been

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4 The ALE (auditors’ local evaluation) was a tool developed by the Audit Commission and used by its appointed auditors until 2009/10 to assess how well trusts managed and used their financial resources.
reduced. Furthermore the current and future costs associated with loss of reputation have also been mitigated as a result of the work performed by the Committee.

**Conclusion**

The Committee is of the opinion that this annual report is consistent with the draft SIC, Head of Internal Audit Opinion and the external audit KLOE\(^5\) review and there are no matters that the Committee is aware of at this time that have not been disclosed appropriately.

**Appendix 1**

**Audit Committee Cost Analysis 2008/09**

<table>
<thead>
<tr>
<th>Costs</th>
<th>Cost £pa</th>
</tr>
</thead>
<tbody>
<tr>
<td>External audit</td>
<td>XXX</td>
</tr>
<tr>
<td>Internal audit</td>
<td>XXX</td>
</tr>
</tbody>
</table>

**Pay costs**

<table>
<thead>
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<th>Days</th>
<th>Cost per day</th>
<th></th>
</tr>
</thead>
<tbody>
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</tbody>
</table>

Total cost: XXX

\(^5\) KLOEs (key lines of enquiry) were part of the ALE assessment.
APPENDIX E: WHAT IS AN ASSURANCE FRAMEWORK?

This appendix looks at the nature of Assurance Frameworks and how they can be used within an organisation.

What is an Assurance Framework?

The Assurance Framework (AF) provides organisations with a simple but comprehensive method for the effective and focussed management of the principal risks and assurances to meeting their objectives.

The component parts of an AF are therefore:

- Principal objectives
- Principal risks
- Key controls
- Expected/planned for assurances on controls
- Board reports – positive assurances; gaps in control; gaps in assurance
- Board action plan.

The AF is a framework of the organisational strategic and operational (or sub) objectives that covers each division/directorate/department. It therefore provides a totality of assurance activity relating to the organisation’s principal risks.

Why have an Assurance Framework?

Since 2001/02 all NHS Chief Executives have been required to sign a Statement on Internal Control (SIC) that has formed part of the statutory accounts and annual report.

This heightens the need for Boards to be able to demonstrate that they have been properly informed about the totality of their risks, both clinical and non-clinical.

To provide this Statement Boards need to be able to demonstrate that they have been properly informed through assurances about the totality of their risks and have arrived at their conclusions based on all the evidence presented to them.

To do this they need to be able to provide evidence that they have systematically identified their objectives and managed the principal risks to achieving them.

The AF fulfils this purpose.

The use of an AF can enable Boards to be confident that the systems, policies and people they have put in place are operating in a way that is effective in driving the delivery of objectives by focusing on minimising risks.

[It should be noted that the former standards for better health core standard C7a+c (clinical and corporate governance inspection guide – line of enquiry) required the use of an AF compatible with the framework recommended by the Department of Health, that maps the organisation’s principal objectives to risks, controls and assurances.]
What are the benefits of an Assurance Framework?

- Allows the Board to be fully appraised of principal risks to the achievement of principal objectives
- Allows the Board to be fully in control of its agenda by focusing/highlighting areas that require greater attention
- Allows Boards to determine where to make efficient use of their resources and address issues identified in order to improve the quality and safety of care
- Provides a structure to support the SIC
- Can simplify Board reporting and the prioritisation of action plans, which in turn, allow for more effective performance management.

How and when to use an Assurance Framework

**Board**

Once properly considered and constructed, the AF should be used by the Board to consider:

- The adequacy of controls to mitigate the identified risks
- The adequacy of the assurances on the operation of those controls
- The development of the Trust’s appetite for risk and its corporate approach to risk management
- Areas that require further control, which could then be used to highlight a set of points for more detailed discussion at the appropriate sub-committee of the Board
- Areas that require further assurances on the effectiveness of control, which could highlight a set of points for more detailed discussion at the Audit Committee
- The allocation of resources to reach a control and assurance level that the Board considers appropriate and reasonable
- The Board agenda setting process
- Executive to executive challenge on the identified risk and control
- Non executive directors challenge to executives on the robustness of assurances.

