



## Introduction

This paper outlines the theory and practical implementation around the role of the Audit Committee vis a vis other Board/Governing Body sub-committees, from a sample of Providers and Commissioners across the East Midlands and Yorkshire. Given the breadth of the documents reviewed, the paper summarises broad findings and is not a detailed or exhaustive analysis. It also includes a précis of the outcome of interviews of Audit Committee Members from six organisations from within 360 Assurance's client base.

The paper outlines the following:

1. Key Messages
2. Consideration of why Audit Committees need to establish relationships with other Committees and the framework in which these relationships exist;
3. Practical implementation; &
4. Feedback from Audit Committee Members and attendees of a Quality Assurance event facilitated by 360 Assurance and Audit Yorkshire on 1 July 2019.

## 1. Key Messages

- 1. The key formal and practised relationship is with the Quality Committee.**
- 2. Membership of sub-committees trumps any potential conflict.**
- 3. Significant variety exists in the formalisation of relationships and reporting.**
- 4. Formal consideration of the Audit Committee's relationships with other sub-committees promotes structured assessment.**
- 5. Attendees of the Quality Assurance event were overwhelmingly in favour of establishing formal relationships between the Audit Committee and other sub-committees and involving them in the internal audit planning process.**

## 2. Why the Relationships Exist

NHS governing body 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 governing body's responsibility to put in place governance structures and processes to:

- Ensure that the organisation operates effectively and meets its statutory and strategic objectives;
- Provide it (i.e. the governing body) with assurance (defined as an 'evaluated opinion, based on evidence gained from review, on the organisation's risk management and internal control framework<sup>1</sup>') that this is the case.

At the corporate level, this includes risk management and performance management systems underpinned by the assurance framework, which sets out the organisation's 'mission critical' objectives and identifies the key risks that could prevent their achievement. In effect, it is the 'lens' through which the governing body examines the assurances it requires to discharge its duties. Increasingly, key risks outlined within assurance frameworks are assigned to sub-committees of the Board/Governing Body to oversee implementation of actions and controls managing the risk.

Even the best structures and processes can let down an organisation if they are not operated with sufficient rigour. This is where Audit Committees play a key role in supporting the governing body in critically reviewing and reporting on the relevance and robustness of the governance structures and assurance processes on which the governing body places reliance. This requires the Audit Committee to understand and scrutinise the organisation's overarching framework of governance, risk and control. Given the governing body's other Committees are increasingly being required to oversee the management of key risks, it follows that the Audit Committee will wish to satisfy itself that these Committees are operating effectively and to engage with them.

Another vital role provided by the Audit Committee is its responsibility for reviewing disclosure statements, such as the Annual Governance Statement (AGS), the Annual Report and Accounts, the Quality Account and other statements such as returns required by NHS England (NHSE), NHS

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<sup>1</sup> The Orange Book: Risk Management - Principles and Concepts, HM Treasury

Improvement (NHSI) and the CQC. Some of these statements will either require input from other Committees, or refer to the operation of, and output from, the organisation's Committee structure. In reviewing the disclosure statements, the Audit Committee will want to satisfy itself that other Committees have discharged their functions appropriately.

### **The framework which governs committee relationships**

The primary document which sets out the framework that the Audit Committee should have in place in respect of its relationship with other committees is the NHS Audit Committee Handbook.<sup>2</sup> Chapter 5 of the Handbook specifically focuses on how the Committee works with other committees, auditors and regulators. There are, however, several references throughout other sections of the Handbook to how the Audit Committee engages with other committees in delivering its responsibility for focusing on **all** the organisation's activities.

