



Llywodraeth Cymru
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NHS Wales Audit Committee Handbook

June 2012

Foreword

This version of the NHS Wales Audit Committee Handbook is a revision of the Handbook that was issued in 2011.

The successful introduction of a revised NHS in Wales in 2009 has been supported by the development of stronger and simpler governance. This has been designed to ensure that throughout the NHS, the right people are in the right roles, doing the right things in the right way.

This new edition of the handbook embraces key governance principles and increases and promotes the need for explicit assurance about risk, quality and safety, control and governance within organisations.

It provides guidance on the purpose, role and responsibilities of Audit Committees and highlights key principles and good practice to support organisations to improve risk management, internal control and governance.

The handbook has been developed with the help and support of Internal Audit colleagues, Board Secretaries, Clinical Governance Support and Development Unit and colleagues from Wales Audit Office, Healthcare Inspectorate Wales and Welsh Government.

We would also like to acknowledge the work of HfMA and the Department of Health, since we have drawn on the 2011 version of the NHS Audit Committee Handbook published by HfMA in the revision of this NHS Wales version.

Further information on governance can be accessed via:
www.nhswalesgovernance.com

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Introduction

The model Terms of Reference in this handbook guide NHS Boards and Audit Committees to consider their approach to the scrutiny of the establishment and maintenance of an effective system of governance¹, risk management and internal control. This is consistent with the role of NHS Boards in embedding good governance, as well as recognising developments in healthcare management and broader corporate governance. To carry this out effectively the Committee:

- Must have detailed terms of reference and operating arrangements, which are formally approved by the Board. These must set out its governance and ways of working;
- Must work together with other key committees, including the Quality & Safety Committee and the Mental Health Committee to seek and provide assurance on all aspects of governance, including quality and safety;
- Build its work programme around a system of assurance² that is 'fit for purpose';
- Will review the establishment and maintenance of an effective system of good governance, risk management and internal control, across the whole of the organisation's activities (both clinical and non-clinical) which supports the achievement of the organisation's objectives;
- Needs to maintain a focus on achieving high quality and safe healthcare services within strong financial management that which underpins operational developments; and
- Needs to look at the way in which it works and consider how it can be more effective.

This handbook is designed to assist Audit Committees in the effective performance of their function. The handbook is divided into five sections which cover the:

- Corporate significance of an effective Audit Committee;
- Importance of the system of assurance and the ways in which the Audit Committee can ensure this works effectively for the organisation;
- Audit Committee's specific role in reviewing the performance of its functions;
- Guidance on working with providers of assurance and the relationship with other committees; and
- Practical advice on the operation of the Committee itself.

¹ Governance is defined in the NHS Wales Governance e-Manual as "A system of accountability to citizens, service users, stakeholders and the wider community, within which healthcare organisations work, take decisions and lead their people to achieve their objectives."

² A system of assurance is a framework / set of arrangements which enables the organisation to ensure it has the right focus, behaviours and ways of working to ensure the sustainable achievement of its objectives in accordance with legal and other requirements.

Section 1: The need for an Audit Committee

1.1 Audit Committees in the NHS

The Codes of Conduct and Accountability for NHS Boards and the Code of Conduct for NHS Managers Directions 2006 [WHC (2006) 090] establishes the requirement for every NHS Board to establish an Audit Committee, and this has been incorporated into the Standing Orders for Local Health Boards and Trusts (See **Appendix A**). That requirement remains in place today and reflects not only established best practice in the private and public sectors, but the constant principle that the existence of an independent Committee is a central means by which a Board ensures effective internal control arrangements are in place. In addition, the Committee provides an independent check upon the executive arm of the Board.

NHS Board members have a significant and challenging 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:

- Seek assurance on services provided;
- Ensure that the organisation operates effectively and meets its strategic objectives; and
- Provide the Board, citizens and partners 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.

Whilst all staff have a part to play in managing and mitigating risk, overall accountability for the effectiveness of an organisation's risk management arrangements rests with the Board. The Board needs to reduce threats to the achievement of its strategic objectives, and monitor how that is done. The Audit Committee can support the Board in this area by:

- Seeking and providing assurance that controls are in place and are working as designed; and
- Challenging poor sources of assurance.

1.2 The role of the Audit Committee

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 effective system of assurance.

The system of assurance is the 'lens' through which the Board uses to discharge its duties. The key questions Board members need to ask are:

- 'What are the risks to achieving the organisation's strategic objectives?'
- 'What don't we know that we need to know?'
- 'What are we doing to address weaknesses and share good practice?'

No Audit Committee can afford to limit itself to focus on internal financial control matters. The importance of financial scrutiny has not diminished but the need for rigorous control over all activities requires a wider focus by the Audit Committee,

Therefore the Committee has a relatively broad role, encompassing:

- A focus on the key purpose of the organisation to deliver safe and effective services and to meet the broad range of stakeholder needs;
- Internal control matters;
- The maintenance of proper accounting records; and
- Reviewing the overall assurance mechanism of the organisation, both clinical and non-clinical.

There are two key areas on which the Audit Committee should provide assurance to the Board:

- On the organisation's assurance system; and
- On the public disclosure statements that flow from the assurance processes, including the Annual Governance Statement³ and the Annual Quality Statement⁴.

The Committee's work will predominantly focus upon the risks, controls and related assurances that make up the assurance system which underpins the delivery of the organisation's objectives. Therefore it has a pivotal role to play in seeking and providing assurance on the organisations activities, and delivery of its objectives. In particular this covers the Governance Statement, which should come to the Committee before being submitted for approval and sign-off to the Board.

³ The Annual Governance Statement is published with each organisation's Annual Report and Accounts and draws together the elements of governance, risk management and control to ensure these aspects are more consistently and coherently reported. The Statement should be assembled from work through the year to gain assurance about performance and insight into the organisation's risk profile, its responses to the identified and emerging risks and its success in tackling them.

⁴ From 2012/13 each organisation will publish an Annual Quality Statement with their Annual Report to provide a comprehensive source of information and assurance to the public on the quality of local services. The Statement brings together a summary of improvements made in the quality of care, specific delivery plans, local services and priorities with signposts to more detailed information on achievements, including those made in response to areas of concern. The Statement will have some mandated content to ensure national consistency as well as locally determined content to ensure that any relevant local issues are highlighted.

It is clearly the job of Executive Directors and the Accountable Officer⁵ to establish and maintain processes for governance, on behalf of the Board. The Committee independently monitors, reviews and reports to the Board on the processes of governance and, where appropriate, facilitates and supports the attainment of effective processes.

1.3 The work of the Audit Committee

The Committee needs to gain a clear understanding of the broad framework of governance in the organisation, particularly with regard to what other committees are doing. The starting point for this is to ensure that the overall process for governance has been established and is operating effectively. The Committee should use the system of assurance for planning its work. The Committee, therefore, needs to spend time ensuring that the assurance system provides complete coverage of the organisation, at a strategic level, and that the identification of controls and assurances that form part of the system are reasonable.

The Committee should concentrate on the high risk areas, either where the inherent risk is high and the level of dependency upon the operation of controls is critical, or where the residual risk is high and the situation needs monitoring.

The Committee should use both management and auditors to gain assurance that risk is being effectively managed. This means assuring in a number ways and formats that the controls are effective and the level of risk is acceptable, or that action is being taken to address the risk.

The Committee must ensure that actions agreed at its meetings are carried out. It is helpful to use an action plan that details all agreed actions – this can be scrutinised at every meeting to ensure that actions are completed on time and to a satisfactory level. Actions are retained on the plan until completed.

1.4 System of Assurance

The Audit Committee's primary role is to ensure the system of assurance is valid and suitable for the Board's requirements. The Audit Committee should review whether:

- The system of assurance is appropriate for the organisation;
- Processes to seek and provide assurance are robust and relevant;
- The controls in place are sound and complete;
- Assurances are reliable and of good quality; and
- Assurances are based on reliable, accurate and timely information and data.

⁵ The Director of Shared Services is the Accountable Officer for Shared Services and individual Local Health Board and NHS Trust Chief Executives are the Accountable Officers for their respective organisations.