The consideration of the whole AF by the Board should take place at least annually. The above points should form part of a high level review of the AF.

More frequent reviews (perhaps quarterly), of prioritised sections of the AF could also meet the needs of the Board and demonstrate its use and relevance.

**Audit Committee**

Once properly considered and constructed the AF should be used by the Audit Committee to consider:

- The programme of both internal and external audit reviews – therefore providing assurance on the operation of controls
- The annual Audit Committee report to the Board on the effectiveness of the system in place to control risk
- Challenging the executive on the robustness of controls and assurances, using the assurance elements of the document
• Commissioning reviews to address a gap in control or a gap in assurance.  
The AF should be considered in its entirety at least annually by the Audit Committee.

Quarterly review of prioritised sections of the AF would demonstrate the embedded nature of
the AF and, over time, identify a timetable of expected assurances at each Audit Committee
meeting. The Committee would also need to consider the formal reporting mechanisms
associated with the use of the AF, both up to the Board in highlighting areas of concern/lack
of assurance and also to the Governance Committee.

**Governance Committee**

Once properly considered and constructed, the AF should be used by the Governance
Committee to:

• Consider operational aspects of the AF, in association with the risk management
  processes of the Trust
• Provide another indicator/reality check on the content of the corporate risk register
• Provide a strategic check of operational action plans in relation to the Trust
• Provide a strategic focus on the overall objectives of the Trust from an operational point
  of view.

The AF should be considered in its entirety at least annually by the Governance Committee.

Quarterly review of prioritised sections of the AF would demonstrate the embedded nature of
the AF and, over time, identify a timetable of expected assurances at each Committee meeting.
This Committee would also need to consider its reporting mechanisms as highlighted under
the Audit Committee above.

**Users of the Assurance Framework**

• Board
• Audit Committee
• Governance Committee
• Trust Chief Executive – as the main component source of information to sign the SIC on
  behalf of the Board
• Head of Internal Audit – as a primary source for identifying areas on the audit plan and as
  a fundamental part of the Head of Internal Audit Opinion on the control environment
• External audit for their annual assessment of good governance in a Trust
• Strategic Health Authorities for their annual assessment of NHS Trusts’ Assurance
  Frameworks.
APPENDIX F: EXAMPLE ASSURANCE FRAMEWORK FORMATS

This appendix reproduces 3 extracts from ‘real life’ Assurance Frameworks that are in use in NHS organisations. They are designed to show the variety of approach that organisations adopt and are not presented as ‘best practice’ models.

Extract 1: Objective 1 – to deliver fair, personal, effective and safe services for service users and their carers and families

Rationale: improving the overall experience and perception of service quality for service users will encourage engagement in treatment, care and support programmes and lead to better outcomes for service users, their carers and families.

<table>
<thead>
<tr>
<th>No. and name</th>
<th>Sub objectives</th>
<th>Risks identified</th>
<th>Identified control</th>
<th>Control gaps</th>
<th>Assurance</th>
<th>Assurance gaps</th>
<th>Actions to address gaps</th>
<th>Link to risk register</th>
<th>Link to S4BH, ALE, CNST</th>
<th>RAG</th>
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</thead>
<tbody>
<tr>
<td>1.1 Director of Delivery and Performance Improvement</td>
<td>Improve and enhance clinical performance to achieve consistency, quality and access to treatment and care. Ensure equality legislation is complied with across the organisation.</td>
<td>1.1.1 Staff shortages and sickness rates 1.1.2 Capacity in services to accept new referrals 1.1.3 Skills and capacity to deliver treatments models 1.1.4 Lack of awareness of equality requirements and insufficient/inadequate training, especially for new or TUPE staff.</td>
<td>1.1.1–1.1.3 Networks Board’s (monthly) 1.1.4 Training and awareness programme on equality legislation for all staff to be carried out over the next six months.</td>
<td>1.1.1–1.1.3 Networks Board’s (monthly) 1.1.4 Training and awareness programme on equality legislation for all staff to be carried out over the next six months.</td>
<td>1.1.1–1.1.3 Networks Board’s (monthly) 1.1.4 Training and awareness programme on equality legislation for all staff to be carried out over the next six months.</td>
<td>1.1.4 Induction programme for new starters or TUPE staff from other NHS organisations does not routinely include equality legislation.</td>
<td>1113 (1.1.1) 1161 (1.1.6)</td>
<td>S4BH – C5a, C13a C17, C18 CNST – 9, 5.7, 5.8 and 5.9 ALE – 2.2, 3.1, 5.1, 5.2, 5.3, 5.2.2, 5.2.4, 5.2.5, 5.2.6, 5.2.7, 5.2.8, 5.2.</td>
<td>Amber</td>
<td></td>
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</table>