Key themes which emerge from a review of the Handbook's content are as follows:-

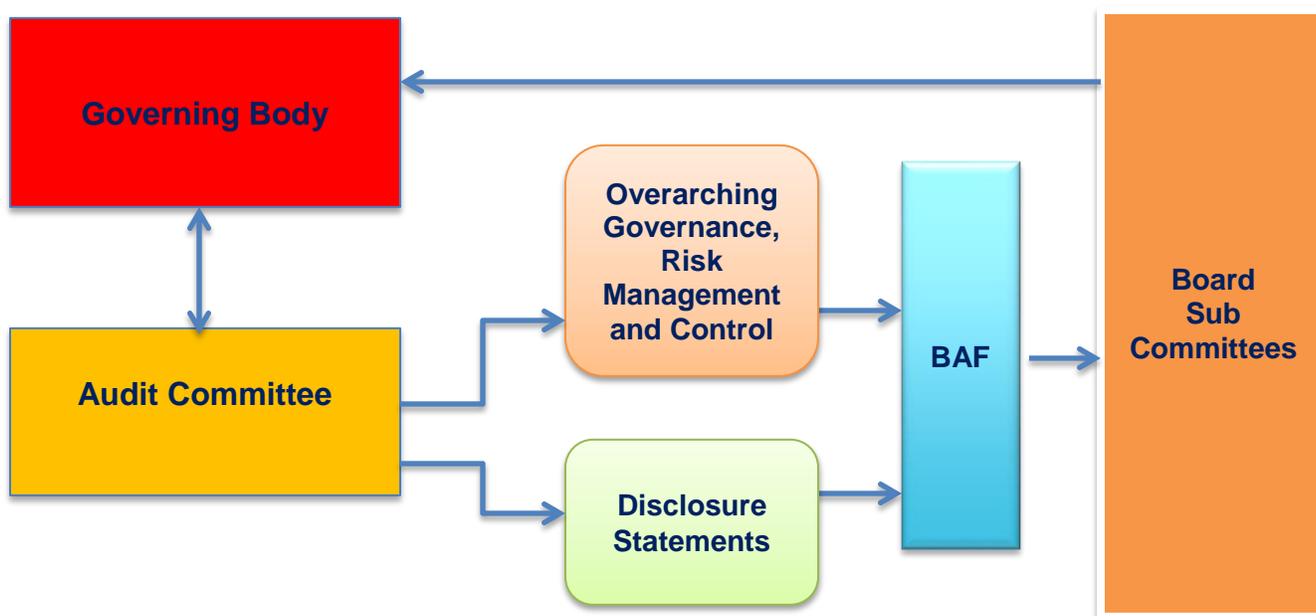
- Where assurances received from a variety of sources fall within the remit of other board committees and sub-committees, it is the role of the Audit Committee to bring all this information together as part of its overall role in reviewing the assurance framework. The Handbook also notes that when another committee or organisation has day-to-day responsibility for a particular risk area, the audit committee is ultimately responsible for confirming that it is being managed effectively and that any gaps in assurance are picked up and addressed; (paragraphs 3.7 and 3.9);
- Reference is made to the Committee's relationship with several committees, including those with responsibility for finance (paragraph 3.11), quality, risk management, governance, remuneration (paragraph 5.1) and clinical governance (paragraph 5.5);
- In discussing the Committee's role in reviewing the organisation's Annual Governance Statement, the Handbook notes that it should 'look at the rigour of the process for compiling the evidence and the quality and reliability of the underlying data upon which it is based. This will involve linking with other committees that play a role and confirming that the assurances they provide are reliable and that any gaps are identified and addressed' (paragraph 4.4); &

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<sup>2</sup> HFMA, 4<sup>th</sup> Edition

- Example Terms of Reference, Agenda and Timetable and the self-assessment detailed at Appendices C & D of the Handbook all emphasise the need to establish, regularly review and reflect on relationships with other committees.

It is thus evident that Audit Committees are expected to have an active working relationship with several committees in their dual role of reviewing the organisation's overarching governance, risk management & control arrangements and its disclosure statements, as demonstrated in the chart below.