The Audit Committee is a key source of assurance to the Board that the organisation has effective controls in place to manage the significant risks to achieving its strategic objectives and that controls are operating effectively. This is described in more detail in **Section 2**.

1.5 Public Disclosure statements

The Audit Committee also has a pivotal role to play in reviewing the public disclosure statements that flow from the organisation's assurance process. In particular these comprise the following:

- The Annual Report and Accounts;
- The Annual Governance Statement (informed by the Head of Internal Audit Opinion); and
- The reports on quality and safety, including the Annual Quality Statement.

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 is described in more detail in **Section 3**.

1.6 What the Audit Committee does NOT do

The Committee should focus on its key functions and responsibilities as set out in this Handbook.

In particular, it is not the job of the Audit Committee to establish and maintain processes for governance, risk management and internal control. This is the responsibility of Executive Directors and the Accountable Officer (the organisation's Chief Executive).

The Audit Committee does not oversee operational details of risk management. The organisation will have an executive structure for this. Risk is explored further in **Sections 2.3 and 4.1**.

1.7 Committee authority

The Committee should have sufficient authority to exercise its functions in accordance with this handbook. It should be constituted as a committee of the Board and the terms of reference should form part of the Board's Standing Orders.

The Committee should have explicit authority to receive full access to information and require officers to attend its meetings; and the ability to investigate any matters within its terms of reference, including the right to independent professional advice.

The Board should ensure that the Committee receives the resources that it needs to fulfil its role.

The Committee Chair must have appropriate access to Chair of the Board, Head of Internal Audit, External Auditors and others such as Healthcare Inspectorate Wales.

Membership of the Committee should be disclosed in the annual report.

1.8 Committee relationships 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. The Head of Internal Audit is required to provide the Board with an annual opinion on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes. To support their wider role, Audit Committees also seeks assurance on relevant clinical activity, such as the clinical audit plan (**see section 2.10**). 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 audit work.

1.9 Reporting to the Board

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

The Board should agree with the Audit Committee what assurance it requires and when it needs to receive them.

The Audit Committee should also provide the Board with written and verbal reports of its work and the assurances that have been received and validated.

The Committee will provide the Board with an annual report on its work (see also **section 3.4**).

Section 2: The Audit Committee and the system of assurance

2.1 Focusing the work of the Audit Committee.

This section expands on the Committee's role in relation to the system of assurance. Seeking and providing assurance is the key source of evidence that links strategic objectives to risks, controls, safeguards and assurances, and the main source that the Board should use in discharging its overall responsibility for internal control. The primary role of an Audit Committee is to continually review the relevance and rigour of the system of assurance and the arrangements surrounding it. The Committee should use the assurance system both as the central source for planning its work and as a key topic for its scrutiny. The Committee should therefore be able to provide the Board with adequate assurances.

2.2 Assessing risk

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. The organisation will need to determine the level of risk it is willing to accept.

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 level of acceptable risk. Although the Audit Committee should not be directly involved in the process of risk management, the organisation's risk management system will underlie the assurance system. It will need to review the organisation's risk management processes in exercising its functions in relation to the system of assurance.

2.3 Reviewing the arrangements in place

For many organisations the system of assurance is not always well understood. This can be an impediment to its effective use for managing business and its strategic priorities.

To be of most use to an organisation, it is important that the assurance system and the processes for using it suit the organisation. As assurance systems mature, they can be expected to vary in style and content.

The Audit Committee can make a significant contribution to the organisation by questioning whether its assurance system and the arrangements in place work for their organisation or whether a change would be beneficial.

Questions the Committee may want to consider include:

- Is it clear what the organisation's system of assurance is for?
- Is it clear how the assurance system is used within the organisation (for example, different committees will focus on different elements)?
- Are the existing processes for compiling, maintaining and using the assurance system appropriate and effective?

Assessing the suitability of the system of assurance will provide a sound basis for the Audit Committee to comment on whether:

- The assurance system is appropriate for the organisation;
- Controls in place are sound, complete and robust;
- Assurances are reliable and of good quality; and
- Assurances are based on reliable, accurate and timely data and information.

2.4 Linking strategic objectives to the system of assurance

The assurance system should link to the organisation's strategic objectives. The Audit Committee has a critical role to play in:

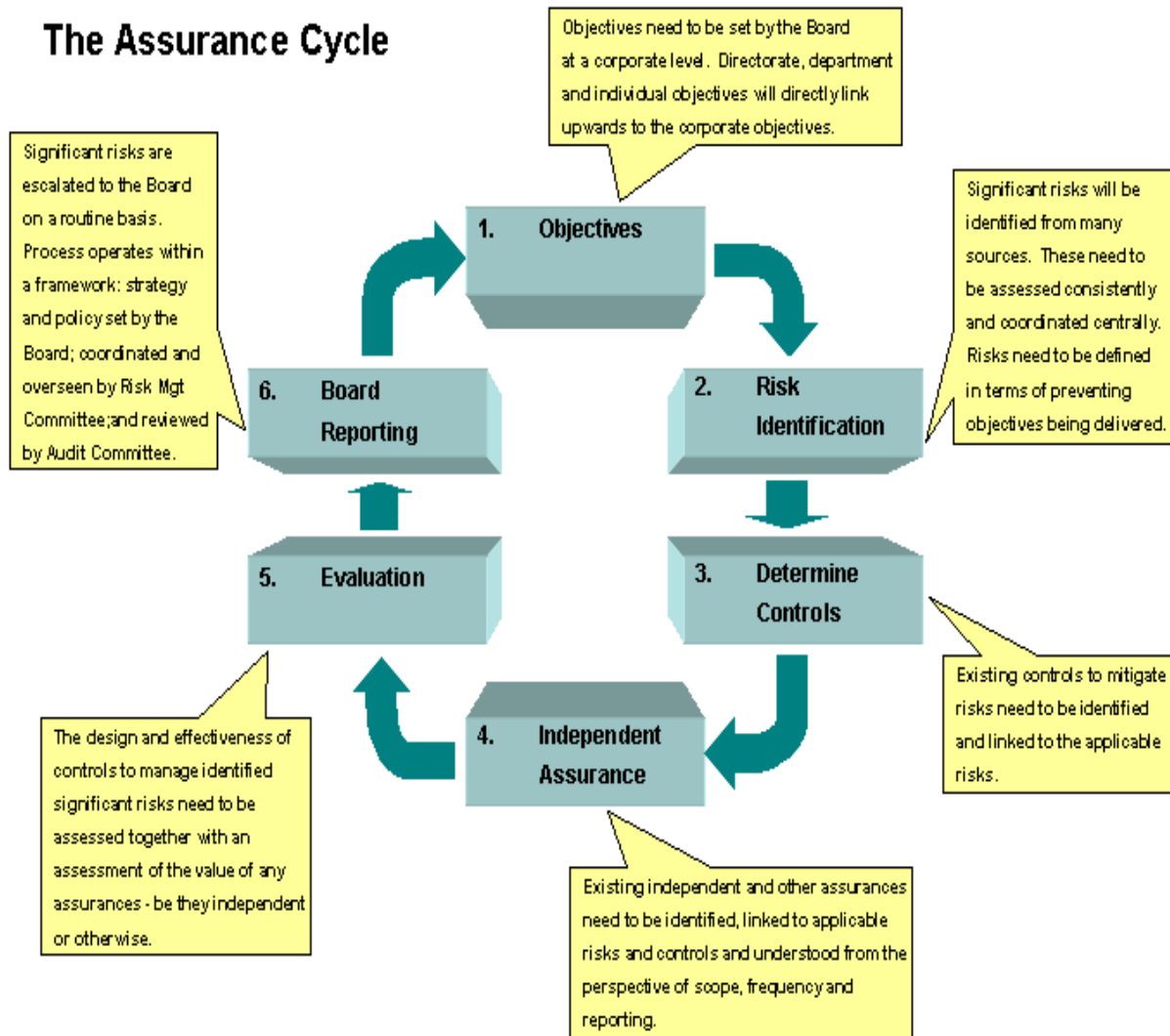
- Seeking assurance that the strategic objectives have been readily communicated through the organisation;
- Reviewing whether the system of assurance has been designed, developed and is being used by management to provide the Board with assurance on performance against the strategic objectives; and
- Reviewing how risks which could impact on the achievement of the objectives are being managed and mitigated.