1.1.1–1.1.3 Networks Board’s (monthly) 1.1.4 Training and awareness programme on equality legislation for all staff to be carried out over the next six months. Induction courses for all new staff (including TUPE) to contain equality legislation awareness training.

<table>
<thead>
<tr>
<th>Objective</th>
<th>Exec lead</th>
<th>Risk</th>
<th>Existing controls</th>
<th>Current residual risk</th>
<th>Sources of assurance</th>
<th>Further controls required to mitigate risk and improve systems and process</th>
<th>Expected risk</th>
<th>Outcome measures</th>
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<tbody>
<tr>
<td>E1</td>
<td>ED: JDY</td>
<td>Insufficient operational management capacity to deliver against income targets.</td>
<td>5 5</td>
<td>Capacity shortfalls identified through performance review cycle.</td>
<td>Amber 5 1</td>
<td>Minutes of performance review process and description of key actions in the Performance Report to the Board.</td>
<td>5 1</td>
<td>Delivery of £5m surplus as planned.</td>
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<tr>
<td>E1b)</td>
<td>NED: ID</td>
<td>PCTs unable to afford outturn position.</td>
<td>5 5</td>
<td>Contract Management Process</td>
<td>Green 5 2</td>
<td>Minutes of contract monitoring group</td>
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NHS Audit Committee Handbook
# Extract 3: XYZ PCT – Assurance Framework 2008/09

## Objective/workstream description

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<th>Objective/workstream description</th>
<th>Best value initiative document</th>
<th>SfBH standard</th>
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<th>Lead officer</th>
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<tr>
<td></td>
<td>Workstream/task description</td>
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<tr>
<td></td>
<td>What the organisation aims to deliver</td>
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## Principal identifiable risks

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<th>Likelihood rating</th>
<th>Risk score</th>
<th>Risk rating</th>
<th>Assurance on control</th>
<th>Positive assurance</th>
<th>Gaps in control and assurance</th>
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<tbody>
<tr>
<td>A1</td>
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## Key controls

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## Priority

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<th>Priority</th>
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## Assurance

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## Gaps

<table>
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</table>

## Best value project initiation document

**Overview**

- **Objective**: To reduce the impact of obesity upon the health of the local population.
- **Primary Care Trust**: XYZ PCT
- **Lead Officer**: Director of Public Health

## Relevant standard from Standards for Better Health

- **Director of Public Health**
- **Associate Director of Public Health**

## What controls/systems does the Primary Care Trust have in place to assist in securing delivery of this objective

- **Evidence that the Primary Care Trust's controls/systems, on which the Primary Care Trust is reliant, are effective**
- **Evidence that the Primary Care Trust can demonstrate it is reasonably managing risks and delivering objectives**

## What could prevent this objective being achieved

- Where the Primary Care Trust has failed to put control systems in place or where the Primary Care Trust has failed to make these effective where the Primary Care Trust has not provided evidence that its control systems are effective

## What could prevent this objective being achieved

- Where the Primary Care Trust has failed to put control systems in place or where the Primary Care Trust has failed to make these effective where the Primary Care Trust has not provided evidence that its control systems are effective

## Performance Accelerator

- Reports to the Board (Performance Report; Operational Plan); Minutes of the Executive Directors Committee; The Public Health Report (2006/07)

## Develop a Tobacco Control Strategy

- Reports to the Board (Performance Report; Operational Plan); Minutes of the Executive Directors Committee; The Public Health Report (2006/07); Report from the National Support Team for Tobacco