### 3. Practical Implementation

We reviewed available documentation<sup>3</sup> relating to 18 Audit Committees for evidence of how they interfaced with other committees. It was evident from this review that by far the most common relationship that exists is the one between the Audit Committee and the Quality Committee. Indeed, in many cases, it was the only formalised relationship that existed, although we did also see some evidence of formal links to Finance & Performance Committees and, to a much lesser extent, other sub-committees of the organisation's Board/Governing Body. The comments below summarise our findings in four categories, reflecting, in

<sup>3</sup> Terms of Reference, forward planners, Audit Committee Annual Reports and minutes, where available

many cases, the relationship with the Quality Committee due to the frequency with which it was referred to within documentation examined.

### 3.1 Audit Committee Terms of Reference

Most organisations reviewed either cited the standard wording contained within the Audit Committee Handbook 'Example Terms of Reference' or amended them to reflect local circumstance. Typically this involved naming the Committee or Committees and in every case this was at least the 'Quality' Committee. Referencing a second sub-committee was always the 'Finance and Performance' Committee but a smaller number did include a Workforce/People Committee and some Trusts included their Mental Health Act Committee where relevant. Where the Quality Committee was named there was often an additional reference to the interface regarding 'Clinical Audit'.

Some organisations reinforced these linkages through specifying membership of the Audit Committee. Where this was the case, the requirement was always that a Member of the Audit Committee be either a Member or the Chair of the Quality Committee. This was extended for a small number who required Audit Committee Members to be members or the Chairs of both Quality and Finance and Performance.

A further step taken by a small minority was to describe the mechanism by which the relationship could be achieved and was usually a variation on the minutes/reports from the various sub-committees being presented to the Audit Committee by the respective Member of Quality Committee etc or annually in receipt of the Quality Report.

We also noted:

- One organisation stated that the Chair of Audit Committee 'shall be seen as independent and therefore must not Chair any other governance committee either of the Board of Directors or wider within the Trust'.
- One recognised the clear importance of the sub-committees as the 'main source of assurance to the Audit Committee' but that their work will be validated by, among others, Internal Audit.
- One stated they will 'support and advise the Council of Governors and any sub-committees as requested'.

### 3.2 Audit Committee Forward Planner

Analysis of forward planners evidenced a similar position to Terms of Reference. Frequency was typically all Audit Committee meetings except that set aside in May for the Annual Accounts. Once again the relationship which dominated reference to other committees was the one with the Quality Committee, although in a minority of cases the Finance & Performance Committee and others were also named.

We also noted a minority of cases where:

- Noting the business of other Committees and review relationships was undertaken once a year, at year-end (twice).
- Where there was no reference at all to sub-committees in the Audit Committee forward agenda (three times).

By way of variation:

- One Audit Committee received a Governance/Risk/Control report from the Quality and Finance Committees twice a year at alternate meetings.
- One Audit Committee programmed for 5 of their 6 Committees a Review of the full BAF with view of sub-committee responsibilities (twice), deep dive review of Quality, Finance and People.

### 3.3 Reporting

#### (a) Audit Committee Annual Report

- There was significant variation in the entries relevant to the Audit Committee/sub-committee interface from nothing to several paragraphs.
- Typically, Audit Committees described their relationship with sub-committees and the reports they received (minutes/annual reports) which tended to be presented by the Member of that particular Committee. Less frequently, reference was made to a particular area (Quality Account/Clinical Audit) or where internal audit reports had been referred to another sub-committee where relevant. Where this was the case, the Committee report was clear that the referral was followed-up and they were working closely with the Committee.
- The benefit of receiving assurance was noted but there was no clear reference to whether the Audit Committee was assured.

## (b) Reports Received From Other Committees

- Most reports received were based on the relevant sub-committee minutes or a summary/key issues log that was also used to report to the Governing Body. Annual reports from sub-committees were more bespoke and followed a similar format where they were received from more than one sub-committee.
- Most reports were presented by the Audit Committee Member from the relevant sub-committee.
- Where 'minuted', key issues were typically brought out in the nature of key alerts or by reference to their review of the BAF.
- For some there was evidence of the sub-committee reports engendering a discussion while others were 'minuted' as being noted.
- Typically Audit Committee Members were asked to 'note' and 'receive'.
- For one report there was a strong request that the Audit Committee clearly set out exactly what it is they wanted from the sub-committee report.
- Equally, there were a small number of occasions where Audit Committees 'minuted' that they had not received the information they required and that they should be much clearer in their request for ad hoc presentations in terms of content.
- Some examples where dealing with the BAF and sub-committee reports high on the Audit Committee agenda to ensure they were given due consideration during meetings.