2.5 Controls in the system of assurance

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

- Controls described are relevant to the risk;
- Risks they cover relate to the organisation's strategic objectives; and
- Controls adequately cover all of the key risks.

The diagram below illustrates the assurance cycle



The Committee should then seek assurances from management, internal auditors and any external sources 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 management, and ensure 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 system and knowledge of Board priorities to confirm the audit plans, particularly in relation to internal audit.

2.6 Sources of Assurance

Using a wide range of sources of assurance enables the Board to distinguish those areas which are being well managed and those where there may be cause for concern. These assurances can be process data, output and outcome data, or reports from inspections or reviews carried out. The Audit Committee's role in understanding whether 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 is the assurance (was it received recently? is the work behind it recent?); and
- 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 poor audit opinion or inconsistencies between 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.

External Sources of Assurance

Some assurances will come from external bodies and organisations (such as the Wales Audit Office, Healthcare Inspectorate Wales, Royal Colleges, Medicines Healthcare Regulatory Agency or HM Revenue and Customs), and the Committee members should ensure 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 Board/Board Secretary should advise the Audit Committee Chair of such reports and when and how they will be brought to the Committee.

Internal Sources of Assurance

Other assurances will be internal to the organisation (such as internal audit, infection control, clinical audit, and counter fraud). The majority of assurances to the Committee should come from management, and not from auditors, although auditors will provide a critical element of independent assurance. In this context robust systems of risk management and application of a system of assurance should be at the core of any Committee's review process.

The Committee will need to liaise closely with any Risk Management Committee, where a separate Risk Management Committee has been established, to avoid any duplication or overlap. The Committee's role is not to manage risks, but rather to ensure that an effective system is in place, leaving the operational management to management.

The Committee has a key role in seeking assurance that services use and meet ***Doing Well, Doing Better: Standards for Health Services in Wales***, which are the governance standards set for the NHS in Wales and form a key element of the organisation's system of assurance. This will need to be done in conjunction with the Quality and Safety Committee which will take the lead on outcomes from use of the Standards at team and service level.

The Quality and Safety Committee has a key role to play in looking at the outcomes and recommendations of external inspections with regards to its area of expertise and provide assurance to the Board and Audit Committee. Assurance about other specialist areas of work may need to be sought from other committees.

Commonly used sources of assurance (both internal and external) are noted below

Some examples of sources of assurance	
Internal sources of assurance	External sources of assurance
Internal audit Key performance indicators Performance reports Sub-committee reports Compliance audit reports Local counter fraud work Clinical audit Staff satisfaction surveys Staff appraisals Training records Training evaluation reports Results of internal investigations Serious untoward incident reports Complaints records Infection control reports Information governance toolkit self-assessment Patient advice and liaison services reports Workforce and OD Patient experience surveys and reports Internal benchmarking	External audit Healthcare Inspectorate Wales Royal College visits Deanery visits External benchmarking and statistics Accreditation schemes National and regional audits Peer reviews Feedback from service users Local networks (for example, cancer networks) Investors in People and other team development tools Feedback from healthcare and third sector partners Community Health Councils

2.7 Supporting information and data

The Audit Committee must consider whether the information and data on which assurances are founded is reliable. In particular, the Committee should ask whether the information / data used are:

- Valid (what sources were used, if internal what assurance do we have over validity? If externally generated how it was validated?);
- Accurate (what is the quality of the data regarding accuracy?);
- 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 a system of assurance will vary from organisation to organisation but the overall approach should be broadly the same.

2.8 Maintaining an appropriate financial focus

The Committee's work should include ensuring the maintenance of sound public accountability which is demonstrated through robust financial reporting and the maintenance of sound systems of internal financial control. Financial reporting in this context includes both actual and forecast revenue and capital income and expenditure, and cash flow.

The Committee will review the accounts at an appropriate level necessary to advise the Accountable Officer and the Board. In reaching a view on the accounts, the Committee should consider:

- Key accounting policies and disclosures;
- Assurances about the financial systems which provide the figures for the accounts;
- The quality of the control arrangements over the preparation of the accounts by the Director of Finance;
- Key judgements made in preparing the accounts; and
- Any disputes arising between those responsible for preparing the accounts and the auditors.

A key role of the Committee is to review and recommend the Annual Accounts to the Board for approval. The Committee also has a part to play in reviewing the draft Annual Report. Given the importance of financial management in the NHS, the Committee should also ensure it regularly reviews the risks and controls around financial management. It should 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 Board.

The Director of Finance's relationship with the Committee is critical to the successful operation of the Committee. The Director of Finance has a key role for establishing and maintaining a sound system of internal financial control, is responsible for the compiling the annual accounts, and will liaise regularly with Auditor General's representatives. The Director of Finance, along with the Board Secretary are the key contacts with the Committee and its Chair and it will be the Director of Finance or the Board Secretary that the Committee will turn to for explanations, clarification and support in relation to financial and governance matters.

2.9 Consideration of quality and safety issues

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, since some of the largest risks to an NHS organisation lie within its clinical activities, it falls to the Audit Committee to consider the clinical objectives and risks in the system of assurance and to report to the Board on the controls and assurances in relation to these.

The Committee is not the place for the contents of these detailed reviews; however, it does have a responsibility to ensure that the quality and safety processes and outcomes can be used to provide assurance on the risk management, governance and internal control.

There may be a perceived concern of duplication in the Audit Committee looking at such matters but its role to clinical services is clearly distinguishable. Its role is to satisfy itself that the same level of scrutiny and independent audit is applied to the risks to all strategic objectives, be they clinical, financial or operational. As with financial and operational objectives, the system of assurance is the foundation for the Audit Committee's work in addressing risks of not meeting clinical objectives and satisfying itself that controls and assurances are adequate and are sound and effective.

The Committee will need to satisfy itself that its work and that of any Quality and Safety Committee are co-ordinated to avoid duplication or omission. The Committee will particularly wish to concentrate on areas of significant clinical risk, control or assurance arising from financial pressures

Financial pressures 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 assurance s are reported.

2.10 Seeking assurance on Clinical Audit in the organisation

Clinical audit seeks to improve quality by using a structured review to look at systems, practices and results against agreed standards – and then making improvements when indicated.

The organisation must have an Annual Clinical Audit Plan (ACAP) in line with the Quality Delivery Plan each with an identified executive lead in line with the National Audit Plan, confidential enquiries and other audits in line with the organisations objectives, for example, Fundamentals of Care and using the Standards for Health Services in Wales. Individual teams, services and clinicians will have their own local audit plans separate from the ACAP.

The Audit Committee and Quality and Safety Committee both have a role in seeking and providing assurance. The Audit Committee will seek assurance on the overall plan, it's fitness for purpose and it's delivery. The role of the Audit Committee is to seek assurance on:

- Does the organisation have a plan - and is it fit for purpose?
- Is it completed on time?
- Does it cover all relevant issues?
- Is it making a difference and leading to demonstrable change?
- Is change supported by recognised improvement methodologies?
- Does the organisation support clinical audit effectively?

The Quality and Safety committee will seek more detail on the clinical outcomes and improvements made as a result of clinical audit.

The Internal Audit service will have a role in providing assurance on the ACAP.

2.11 Reviewing the results of assurances

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 controls are operating as expected and that agreed actions for improvement are being implemented. The Committee should also seek practical evidence that the system of assurance is operating effectively in the organisation.

Section 3: The work of the Audit Committee

3.1 The work of the Audit Committee in practice

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

3.2 Reviewing the Annual Governance Statement

The Board is collectively accountable for maintaining sound systems of internal control and assurance that supports the achievement of the organisation's objectives, and is responsible for putting in place arrangements for gaining assurance about their effectiveness.

