

**Audit committees must take the lead part in scrutinising all areas of their organisations' activity, but should other committees play a supporting role?**  
Mike Townsend and Derek Corbett report



# Case for collaboration?

NHS organisations are struggling to meet increasing demand from flat real-terms funding settlements. Care scandals have also highlighted the need for effective governance over quality and safety. In this context, it is vital that boards/governing bodies (supported by their audit committees) can demonstrate that they have a firm grip over every dimension of their organisation's business. Audit and assurance arrangements are key to managing financial and quality risks – and can help avoid any gaps (or overlaps) in oversight.

NHS audit committees are responsible for ensuring that a robust assurance framework exists over all types of risk. These include financial, operational, clinical or quality-related risks, as the HFMA's *NHS audit committee handbook* makes clear. '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 (clinical and non-clinical)', it says in example model terms of reference.

This can be achieved in many different ways. With a wide range of healthcare bodies (in terms of size and scope), there is unlikely to ever be a perfect 'one size fits all' solution. However, given the range of issues involved, expecting an audit committee to directly scrutinise and gain meaningful assurance over all areas of activity is increasingly unrealistic (other than in the smallest of organisations) and can result in very

lengthy, unwieldy and ineffective meetings. Instead, while recognising the audit committee cannot abrogate its ultimate responsibility, some organisations have responded to this pressure by establishing links with non-executive director (NED)-led subcommittees that have a scrutiny or monitoring remit. Examples include subcommittees to oversee:

- Quality and safety
- Risk
- Finance and investment.

Where a committee is established with a scrutiny remit, it can support the audit committee in commissioning, receiving and responding to assurances. In some instances, these committees will also have a wider decision-making role – for example, a finance and investment committee may have responsibility for approving capital investment proposals.

The possible need for additional scrutiny committees to support the audit committee was borne out by a survey conducted by specialist assurance provider TIAA early in 2014 (with the support of the HFMA Governance and Audit Committee). The survey revealed that only half of the NHS audit committees in the sample provided independent scrutiny themselves over clinical governance. And fewer than half had standing agenda items on safeguarding, clinical audit, complaints, regulatory compliance or patient safety.

On financial governance, the survey also indicated that only a minority of audit committees regularly considered any financial reports other than the annual accounts, and fewer than half regularly considered matters relating to either human resources or legal issues.

The *NHS audit committee handbook* acknowledges that collaboration between committees can take place, but emphasises that the audit committee itself remains ultimately responsible for evaluating governance, risk and control. This means that relationships between committees must be crystal clear (see box, left).

## Relating to other committees

The audit committee will need to have an effective relationship with other key committees that may exist within an organisation – for example, finance, quality, risk management, governance and remuneration – so that it can understand what the linkages are and what each covers. To be able to do this, every organisation should have a 'map' setting out how committees fit together and what their responsibilities are. This should distinguish between formal committees of the governing body and informal groups that are often set up for a specific task and finish purpose.

EXTRACT FROM NHS AUDIT COMMITTEE HANDBOOK, 2014, SECTION 5.1

Quality and safety committees seem to be the most advanced in providing support to audit committees. For example, Barts Health NHS Trust, the UK's largest trust, has established a NED-led quality assurance committee that commissions work from internal audit and other assurance sources and reports back formally to the audit committee. However, the audit committee maintains its ultimate responsibility for assessing governance, risk and control and signs off the overall internal audit plan. There is also strong NED cross-membership between the two committees. These arrangements reduce the audit committee's own workload and allocate greater resources to assurance duties.

Although it is less common, this approach would also work for risk and finance and investment committees. At present, the tendency here is to focus on cross-membership rather than commissioning and reviewing assurances relating to financial risks and risk management.

Whether or not an organisation establishes other committees to support the audit committee in discharging its responsibility for oversight, scrutiny and assurance of different types of risk is a decision for the board/governing body. There are a number of issues that need to be thought through (see box, right).

If additional scrutiny committees are set up, clear guiding principles should be agreed to ensure that roles, responsibilities and relationships are clear. Above all, these principles should emphasise that the audit committee cannot under any circumstances abrogate its responsibilities, and remains responsible for reviewing the organisation's system of integrated governance, risk management and internal control, across the

## Additional scrutiny

- What areas (if any) does the board/governing body wish to scrutinise directly itself?
- Where the board/governing body requires further detailed scrutiny and assurance, what level and depth of assurance is needed? In other words, can a single audit committee deal with all areas in enough depth? If not, what extra assurance is required?
- How will the audit committee maintain effective relationships with any other committee that is established to look in detail at specific areas (for example, quality and safety) and what are the reporting lines? Common approaches include shared membership, co-ordinating agendas and sharing minutes/reports.
- Membership of the audit committee strictly excludes executive directors. Should this be the case for other scrutiny committees?
- If executive membership of a quality and safety/risk/finance and investment committee is deemed necessary, then what should be the relative balance? Do quoracy requirements safeguard the balance and ensure independence?
- Is each committee's remit in relation to 'decision-making' and 'scrutiny' clearly defined?
- Has the audit committee identified what areas other committees cannot provide assurance over – for example, where other committees have responsibilities as part of the framework of control (and therefore cannot scrutinise themselves)?
- What assurance can be taken from external committees over partnerships and similar activity? Examples of such partnerships include local authority health overview and scrutiny committees and health and wellbeing boards.

whole of the organisation's activities: Other 'must haves' include:

- Any scrutiny committee that supports the audit committee should be led by a NED.
- Any scrutiny committee should formally report back on its assurance role to the audit committee.
- Joint planning meetings should be held between the audit committee and any scrutiny committees to ensure gaps and overlaps in the work plan are managed and assurance resources, such as internal audit, are identified.
- The audit committee should not delegate the review of assurance reports to committees whose own effectiveness is reviewed within such reports.
- If a scrutiny committee has decision-making responsibilities, it should not provide assurances in these areas.
- Any scrutiny committee should receive and consider relevant internal audit reports and track the implementation of recommendations.
- All committee terms of reference should clearly specify the scrutiny remit, any conflicting executive decision making responsibilities and reporting lines.

In summary, when considering where best to focus their time, it is crucial that audit committees carefully consider and coordinate their relationship with other supporting committees. The audit committee should recognise the work that is carried out and shape its agenda to discharge its responsibilities having assessed the extent, independence and quality of assurances that the board/governing body receives directly from elsewhere. ○

*Mike Townsend is regional managing director of TIAA and Derek Corbett is director of London Audit Consortium (Barts Health NHS Trust). Both are members of the HFMA Governance and Audit Committee*



The advertisement features a book cover for 'NHS Charitable Funds' with the HFMA logo. Below the book cover, the text reads: 'Practical Guide: NHS Charitable Funds', 'Price £29.50 each or 15% off 3 or more', and 'To order or for more information: visit [www.hfma.org.uk/publications](http://www.hfma.org.uk/publications) call 0117 938 8340'.