## Other Matters

On a small number of occasions, Audit Committee minutes evidenced a wider discussion around the role of the Audit Committee and the sub-committees. In one instance the formal introduction of liaison with sub-committees was discussed and in another how existing arrangements could be strengthened was considered. Though at different places on the development of this interface, both had considered how it could best work and were posing the questions that should be asked when the reports were received and this in turn could influence the subject matter.

## 3.4 Referring of Matters Between Committees

There are two predominant mechanisms of referral which were evidenced in the documents reviewed:-

- The referral of limited assurance internal audit reports where, in the main, the respective sub-committee (typically Quality) is expected to review and understand the implications for their area.
- Where the Audit Committee undertakes a more granular review of the BAF and requires the relevant sub-committee to review one of more entries in terms of score, lack of assurance, gaps in control etc.

What was less clear was the formal mechanism by which these referrals were tracked to gain a response, though the linkages between Committees could be the answer.

We did note one organisation, however, which had a working across Committees/Board log which detailed the referral from and to, the issue, agreed action and progress including evidence.

### **Quality Committee**

Given that the relationship between the Audit Committee and the Quality Committee is so prominent, we reviewed relevant documentation for a sample of Quality Committees for evidence of the relationship with the Audit Committee. We noted a small number of occasions where reference was made to this relationship in either their Terms of Reference, forward planner or reporting.

We identified the following examples of note:-

- Specifying, in Terms of Reference, at least 'one Member of the Audit Committee will also be a Member of the Quality Committee to ensure appropriate triangulation'.
- Defining the role of the Audit Committee in relation to the Quality Committee as 'to take a view as to whether the arrangements for gaining assurance are effective'.
- A work planner that has on each agenda
  - BAF/CRR
  - Board Report
  - Limited Assurance Internal Audit Reports
  - Then lists the other topics to be covered.
- Stating that 'Members of the Quality Committee will receive feedback from another sub-committee 'at meetings of the Board of Directors,' and that

- 'issues requiring a formal response will be raised in writing between the Chairs of the committees'.
- Requests that all 'clinical' Internal and External Audit reports are received, where the recommendations will be reviewed as will the appropriateness of the Management response.'
  - Details of Internal Audit Reports received and the challenge the Quality Committee had evidenced.
  - Requesting more reports and minutes from the various Board sub-committees than the Audit Committee has itself.
  - A detailed review of the role of the Quality Committee, its interface with other sub-committees and how that can be improved given the time available including ad-hoc joint meetings, clearer reports, specifying requirements etc.

#### 4. Feedback from Audit Committee Members

Six Audit Committee Members were separately asked a series of questions to understand how the role of the Audit Committee and relationship with other sub-committees works in their organisation. From these, four main areas were highlighted as shown in the diagram below, with the predominant area being raised relating to effective relationships.



##### 4.1 Relationships

The Audit Committee Members clearly considered it important that their Members also attended other Board sub-committees. This was particularly the case for the Quality Committee. The majority thought it a 'bonus' if a Member of their Committee chaired another sub-committee and again the Quality Committee was most referenced. A minority preferred Audit Committee Members not to chair

other sub-committees, citing potential conflicts, but were nevertheless very much in favour of establishing linkages.

The linkages formed through effective relations between the Audit Committee and other sub-committees were seen as essential both in terms of understanding the business of the organisation and ensuring key messages could be transacted between them both formally and informally. Specific examples of this were provided which evidenced a mature approach to the relationship between Committees that holding to account was good for the organisation governance and necessary to perform the respective roles. Audit Committee Members noted the wide scope of the Quality Committee agenda and the frequency of meetings. Linkages were seen as a good way of keeping abreast of the issues even though as Board Members they received reports from the Quality Committee. Some Audit Committee Chairs noted that they occasionally attended the Quality Committee and found this useful in understanding what took place beyond that captured by the minutes.