The Governance Statement is an annual statement signed by the Accountable Officer, on behalf of the Board. The Governance Statement includes a description of:

- How the individual responsibilities of the Accountable Officer have been discharged with regard to maintaining a sound system of internal control that supports the achievement of policies, aims and objectives;
- The purpose of the system of internal control, as evidenced by a description of the risk management and review processes, including meeting with the Standards for Health Services in Wales; and
- The conduct and results of the review of the effectiveness of the system of internal control including any disclosures of significant control failures, together with assurances that actions are or will be taken where appropriate to address issues arising.

The organisation's system of assurance should bring together all of the evidence required to support the Governance Statement. This will require recognition of the risk management arrangements as they evolved during the period up to the end of each financial year.

The Audit Committee is required to review the Annual Governance Statement before it is submitted to the Board for its approval. The Annual Governance Statement should be considered by the Audit Committee before the end of May to ensure that:

- The statement includes all the elements required in guidance from the Welsh Government and HM Treasury;
- No inconsistencies are evident between the statements made and the reports the Audit Committee has received from auditors or other sources of assurance;
- Significant control issues or gaps in control or assurance recorded are consistent with reports the Audit Committee has received; and

- The Head of Internal Audit opinion has been considered and reflected in the Governance Statement.

The Audit Committee should confirm to the Board that the Governance Statement has been subject to appropriate scrutiny and is consistent with the Audit Committee's work and presents a fair reflection of the governance, risk management and control framework and accordingly is recommended to the Board for adoption and approval. If the Audit Committee has identified any limitations these should be highlighted.

3.3 Reviewing the Annual Report and Accounts

NHS bodies are responsible for the stewardship and accountability of significant public funds. Accordingly the annual statutory reporting requirements are extensive and form an important part of the accountability cycle.

NHS bodies are therefore required to publish, as a single document, an annual report and accounts. This document includes:

- A full set of Audited Accounts to include the primary financial statements and notes, and the audit opinion and report;
- A statement of the Accounting Officer's responsibilities;
- A Governance Statement; and
- The Annual Report.

The annual report itself will also contain a number of required parts and will include significantly:

- The remuneration report, disclosing salaries of directors and senior managers;
- The directors statement, including the operating and financial review; and
- The sustainability report, reporting on the use of natural resources.

The Committee is required to review the annual accounts before they are submitted to the Board for formal adoption and approval. Usually this involves considering a report from the Finance Director in April or May. The ISA 260⁶ report to those charged with governance from the external auditor should also be received by the Audit Committee at this stage (see **section 4.8**).

The Audit Committee review of the accounts is an important step in the Board approval process and provides an opportunity for constructive challenge and scrutiny of the organisation's financial information and systems of control. Accordingly Independent members need to be able to understand the annual accounts before recommending their approval and alongside this formal requirement appreciate the financial health of the organisation.

⁶ International Standard on Auditing (UK and Ireland) 260 – Communication with Those Charged with Governance.

In reviewing the accounts the Committee may wish to specifically review the following aspects:

- Changes in accounting policies;
- Changes in accounting practice due to changes in accounting standards;
- Changes in estimation techniques;
- Significant judgements made; and
- Explanation for significant variances.

Whilst the main focus tends to be on the financial statements the Audit Committee also has a vital role to play in the review of the other elements of the statutory reporting pack. Audit Committee members are well placed to consider whether the information being reported accords with their understanding of the operation of the organisation during the year. Members should also look at the consistency between audit reports and other sources of assurance.

3.4 The Audit Committee's end of year report

The Audit Committee should prepare an annual report to the main Board timed to support the preparation of the Annual Governance Statement which sets out how the Committee has met its Terms of Reference.

The Annual Report should summarise the Committee's work for the year, and present the Committee's opinion on:

- The comprehensiveness of assurances in meeting the Board and Accountable Officer's needs;
- The reliability and integrity of these assurances;
- Whether the assurance available is sufficient to support the Board and Accountable Officer in their decision taking and their accountability obligations;
- The implication of these assurances for the overall management of risk;
- Any issues the Audit Committee considers pertinent to the Annual Governance Statement and any long term issues the Committee thinks the Board and/or the Accountable Officer should give attention to;
- Financial reporting for the year;
- The quality of both internal and external Audit and their approach to their responsibilities; and
- The Committee's assessment of its own effectiveness.

The report should include, as a minimum:

- A specific statement confirming that the draft Annual Governance Statement 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 wishes to draw to the attention of the Board;

- 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 the system of assurance, and believes that it is fit for purpose;
- 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 adequately resolved; and
- That the current self-assessment by the organisation against the relevant risk management standards is consistent with the Committee's understanding, gained through its assurance work.

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 finances or financial reporting systems of the organisation;
- Any major break-down in internal control that has led to significant loss ; or
- Any major weakness in the governance system that has exposed, or continues to expose, the organisation to unacceptable risk.

3.5 Reporting during the year

The Audit Committee's in-year reporting to the Board is important. The Committee will inform the Board about the results of its reviews of assurances as well as any 'exceptional' issues that arise during the year. The Board should expect to receive reports arising from the Committee's review of the annual accounts and statutory declarations as well as any other matters requested by the Board at the start of the year. Reports from the Audit Committee should normally 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 or issues. These may include new risks, new assurances and progress in addressing gaps in control or assurance.

Section 4: Working with other Committees and Auditors

In fulfilling its role the Audit Committee will want to rely on the organisation's internal arrangements and take into account audit work. This chapter describes the Audit Committee's relationship with other committees, with internal, external and clinical auditors and with counter fraud. It also refers in 4.7 to partnership governance, 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 its auditors.

4.1 Relating to the Board and other Committees

The Audit Committee must have an effective relationship with the Quality and Safety Committee and any other committees or sub-committees of the Board so that it can understand the system of assurance for the Board as a whole. It is very important that the Audit Committee remains aware of its distinct role and does not seek to perform the role of other committees. This could impair its independence and its ability to review and comment on the effectiveness of the risk management arrangements. The respective terms of reference of each committee should clarify their distinct roles and how they relate to each other.

4.2 How auditors support the Audit Committee

The majority of assurances to the Committee should come from management. In addition to this the Committee will look to audit (internal, external and clinical) as a source of independent assurance.

It is not the role of the Audit Committee to manage the organisation's audit functions; it should use the internal, external and clinical audit 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. The external audit role is exercised in accordance with statutory provisions and the work of external auditors is subject to '*the Auditor General's Code of Audit Practice*' and '*the Statement of the responsibilities of the Auditor General for Wales and of the bodies that he or she audits*'.

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. The Committee has a role in assessing whether the organisation has sufficient internal audit time to allow auditors to fulfil their roles effectively and provide robust assurance to the Board

The internal audit needs of Health Boards and Trusts in Wales are serviced through the Audit and Assurance Services Division of the NHS Wales Shared Services Partnership. The Audit Committee will want to assess the quality of the service and the extent to which it meets the organisation's needs.

The following paragraphs will assist the Audit Committee in:

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

4.3 Internal audit support to the Audit Committee.

An effective Audit Committee is dependent, in many respects, on the existence of an effective internal audit function. The Internal Audit Standards for the NHS in Wales 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 organisations agreed objectives; and
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 NHS Wales Internal Audit Standards provide an essential reference source for the Audit Committee in understanding what it 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 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; and
- *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 system of assurance 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 Reviewing 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 system of assurance 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 seek assurance on the risks and controls that are not covered within the internal audit plan.

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 headings below give an example:

Sources for a risk based internal 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 an allocation for:

- A general review of high level governance and risk management arrangements in the organisation; and*
- An assessment of risk, control and governance position in support of the end of year Accountable Officer's declaration in the Governance Statement.*

3. **System of Assurance**

Because of the central role of the system of assurance, the Audit Committee will expect internal audit to review the effectiveness of internal control and quality of assurance flows in selected areas identified in the system that will encompass:

- Governance and Risk Management;*
- Core Financial Systems Assurance;*
- Standards for Healthcare Services; and*
- Board Assurance System.*

4. **Audit risk assessment**

In applying the risk based approach to its planning internal audit will not only take account of the assurance system 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. **Performance improvement/ VFM**

The audit plan should include an element of performance audit work to help the organisation improve value for money in its use of resources. The VFM programme should be based upon an assessment of significant risk and opportunity and aligned with the organisations cost improvement and efficiency plans. This work may potentially be undertaken as thematic reviews across a health system.