## Develop a Diet & Nutrition Strategy

- Reports to the Board (Performance Report; Operational Plan); Minutes of the Executive Directors Committee; The Public Health Report (2006/07)

## Evidence that the Primary Care Trust can demonstrate it is reasonably managing risks and delivering objectives

- Evidence that the Primary Care Trust can demonstrate it is reasonably managing risks and delivering objectives

## Develop a Tobacco Control Strategy

- Reports to the Board (Performance Report; Operational Plan); Minutes of the Executive Directors Committee; The Public Health Report (2006/07); Report from the National Support Team for Tobacco

## Develop a Tobacco Control Strategy

- Reports to the Board (Performance Report; Operational Plan); Minutes of the Executive Directors Committee; The Public Health Report (2006/07); Report from the National Support Team for Tobacco

## Performance Accelerator

- Reports to the Board (Performance Report; Operational Plan); Minutes of the Executive Directors Committee; The Public Health Report (2006/07)

## Develop a Tobacco Control Strategy

- Reports to the Board (Performance Report; Operational Plan); Minutes of the Executive Directors Committee; The Public Health Report (2006/07); Report from the National Support Team for Tobacco

## Evidence that the Primary Care Trust's controls/systems, on which the Primary Care Trust is reliant, are effective

- Evidence that the Primary Care Trust's controls/systems, on which the Primary Care Trust is reliant, are effective

## Develop a Tobacco Control Strategy

- Reports to the Board (Performance Report; Operational Plan); Minutes of the Executive Directors Committee; The Public Health Report (2006/07); Report from the National Support Team for Tobacco

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## Evidence that the Primary Care Trust can demonstrate it is reasonably managing risks and delivering objectives

- Evidence that the Primary Care Trust can demonstrate it is reasonably managing risks and delivering objectives

## Develop a Tobacco Control Strategy

- Reports to the Board (Performance Report; Operational Plan); Minutes of the Executive Directors Committee; The Public Health Report (2006/07); Report from the National Support Team for Tobacco
APPENDIX G: EXAMPLE RISK MANAGEMENT PROCESS

Please note that this appendix shows one organisation’s approach to risk management. It is not presented as a ‘best practice’ model.

The Trust has a detailed procedure that covers the key components in relation to the following elements of the risk management arrangements; an outline process map of this procedure has been included at Appendix 3.

1 Risk assessments
The Trust has developed a series of generic risk assessment tools for all types of risk. These tools enable a suitable, trained and competent member of staff to identify and quantify risks in their respective areas and to decide what action, if any, needs to be taken to reduce or eliminate risks. All risk assessments must be scored and recorded in line with the procedure stated in the Risk Assessment Procedure and Tools document. Completed risk assessments must be held at department level and when they give rise to a significant residual risk must be linked to the risk register.

2 Risk scoring
A common risk-scoring matrix is used by the Trust to quantify and prioritise risks identified through the risk assessment procedure. It is based on the frequency or likelihood of the harm combined with the possible severity or impact of that harm (see Appendix 1). The arrangement determines at what level in the organisation a risk should be managed and who needs to be assured management arrangements are in place (see Appendix 1 – assurance flows).

3 Risk appetite/acceptability and escalation
The level of decisions on tolerance/acceptability (appetite) and actions required are based around the quantification of the risk and are also linked to the risk tolerance matrix (Appendix 2).

A risk is deemed to be acceptable when there are adequate control mechanisms in place and a decision has been made that the risk has been managed as far as is considered to be reasonably practicable.

Appendix 1 shows the interrelationship between risk tolerance/appetite, where risk is managed, and the flow of assurances providing an integrated approach to risk management and assurance. This will ensure that risks and assurances are managed at the correct level within the Trust and that assurances flow along the same path as the risks are managed.

Escalation of risks should occur as they arise through the normal line management structure by the risk owner to the appropriate Director, via the risk register and the committees that address specific issues. The risk tolerance matrix (see Appendix 2) has been devised to
provide a clear expectation as to which risks should be communicated in this way. Escalation reports should:

- Be short
- Explicitly set out the issue
- Describe the impact on objectives
- State reason(s) for escalation
- Make recommendations.