#### 4.2 Roles

Audit Committee Members were clear in their role to gain assurance about the overarching governance, risk management and control processes and procedures. Their interest in sub-committees was to know whether they were performing an effective role as part of the overall governance arrangements. Audit Committee Members referenced the 'heavy lifting' being undertaken by Board sub-committees and were clear theirs was a different role. All thought it was the role of the Audit Committee to assess the 'effectiveness' of the Quality Committee as they needed to be confident that the assurances they received from them were robust. Where this effectiveness was questioned, Audit Committee Members said they would work with the Quality Committee. In undertaking their role, half of the respondents considered the year-end process being squeezed by the focus on finance.

#### 4.3 Reporting

Most thought it necessary to receive regular reports from sub-committees. In general, the existing Board reports were utilised. For one Committee, specific year-end annual reports were requested from sub-committees and used to inform the Audit Committee Annual Report. Not all questioned received regular reports from the sub-committees and some cited that the main issues were brought to the Committee because of the linkages their Members have with other sub-committees.

The Audit Committee Members considered the key areas they needed assurance from Board sub-committees related to their review of the BAF and Corporate Risk Register (CRR). Particular areas of assurance cited from the Quality Committee, in addition to the BAF/CRR, included:

- Quality Account – to make sure it had been thoroughly reviewed
- Clinical Audit
- Key safety measures
- Serious Incidents/Complaints

For each area, Audit Committee Members were interested in the assurance the Committee could take based on the challenge and rigour demonstrated at the relevant sub-committee.

#### **4.4 Referral of Matters Between Committees**

All questioned emphasised the importance of good individual relations and strong linkages between the Board sub-committees, with no perceived barriers to making any requests for information, clarification and referring of issues when necessary. All provided examples of matters that had been referred to Board sub-committees and particularly the Quality Committee. This could be as a result of issues identified in the sub-committee reports, either received at Audit Committee or at Board. Audit Committee Members were comfortable to refer matters back to the Audit Committee as they saw fit and to make requests for information/reports from Board sub-committees as necessary. All were in favour of referring any relevant internal audit reports but particularly those where the assurance was limited.

#### **4.5 Feedback From Quality Assurance Event**

On the 1<sup>st</sup> of July 2019 we held an event with our partners Audit Yorkshire primarily aimed at Audit and Quality Committee Members where the key themes outlined in this report were presented. Attendees were asked 4 questions concerning the relationship that should exist between the Audit Committee and other Board sub-committees. The responses to these questions are summarised overleaf.

Vote Now

Should the Audit Committee formally consider how it integrates with other committees?



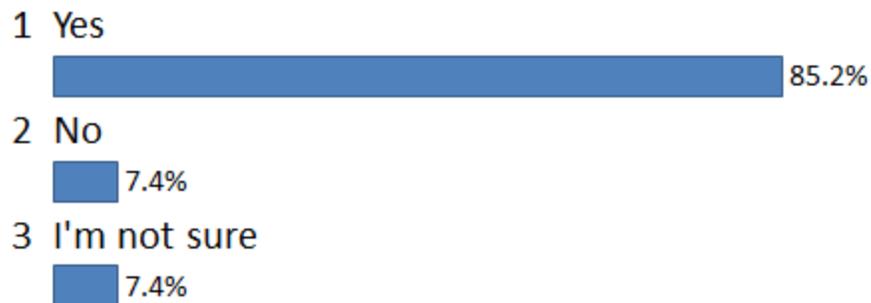
Vote Now

Should the Audit Committee specify the form and content of the reports/updates it receives?



Vote Now

Should the Audit Committee have a formal relationship with each Board Sub-Committee?



Vote Now

Should Chairs of Board Sub-Committees be more actively involved in the audit planning process?





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