6. **Consultancy/ Advice**

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 above and the overall resources applied to internal audit are a matter for the 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:

- 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; and
- 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.

4.5 Reviewing internal audit assignment reports

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. 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, the recommendations for improvement that have been made to management, and the management response. In this way the Committee will receive prompt notification of internal audit findings and assurances

An important role for the Audit Committee is to monitor the implementation of agreed audit recommendations. The Audit Committee should ensure the organisation adopts a robust process for monitoring the implementation of agreed audit recommendations and that regular progress reports are provided to the 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 of audit recommendations in a particular area, the Committee can assist by asking the operational manager to attend and explain.

4.6 Reviewing 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 and Audit Committee on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes. This will include consideration of:

- The design and operation of the system of assurance;
- The evidence required to demonstrate performance against '*Doing Well, Doing Better: Standards for Health Services in Wales*'; and
- The findings 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 matters and informing it about internal audit performance.

The Head of Internal Audit's formal annual report to the Board and Accountable

Officer via the Committee should present the opinion of the overall adequacy and effectiveness of the organisation's risk management, control and governance processes. This opinion will encompass the assurance system and requirements in relation to *'Doing Well, Doing Better: Standards for Health Services in Wales'*.

4.7 The Audit Committee's role in relation to third party assurances and hosted bodies

The Audit Committee must be informed if their organisation 'hosts' another organisation which serves the wider NHS. The hosted body will have its own Management Board/Committee structure but its budget may be significant to the host organisation. The Audit Committee will wish to consider whether there is sufficient internal audit in place to provide assurance on risks to their own organisation from the hosted body. 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 ensure that adequate 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. The NHS Wales Shared Service Partnership is an important example and illustrates where internal audit will need to meet the assurance needs of the different parties involved:

- Audit Committees of user organisations will expect to receive assurances from internal audit performed at the Shared Service organisation that risks in the services provided to them are adequately managed and mitigated with appropriate controls;
- The Audit Committee of the organisation hosting Shared Services will wish to ensure that internal audit can provide assurance that controls are appropriately designed and operating as intended across its core business processes. They will also wish to ensure that internal audit can provide the third party assurances that user organisations will require; and
- As noted above the Audit Committee of the host organisation also needs to be assured by internal audit that adequate and effective controls are in place to manage the risk exposure to the hosting organisation.

Some organisations have used standard 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 another dimension to governance between organisations and this often involves organisations outside the NHS, for example the Third Sector. 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 defining, understood and written down before joint working commences.

4.8 External audit support for the Audit Committee

The Auditor General for Wales (the Auditor General) is the external auditor of NHS Wales. His representatives should be 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 statutory duties of the Auditor General in respect of individual NHS bodies fall under two broad headings – to review and report on:

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

The Auditor General's representatives should develop an audit strategy designed to deliver a safe opinion on the accounts and to enable the Auditor General to draw conclusions on whether the NHS body has made proper arrangements for securing economy, efficient and effectiveness in its use of resources. In developing the strategy the Auditor General's representatives will take into account the audit needs of the organisation, using a risk-based approach. The Audit Committee should review and comment upon the strategy.

The Auditor General's representatives should also prepare an annual audit plan to implement the strategy.

The 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 work and the level of priority. The Audit Committee should review the annual plan and the associated fees, although in doing so it needs to recognise the statutory duties and independence of the Auditor General.

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 review and comment upon material changes to the annual audit plan.

The Auditor General and his representatives should have a right of access to the Chair of the Committee at any time, and vice versa.

The Auditor General will issue a number of reports over the year, some of which are required under the Code of Audit Practice and International Standards on Auditing, whilst others will depend upon the contents of the audit plan.

The main mandatory reports will be:

- A report to those charged with governance (incorporating the report required under ISA (UK&I) 260 and 265⁷) that sets out the main matters arising from the audit of the financial statements and use of resources;
- A statutory report and opinion on the accounts; and
- An annual report.

In addition to these reports, the Auditor General may issue a Public Interest Report (PIR) or referral to the Welsh Ministers, if significant issues or breaches occur.

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 Welsh Ministers 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.

4.9 Reviewing external audit reports

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 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?

⁷ International Standard on Auditing (UK and Ireland) 265 – Communicating Deficiencies in Internal Control to Those Charged with Governance.

- When the action plan will be followed up by management and the external auditors?
- What further work is required to complete the audit?

4.10 The value of private discussions with the auditors

Private discussions between Audit Committee members and auditors, without management present, is an important part of building a relationship of trust and supporting the independence of the audit functions. Meetings should be formally scheduled to take place periodically and at least once a year and can use a set of questions (see below), or cover other specific issues or concerns the Committee has that cannot be appropriately raised in Committee meetings.

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

Independent members of the Audit Committee may also wish to meet alone from time to time.

Private discussions with external and internal auditors: questions to consider

- *Do the internal auditors have adequate resources to provide the objective assurance required by the Audit Committee?*
- *Did the auditors receive all the co-operation they desired?*
- *Was any attempt made to restrict the scope of the auditor's work in any way?*
- *Was the original audit strategy or plan modified due to deficiencies in internal control or accounting records?*
- *Did the auditors have any significant disagreements with management (however resolved)?*
- *How were these resolved?*
- *Did the auditors have any concerns about management's control consciousness or operating style?*
- *What is the auditor's view of their relationship with management?*
- *Do the auditors believe they are under undue pressure to give a particular opinion?*
- *Do the auditors believe management are under undue pressure – for example, to report performance in a particular way?*
- *Are there any other matters which, in the opinion of the auditors, should be considered by the Audit Committee?*
- *Do the auditors have any comments on the way the Audit Committee operates and its effectiveness?*

4.11 The Local Counter Fraud Specialist and the Audit Committee

Under Welsh Minister's directions, every NHS organisation is required to nominate an accredited Local Counter Fraud Specialist (LCFS). The LCFS reports directly to the health bodies Finance Director but also works closely with NHS Counter Fraud Service (CFS) Wales, who help ensure that all potential fraud and corruption referrals in NHS Wales are investigated promptly and professionally

The Committee should satisfy itself that adequate arrangements are in place to counter fraud at their health body. The Committee should consider the impact and effectiveness of the LCFS' counter fraud work and they should ensure that the LCFS has sufficient resources and a right of access to the Audit Committee.

The NHS Wales counter fraud policy is based around seven generic areas:

- Creating an antifraud culture;
- Deterrence;
- Prevention;
- Detection;
- Investigation;
- Sanctions; and
- Redress.

The LCFS' annual work plan and reports should come to the Committee. The Committee should assure itself that the plan provides adequate resources for the seven generic areas and formally agree the annual work plan. At the end of the year the activity of the LCFS should be summarised in an Annual Report that is reviewed by the Committee.

There should be mutual rights of access between the Chair of the Audit Committee and the LCFS. There should also be an annual bilateral meeting between the Chair of the Audit Committee and the LCFS to ensure that there is clear understanding of current issues and risks. Any concerns may be referred to CFS Wales for clarification.

NHS Protect conducts qualitative assessments (QA) reviews that require NHS organisations to make an annual declaration of the counter fraud work that the LCFS has completed in the seven generic areas. The Audit Committee should review the annual declaration with the LCFS and the Finance Director prior to submission.

The comments arising from the annual QA review should be discussed at the Committee and action should be agreed with the Finance Director to improve or maintain the standard of countering fraud work at the health body.

Section 5: Organising and supporting the Audit Committee

5.1 Members of the Audit Committee

The Committee is solely comprised of Independent Members. This condition of membership provides the basis for the Committee to operate – and be seen to be operating – independently of any executive management processes and able to apply an objective approach in the conduct of its business.

Audit Committees comprise not less than three Independent Board Members, with a quorum of two. One of the members will be appointed Chair of the Committee by the Board. The Chair of the organisation should not be a member of the Audit Committee and will not normally attend. The Board Secretary and Director of Finance will normally attend. The Chief Executive and other Executive Directors will attend whenever they are required to do so by the Committee Chair. The executive attendees will, in particular, provide assurance 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 Annual Governance Statement and the annual accounts.