Risks escalated by executive directors to the Trust Board in this way will be considered for inclusion in the Assurance Framework for monitoring on a case by case basis.

Breaking the impact of the risk into six areas allows the Trust Board to be more sophisticated when reviewing risks and prioritising mitigating action.
Appendix 1 to example risk management process

Table 1: Matrix to determine the level of risk

<table>
<thead>
<tr>
<th>Impact (see Appendix 2)</th>
<th>1. Rare</th>
<th>2. Unlikely</th>
<th>3. Possible</th>
<th>4. Likely</th>
<th>5. Almost certain</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Catastrophic/Death</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>4. Severe</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>3. Moderate</td>
<td>Very Low</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>2. Minor</td>
<td>Very Low</td>
<td>Very Low</td>
<td>Low</td>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td>1. None</td>
<td>Very Low</td>
<td>Very Low</td>
<td>Very Low</td>
<td>Very Low</td>
<td>Low</td>
</tr>
</tbody>
</table>

Risk Management

- **High**: Pro-active review by the Trust Board and active management by Executive Team
- **Medium**: Pro-active review and management by the Executive Team
- **Low**: Pro-active review and management by the Directorate
- **Very Low**: Ongoing review and management at operational level

Assurance Flows

- **High**: Included on the Assurance Framework and reported to Trust Board on monthly basis either via performance report or quarterly governance report
- **Medium**: Executive directors forum with decision made as to whether to include on Assurance Framework and ongoing assurance to Audit Committee and then Trust Board
- **Low**: Assurance obtained through Risk Assurance Committee and where appropriate reported to Audit Committee
- **Very Low**: Assurance considered at Directorate level
### Likelihood Matrix

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
<th>Narrative</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Rare</td>
<td>Highly unlikely, but it may occur in exceptional circumstances. It could happen but probably never will.</td>
</tr>
<tr>
<td>2</td>
<td>Unlikely</td>
<td>Not expected but there’s a slight possibility it may occur at some time.</td>
</tr>
<tr>
<td>3</td>
<td>Possible</td>
<td>The event might occur at some time as there is a history of casual occurrence at the Trust or within the NHS.</td>
</tr>
<tr>
<td>4</td>
<td>Likely</td>
<td>There is a strong possibility the event will occur as there is a history of frequent occurrence at the Trust or within the NHS.</td>
</tr>
<tr>
<td>5</td>
<td>Almost certain</td>
<td>Very likely. The event is expected to occur in most circumstances as there is a history of regular occurrence at the Trust or within the NHS.</td>
</tr>
</tbody>
</table>
### Appendix 2 to example risk management process: Risk Tolerance Matrix

<table>
<thead>
<tr>
<th>Impact</th>
<th>Safety</th>
<th>Quality</th>
<th>Finance and Governance</th>
<th>Staff</th>
<th>Service Delivery/ Business Management</th>
<th>Environment and Estate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(Trust Board) Score 5</strong></td>
<td>Incident leading to avoidable death or serious permanent harm (for example, loss of vision or wrong site surgery). Due to a failure of process, breach of Trust policies/ procedures or safe working practices. H&amp;S: Probable fatality due to lack of maintenance or failure in process.</td>
<td>Individual consultant clinical outcome in lower 10% for in-excess of three months or Speciality clinical outcomes in lower 25% for over one month or Increase in length of stay for significant number of patients &gt;10 days.</td>
<td>Earnings volatility of £1m or Serious impact on financial position of Trust.</td>
<td>Non delivery of key objective/service due to lack of staff or Ongoing unsafe staffing levels or competence or Loss of several key staff.</td>
<td>Sustained failure to meet standards or failure to meet Monitor risk rating and national requirements. Serious impact on overall performance and possible intervention or Serious long term impact (nationally and locally) on reputation, prolonged interest and DH/Select Committee overview.</td>
<td>Permanent loss of service or facility or Catastrophic impact on environment, multiple breach and prosecution or Damage will spread beyond one item of machinery and take over one week to repair.</td>
</tr>
<tr>
<td><strong>(Executive Director) Score 4</strong></td>
<td>Major avoidable injury leading to long-term incapacity/disability. H&amp;S: Probable serious injury or illness due to lack of maintenance or failure in process.</td>
<td>Individual consultant clinical outcome in lower 10% for up to one month or Speciality clinical outcomes in lower 25% for up to one month or Increase in length of stay for large number of patients &gt;10 days.</td>
<td>Earnings volatility of &gt;250k or Significant impact on financial position of Trust.</td>
<td>Uncertain delivery of key objective/service due to lack of staff or Unsafe staffing levels or competence (&gt;5 days) or Loss of key staff.</td>
<td>Major impact on overall performance which puts achievement of standards or ability to meet Monitor risk rating and national requirements at risk or National and local interest and impact on reputation specific to an issue – prolonged interest.</td>
<td>Loss/interruption of &gt;1 week or Major impact on environment, multiple breach and prosecution notice issued or Machinery will be out of action less than a week to repair.</td>
</tr>
<tr>
<td>(Directorate) Score 3</td>
<td>Moderate avoidable injury requiring professional intervention (for example, fractured neck of femur following a fall). H&amp;S: Moderate chance of injury or illness due to lack of maintenance or failure in process.</td>
<td>Individual consultant clinical outcome in lower 25% for up to a month or Increase in length of stay for large number of patients &lt;15 days.</td>
<td>Earnings volatility of &lt;250k or Major impact on Directorate’s financial position.</td>
<td>Late delivery of key objective/service due to lack of staff or Unsafe staffing levels or competence (&gt;1 day).</td>
<td>Failure to meet internal standards with some impact on overall performance of Trust or Local impact and interest in specific issue.</td>
<td>Loss/interruption of &gt;1 day or Moderate impact on environment, improvement notice issued or Machinery shut down immediately and re started in less than half a day.</td>
</tr>
<tr>
<td>(Department/Speciality) Score 2</td>
<td>Minor avoidable injury or illness, requiring minor intervention. H&amp;S: Small chance of injury or illness due to lack of maintenance or failure in process.</td>
<td>Clinical outcome not affected or Increase in length of stay 3–10 days.</td>
<td>0.5% of budget or Major impact on budget holder’s financial position.</td>
<td>Low staffing levels that reduces the service quality.</td>
<td>Failure to meet internal standards with some impact on overall performance of Directorate or Short term local interest and impact from an issue.</td>
<td>Loss/interruption of &gt;1 day or Minor impact on environment, single breach of legal requirement or Moderate damage to machinery, easily repairable.</td>
</tr>
<tr>
<td>(Employee) Score 1</td>
<td>None or minimal harm, no intervention required. H&amp;S: Little chance of injury or illness due to lack of maintenance or failure in process.</td>
<td>No impact on outcome.</td>
<td>Costs within the remit of individual employees as set by the Scheme of Delegation.</td>
<td>Nil.</td>
<td>Failure to meet individual objectives set in KSF process or Minimal impact.</td>
<td>Loss/interruption of &gt;1 hour or Minimal or no impact on the environment or Little damage to machinery/equipment.</td>
</tr>
</tbody>
</table>

* Standards are those set by Health & Social Care Act, NHSLA, ALE etc.
Appendix 3 to example risk management process: Summary of Risk Management Process

**Risk identification using:**
- Strategy and key objectives
- Business plans
- National and local standards
- Known hazards and risks
- Newly identified hazards

**Risk Assessments**
- Identify and assess hazards
- Identify and grade controls in place
- Identify and grade likelihood of risk
- Identify and grade harm, severity
- Identify further controls required

**Monitor using key indicators**
- Feedback from staff
- Incidents
- Complaints
- Claims
- Performance reports

**Develop and implement a prioritised action plan**
- Validate proposed controls
- Assign lead
- Set implementation dates
- Set review dates
- Escalate uncontrolled risks
- Identify resources

**Review completed actions**
- Re-assess re-grade residual risk
- Accept sign off residual risk
- Escalate uncontrolled risks
- Set review date