For the WHSSC and the Shared Services Committees, Director of Specialised Services (as Lead Director) and the Director of Shared Services (as Accountable Officer for Shared Services) will attend their respective Audit Committee sessions.

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 Board Secretary will normally be present.

As a minimum one member of the Committee should have recent relevant financial experience. The Committee must ensure that all members receive induction and training in their roles, including some basic financial literacy, where appropriate, and an understanding of internal control. Where none of the Committee members has relevant financial experience, it is acceptable to co-opt a member with financial expertise.

One committee member should be a member of the Quality and Safety Committee so as to ensure joined-up working between the two Committees.

All members of Audit Committees should have a clear understanding of:

- What is expected of them in their role, including time commitments:
- How their individual performance will be appraised, including a clear understanding of what would be regarded as unsatisfactory performance and

criteria which would indicate when the termination of Committee membership should be considered; and

- The duration of their appointment and how often it may be renewed. The terms of appointment of a Committee member should be clearly set out at the time of appointment.

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 would need to be dealt with in accordance with existing Codes and procedures that operate within the organisation.

There should be an induction programme for new Committee members, which will include site visits, meetings with other members of the Board independently from formal Board meetings; and with key Executives, the Risk Manager, internal and external audit representatives and the Local Counter Fraud Specialist.

5.2 The Chair of the Audit Committee

The selection of the Chair is a critical appointment for the organisation as the role differs from those of other independent members. 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. Consideration should be given to limiting the number of other committees that the Chair attends, although he/she will normally attend the Remuneration Committee.

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

5.3 The ongoing training needs of Audit Committee members

The Audit Committee should consider its own training needs and ensure that members have the skills to perform their roles effectively. It is essential that every member has an appropriate understanding of finance and internal control and some members will have this before being appointed to the Committee. Others should be provided with suitable training as part of their induction. Specific training for 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 governance, quality and safety), risk management and assurance, the role of internal and external auditors and improving Audit Committee effectiveness; and
- 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.

Audit Committee members should be given opportunities to share knowledge and experience and listen to expert speakers. Informal meetings of audit committee chairs also provide a valuable opportunity to share experiences. Literature and advice on audit committees is available, much of it online. Sources for the NHS include external audit companies and professional associations such as the HFMA. Helpful guidance is also available from professional accountancy bodies. See **Section 5.7** for further reading.

5.4 Frequency of meetings

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. They are unlikely to be able to fulfil all their responsibilities in fewer than 5 meetings per annum. The frequency of meetings is a decision for the Board and Committee to make based on an assessment of the work required for the Committee to meet its terms of reference. The Committee may also need to meet on an ad hoc basis for urgent matters and hold developmental meetings for its members. 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 the organisation's activities in sufficient breadth. **Appendix B** provides an example Audit Committee timetable tracking key agenda items over the year.

5.5 Audit Committee support

The Audit Committee must have a Secretary. Ideally the role would be assumed by the Board Secretary and, if not, the Committee Secretary should be a senior officer of the organisation. The Secretary should not be the Director of Finance or the Head of Internal Audit or somebody reporting to them. The planning of meetings is likely to be the responsibility of the Secretary to the Committee.

The role of the Board Secretary is a pivotal one within LHBs and Trusts in relation to governance, assurance and the co-ordination of the Audit Committee. As principal advisor to the Board and the organisation as a whole on all aspects of governance, the Board Secretary on behalf of the Chair and Chief Executive leads the design and ongoing development of a governance and assurance system for the organisation, and ensures that it meets the standards of good governance set for the NHS in Wales. The Board Secretary will also ensure the Audit Committee receives the support it requires to undertake its programme of business and its development.

The timing and timetabling of Committee meetings is a key role between the Chair and the Board Secretary. It needs to be discussed with all the parties involved,

including the Head of Internal Auditor, external auditors, the Chief Executive and the Director of Finance to ensure that key tasks, such as the approval of accounts are accommodated.

5.6 Audit Committee performance assessment

Audit Committees should assess their performance annually. **Appendix C** provides a checklist that will support this assessment.

As with any self-assessment it is important that the Committee members are constructively critical in their responses.

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.

5.7 References and further reading

Links to guidance and associated websites for the NHS in Wales are at **Appendix D**. Other material that Audit Committee members may find useful is also set out in this appendix.

APPENDIX A

SPECIMEN TERMS OF REFERENCE & OPERATING ARRANGEMENTS

1. INTRODUCTION

- 1.1 The LHB's/Trust's standing orders provide that *"The Board may and, where directed by the Welsh Government must, appoint Committees of the LHB/Trust either to undertake specific functions on the Board's behalf or to provide advice and assurance to the Board in the exercise of its functions. The Board's commitment to openness and transparency in the conduct of all its business extends equally to the work carried out on its behalf by committees"*.
- 1.2 In line with standing orders (*insert specific SO reference*) and the LHB's/Trust's scheme of delegation, the Board shall nominate annually a committee to be known as the Audit Committee. The detailed terms of reference and operating arrangements set by the Board in respect of this committee are set out below.
- 1.3 These Terms of Reference and Operating Arrangements supersede those issued in August 2010 as part of the Governance Good Practice Guide: 'Effective Board Committees'.

2. PURPOSE

- 2.1 The purpose of the Audit Committee ("the Committee") is to:
- **Advise** and **assure** the Board and the Accountable Officer on whether effective arrangements are in place - through the design and operation of the LHB's/Trust's system of assurance - to support them in their decision taking and in discharging their accountabilities for securing the achievement of the LHB's/Trust's objectives, in accordance with the standards of good governance determined for the NHS in Wales.
- 2.2 Where appropriate, the Committee will advise the Board and the Accountable Officer on where, and how, its system of assurance may be strengthened and developed further.

3. DELEGATED POWERS AND AUTHORITY

3.1 With regard to its role in providing advice to the Board, the Committee will comment specifically upon:

- The adequacy of the LHB's/Trust's strategic governance and assurance arrangements and processes for the maintenance of an effective system of good governance, risk management and internal control across the whole of the organisation's activities (both clinical and non-clinical) designed to support the public disclosure statements that flow from the assurance processes, including the Annual Governance Statement and the Annual Quality Statement, providing reasonable assurance on:
 - the organisations ability to achieve its objectives,
 - compliance with relevant regulatory requirements, standards, quality and service delivery requirements and other directions and requirements set by the Assembly Government and others,
 - the reliability, integrity, safety and security of the information collected and used by the organisation,
 - the efficiency, effectiveness and economic use of resources, and
 - the extent to which the organisation safeguards and protects all its assets, including its people

to ensure the provision of high quality, safe healthcare for its citizens;

- The Board's Standing Orders, and Standing Financial Instructions (including associated framework documents, as appropriate);
- The accounting policies, the accounts, and the annual report of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, the ISA 260 Report 'Communication with those charged with Governance' and managements' letter of representation to the external auditors;
- The Schedule of Losses and Compensation;
- The planned activity and results of internal audit, external audit, clinical audit and the Local Counter Fraud Specialist (including strategies, annual work plans and annual reports);
- The adequacy of executive and managements response to issues identified by audit, inspection and other assurance activity;

- Proposals for accessing Internal Audit services via Shared Service arrangements (where appropriate);
 - Anti fraud policies, whistle-blowing processes and arrangements for special investigations; and
 - Any particular matter or issue upon which the Board or the Accountable Officer may seek advice.
- 3.2 The Committee will support the Board with regard to its responsibilities for governance (including risk and control) by reviewing:
- All risk and control related disclosure statements (in particular the Annual Governance Statement and the Annual Quality Statement 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 the 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 and accountability requirements; and
 - The policies and procedures for all work related to fraud and corruption as set out in National Assembly for Wales Directions and as required by the Counter Fraud and Security Management Service.
- 3.3 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 audit functions. It will also seek reports and assurances from directors and managers as appropriate, concentrating on the overarching systems of good governance, risk management and internal control, together with indicators of their effectiveness.
- 3.4 This will be evidenced through the Committee's use of effective governance and assurance arrangements to guide its work and that of the audit and assurance functions that report to it, and enable the Committee to review and form an opinion on:
- The **comprehensiveness** of assurances in meeting the Board and the Accountable Officers assurance needs across the whole of the LHB's/Trust's activities, both clinical and non clinical; and
 - The **reliability and integrity** of these assurances.
- 3.5 To achieve this, the Committee's programme of work will be designed to provide assurance that:

- There is an effective internal audit function that meets the standards set for the provision of internal audit in the NHS in Wales and provides appropriate independent assurance to the Board and the Accountable Officer through the Committee;
- There is an effective counter fraud service that meets the standards set for the provision of counter fraud in the NHS in Wales and provides appropriate assurance to the Board and the Accountable Officer through the Committee;
- There is an effective clinical audit and quality improvement function that meets the standards set for the NHS in Wales and provides appropriate assurance to the Board and the Accountable Officer through the Quality and Safety Committee (or equivalent)
- There are effective arrangements in place to secure active, ongoing assurance from management with regard to their responsibilities and accountabilities, whether directly to the Board and the Accountable Officer or through the work of the Board's committees
- The work carried out by key sources of external assurance, in particular, but not limited to the LHB's/Trust's external auditors, is appropriately planned and co-ordinated and that the results of external assurance activity complements and informs (but does not replace) internal assurance activity
- The work carried out by the whole range of external review bodies is brought to the attention of the Board, and that the organisation is aware of the need to comply with related standards and recommendations of these review bodies, and the risks of failing to comply;.
- The systems for financial reporting to the Board, including those of budgetary control, are effective; and that
- The results of audit and assurance work specific to the LHB/Trust, and the implications of the findings of wider audit and assurance activity relevant to the LHB's/Trust's operations are appropriately considered and acted upon to secure the ongoing development and improvement of the organisation's governance arrangements.

Authority

- 3.6 The Committee is authorised by the Board to investigate or have investigated any activity (clinical and non clinical) within its terms of reference. In doing so, the Committee shall have the right to inspect any books, records or documents of the LHB/Trust relevant to the Committee's remit, and ensuring patient/client and staff confidentiality, as appropriate. It may seek relevant information from any:

- Employee (and all employees are directed to cooperate with any reasonable request made by the Committee); and
 - Any other committee, sub committee or group set up by the Board to assist it in the delivery of its functions.
- 3.7 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 it necessary, in accordance with the Board's procurement, budgetary and other requirements.

Access

- 3.8 The Head of Internal Audit and the Auditor General and his representatives shall have unrestricted and confidential access to the Chair of the Audit Committee at any time, and vice versa.
- 3.9 The Committee will meet with Internal and External Auditors and the nominated Local Counter Fraud Specialist without the presence of officials on at least one occasion each year.
- 3.10 The Chair of Audit Committee shall have reasonable access to Executive Directors and other relevant senior staff.

Sub Committees

- 3.11 The Committee may, subject to the approval of the LHB/Trust Board, establish sub committees or task and finish groups to carry out on its behalf specific aspects of Committee business. The following sub committees/task and finish groups have been established:

[LHB/Trust to insert details]

4. MEMBERSHIP

Members

- 4.1 A minimum of three (3) members, comprising:

Chair	Independent member of the Board
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Vice Chair	Independent member of the Board
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Members	At least one other independent member of the Board <i>[one of which should be the member of the Quality & Safety Committee (or equivalent)]</i>
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The committee may also co-opt additional independent 'external' members from outside the organisation to provide specialist skills, knowledge and expertise.

The Chair of the organisation shall not be a member of the Audit Committee.

Attendees

4.2 In attendance The Accountable Officer
Director of Finance
The Board Secretary
Head of Internal Audit
Head/individual responsible for Clinical Audit
Local Counter Fraud Specialist
Representative of the Auditor General
Other Executive Directors will attend as required by the Committee Chair

By invitation The Committee Chair may invite:

- the Chair of the organisation
- any other LHB/Trust officials; and/or
- any others from within or outside the organisation

to attend all or part of a meeting to assist it with its discussions on any particular matter.

The Chief Executive should be invited to attend, at least annually, to discuss with the Committee the process for assurance that supports the Annual Governance Statement and the Annual Quality Statement.

Secretariat

4.3 Secretary As determined by the Board Secretary

Member Appointments

4.4 The membership of the Committee shall be determined by the Board, based on the recommendation of the LHB/Trust Chair - taking account of the balance of skills and expertise necessary to deliver the committee's remit and subject to any specific requirements or directions made by the Assembly Government. The Board shall ensure succession planning arrangements are in place.

- 4.5 Members shall be appointed to hold office for a period of one year at a time, up to a maximum of their term of office. During this time a member may resign or be removed by the Board. The Board should consider rotating a proportion of the Committee's membership after three or four years service so as to ensure the Committee is continually refreshed whilst maintaining continuity.
- 4.6 Committee members' terms and conditions of appointment, (including any remuneration and reimbursement) are determined by the Board, based upon the recommendation of the LHB/Trust Chair {and on the basis of advice from the LHB's/Trust's Remuneration and Terms of Service Committee}.

Support to Committee Members

- 4.7 The Board Secretary, on behalf of the Committee Chair, shall:
- Arrange the provision of advice and support to committee members on any aspect related to the conduct of their role; and
 - Ensure the provision of a programme of organisational development for committee members as part of the LHB's/Trust's overall OD programme developed by the Director of Workforce & Organisational Development.

5. COMMITTEE MEETINGS

Quorum

- 5.1 At least two members must be present to ensure the quorum of the Committee, one of whom should be the committee Chair or Vice Chair.

Frequency of Meetings

- 5.2 Meetings shall be held no less than quarterly, and otherwise as the Chair of the Committee deems necessary – consistent with the LHB's/Trust's annual plan of Board Business. The External Auditor or Head of Internal Audit may request a meeting if they consider that one is necessary.

Withdrawal of individuals in attendance

- 5.3 The Committee may ask any or all of those who normally attend but who are not members to withdraw to facilitate open and frank discussion of particular matters.

6. RELATIONSHIP & ACCOUNTABILITIES WITH THE BOARD AND ITS COMMITTEES / GROUPS⁸

- 6.1 Although the Board has delegated authority to the Committee for the exercise of certain functions as set out within these terms of reference, it retains overall responsibility and accountability for ensuring the quality and safety of healthcare for its citizens through the effective governance of the organisation.
- 6.2 The Committee is directly accountable to the Board for its performance in exercising the functions set out in these terms of reference.
- 6.3 The Committee, through its Chair and members, shall work closely with the Board's other committees, including joint (sub) committees and groups to provide advice and assurance to the Board through the:
- Joint planning and co-ordination of Board and Committee business; and
 - Sharing of information
- in doing so, contributing to the integration of good governance across the organisation, ensuring that all sources of assurance are incorporated into the Board's overall risk and assurance arrangements. *This will be achieved primarily through the work of the Governance Co-ordinating Committee/Group (insert as appropriate).*
- 6.4 The Committee will consider the assurance provided through the work of the Board's other committees and sub groups to meet its responsibilities for advising the Board on the adequacy of the LHB's/Trust's overall system of assurance.
- 6.5 The Committee shall embed the LHB's/Trust's corporate standards, priorities and requirements, e.g., equality and human rights through the conduct of its business.

⁸ Reference to the Board's Committees/Groups incorporates its sub committees, joint committees and joint sub committees as well as other groups, such as Task and Finish Groups, where this is appropriate to the remit of this Audit Committee.

7. REPORTING AND ASSURANCE ARRANGEMENTS

7.1 The Committee Chair shall:

- Report formally, regularly and on a timely basis to the Board and the Accountable Officer on the Committee's activities. This includes verbal updates on activity and the submission of committee minutes and written reports throughout the year;
- Bring to the Board and the Accountable Officer's specific attention any significant matters under consideration by the Committee;
- Ensure appropriate escalation arrangements are in place to alert the LHB/Trust Chair, Chief Executive (and Accountable Officer) or Chairs of other relevant committees of any urgent/critical matters that may affect the operation and/or reputation of the LHB/Trust.