**Submit to risk register**
- Risk acknowledged by manager
- Level of risk accepted by manager
- Need for further controls agreed by manager

**Communicate risks to stakeholders**
- Internally
  - Local staff, managers, contractors, committees
- Externally
  - Regulating bodies – for example, NPSA, MDA, MCA, NHSE, NHSLA, HSE, SHOT, IRMER etc.
  - Public and patient groups, GPs
  - Commissioners, SHA, DH, emergency services
  - Professional bodies

NHS Audit Committee Handbook
APPENDIX H: EXAMPLE INTERNAL AUDIT PERFORMANCE MEASURES

This appendix sets out some suggested quality/performance measures relating to the internal audit service, to be reported to the Audit Committee. Please note that it is included for illustrative purposes only and is not intended to represent best practice.

<table>
<thead>
<tr>
<th>Source/Type of Information</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>External audit annual assessment of internal audit.</td>
<td>Normally conducted in line with financial systems review, results would be available March.</td>
</tr>
<tr>
<td>External audit 3 year review of internal audit.</td>
<td>Review included in external audit reporting in March.</td>
</tr>
<tr>
<td>Senior internal management QA review results.</td>
<td>Reviews conducted 6 monthly so results could be reported at alternate Audit Committees.</td>
</tr>
<tr>
<td>Post audit questionnaire results.</td>
<td>Reported at each Audit Committee.</td>
</tr>
<tr>
<td>Audit Committee member survey.</td>
<td>Annually for internal audit year end report.</td>
</tr>
<tr>
<td>Senior Management Team survey.</td>
<td>Annually for internal audit year end report.</td>
</tr>
<tr>
<td>Progress against plan.</td>
<td>At each Audit Committee.</td>
</tr>
<tr>
<td>Summary of performance reporting to management board.</td>
<td>Report to follow management board.</td>
</tr>
</tbody>
</table>

Report recommendations:
- Actions completed on time
- Number of actions where management response time has been altered
- Proportions of high, medium and low actions
- Number of recommendations accepted/not accepted by management.

Key timescales:
- Time from completion of fieldwork to audit management review
- Time from issue of draft report to agreement of draft report by client
- Time from agreement of draft report to issue of final report.

Report recommendations: Reported at each Audit Committee.

Key timescales: Reported to each Audit Committee. Also with annual summary.
APPENDIX I: REFERENCES AND FURTHER READING


Monitor (including the Governance and Audit Codes for NHS Foundation Trusts): [www.monitor-nhsft.gov.uk](www.monitor-nhsft.gov.uk)


Care Quality Commission: [www.cqc.org.uk](www.cqc.org.uk)

Taking it on Trust (2009); Corporate Governance: Improvement and Trust in Local Public Services (2003); Public Interest Reports – details available from the health pages of the Audit Commission’s website: [www.audit-commission.gov.uk](www.audit-commission.gov.uk)


Government Internal Audit Standards, HM Treasury: [www.hm-treasury.gov.uk/psr_governance_gia_guidance.htm](www.hm-treasury.gov.uk/psr_governance_gia_guidance.htm)

Statement on Auditing Standards (SAS) 70: Service Organisations: [www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/SOC/Pages/SORHome.aspx](www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/SOC/Pages/SORHome.aspx)

International Auditing and Assurance Standards Board (for more about ISAE 3402: Assurance reports on controls at a service organisation): [www.ifac.org/iaasb/](www.ifac.org/iaasb/)

Auditing Standards (ISAs (UK and Ireland)): [www.frc.org.uk/apb/publications/isa.cfm](www.frc.org.uk/apb/publications/isa.cfm)

The Healthy NHS Board: Principles for Good Governance, NHS National Leadership Council: [www.nhsleadership.or.uk](www.nhsleadership.or.uk)


Also available from the HQIP website: [www.hqip.org.uk/department-of-health-guidance/](www.hqip.org.uk/department-of-health-guidance/)
NHS Counter Fraud Service: www.nhsbsa.nhs.uk/fraud
NHS Security Management Service: www.nhsbsa.nhs.uk/security