7.2 The Committee shall provide a written, annual report to the board and the Accountable Officer on its work in support of the Annual Governance Statement and the Annual Quality Statement, specifically commenting on the adequacy of the assurance arrangements, the extent to which risk management is comprehensively embedded throughout the organisation, the integration of governance arrangements and the appropriateness of self assessment activity against relevant standards. The report will also record the results of the committee's self assessment and evaluation.

7.3 The Board may also require the Committee Chair to report upon the committee's activities at public meetings or to community partners and other stakeholders, where this is considered appropriate, e.g., where the committee's assurance role relates to a joint or shared responsibility.

7.4 The Board Secretary, on behalf of the Board, shall oversee a process of regular and rigorous self assessment and evaluation of the Committee's performance and operation including that of any sub committees established. In doing so, account will be taken of the requirements set out in the NHS Wales Audit Committee Handbook.

8. APPLICABILITY OF STANDING ORDERS TO COMMITTEE BUSINESS

8.1 The requirements for the conduct of business as set out in the LHB/Trust's Standing Orders are equally applicable to the operation of the Committee, except in the following areas:

- Quorum *[as per section on Committee meetings]*
- [insert details]

9. REVIEW

9.1 These terms of reference and operating arrangements shall be reviewed annually by the Committee with reference to the Board.

APPENDIX B

EXAMPLE AGENDA AND TIMETABLE

Agenda Item / Issue	1 March	2 May	3 July	4 Sept / Oct	5 Jan
Governance					
Review the system of assurance			X		X
Review the risk management system					X
Note business of other committees and review inter-relationships	X		X	X	X
Review draft Annual Governance Statement	X	X			
Review draft Annual Quality Statement	X	X			
Receive other sources of assurance	X		X	X	X
Review the organisation's Annual Report			X		
Review of other reports and policies as appropriate – for example, changes to Standing Orders		X			X
Financial focus					
Agree final accounts timetable and plans				X	
Review of annual accounts progress	X				
Review of audited annual accounts and financial statements		X			
Review risks and controls around financial management			X		X
Review changes to Standing Financial Instructions and changes to accounting policies	X		X		X
Review of losses and special payments	X	X	X	X	X

	1	2	3	4	5
Agenda Item / Issue	March	May	July	Sept / Oct	Jan
Internal Audit					
Review and approve annual internal audit plan	X	X			
Review and approve internal audit terms of reference	X				
Review the effectiveness of internal audit					X
Review of Internal Audit Progress Reports	X		X	X	X
Receive annual internal audit report and associated opinions	X	X			
External audit					
Agree Auditor General's audit plan	X				X
Review the effectiveness of external audit				X	
Review Auditor General's progress reports	X		X	X	
Receive the Auditor General's report to those charged with governance		X			
Receive the Auditor General's annual audit report					X
Clinical audit					
Review annual clinical audit plan	X				
Review clinical audit terms of reference	X				
Review the effectiveness of clinical audit				X	
Review clinical audit progress reports	X	X	X	X	X

Agenda Item / Issue	1	2	3	4	5
	March	May	July	Sept / Oct	Jan
Counter fraud					
Review and approve annual counter fraud plan	X				
Review counter fraud progress reports	X	X	X	X	X
Review the organisation's assessment against NHS Protect's qualitative assessments					X
Review the effectiveness of the Local Counter Fraud Specialist					X
Receive counter fraud annual report		X			
Audit Committee					
Plan how to discharge Audit Committee duties	X				
Self-assess Committee's effectiveness					X
Review Committee's terms of reference				X	
Briefing / update sessions		X		X	
Produce annual Audit Committee report	X				
Private discussions with internal and external audit			X		

APPENDIX C

AUDIT COMMITTEE: SELF ASSESSMENT CHECKLIST

Status Key:

1 = must do

2 = should do

3 = could do

Status	Issue	Yes	No	N/A	Comments / Action
Composition, Establishment and Duties					
1	Does the Audit Committee have written terms of reference that adequately define the Committee's role in accordance with Welsh Government guidance?				
1	Have the terms of reference been adopted by the Board?				
1	Are the terms of reference reviewed annually to take into account governance developments (including good governance principles) and the remit of other committees within the organisation?				
1	Has the Committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?				
2	Are changes to the Committee's current and future workload discussed and approved at Board level?				
1	Are Committee members independent of the management team?				
1	Does the Committee report regularly to the Board?				

Status	Issue	Yes	No	N/A	Comments / Action
1	Has the Chair of the Committee a prior understanding of, or received training in, finance and internal control or other relevant expertise?				
1	Are new members provided with induction?				
1	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?				
1	Does the Committee prepare an annual report on its work and performance in the preceding year for consideration by the Board?				
1	Does the Committee assess its own effectiveness periodically?				
Meetings					
1	Has the Committee established a plan of matters to be dealt with across the year?				
1	Does the Committee meet sufficiently frequently to deal with planned matters and is enough time allowed for questions and discussions?				
1	Does the Committee's calendar meet the Board's requirements and financial and governance calendar?				
2	Are Committee papers distributed in sufficient time for members to give them due consideration?				
2	Are Committee meetings scheduled prior to important decisions being made?				

Status	Issue	Yes	No	N/A	Comments / Action
2	Is the timing of Committee meetings discussed with all the parties involved?				
Compliance with the law and regulations governing the NHS					
1	Does the Committee review assurance and regulatory compliance reporting processes?				
3	Has the Committee formally assessed whether there is a need for the support of a "Company Secretary" role or its equivalent?				
3	Does the Committee have a mechanism to keep it aware of topical, legal and regulatory issues?				
Internal Control and Risk Management					
1	Has the Committee formally considered how it integrates with other committees that are reviewing risk e.g. risk management and clinical governance?				
1	Has the Committee formally considered how its work integrates with wider performance management and standards compliance?				
1	Has the Committee reviewed the robustness and effectiveness of the content of the organisation's system of assurance?				
1	Has the Committee reviewed the robustness and content of the draft Annual Governance Statement before it is presented to the Board?				
1	Has the Committee reviewed the robustness and content of the draft Annual Quality Statement before it is presented to the Board?				

Status	Issue	Yes	No	N/A	Comments / Action
2	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?				
1	Has the Committee reviewed the robustness of the data behind reports and assurances received by itself and the Board?				
1	Is the Committee satisfied that the Board has been advised that assurance reporting is in place to encompass all the organisation's responsibilities?				
1	Is the Committee's role in reviewing and recommending to the Board the Annual Report and Accounts clearly defined?				
1	Does the Committee consider the Auditor General's report to those charged with governance including proposed adjustments to the accounts?				
1	Is there clarity over the timing and content of the assurance statements received by the Committee from the Head of Internal Audit?				
Internal Audit					
1	Is there a formal 'charter' or terms of reference, defining Internal Audit's objectives, responsibilities and reporting lines?				
1	Is the Charter or terms of reference approved by the Committee and regularly reviewed?				

Status	Issue	Yes	No	N/A	Comments / Action
2	Are the key principles of the terms of reference set out in the Standing Orders/ Standing Financial Instructions?				
1	Does the Committee review and approve the Internal Audit plan at the beginning of the financial year?				
1	Does the Committee approve any material changes to the plan?				
2	Are audit plans derived from clear processes based on risk assessment with clear links to the system of assurance?				
1	Does the Audit Committee receive periodic reports from the Head of Internal Audit?				
1	Do these reports inform the Audit Committee about progress or delays in completing the audit plan?				
3	Has the Committee established a process whereby it reviews any material objection to the plans and associated assignments that cannot be resolved through negotiation?				
2	Does the Committee effectively monitor the implementation of management actions from audit reports?				
1	Does the Head of Internal Audit have a direct line of reporting to the Committee and its chairman?				
2	Is internal audit free of any scope restrictions and, if not, what are they and who establishes them?				

Status	Issue	Yes	No	N/A	Comments / Action
2	Is Internal Audit free from any operating responsibilities or conflicts that could impair its objectivity?				
2	Has the Committee determined the appropriate level of detail it wishes to receive from Internal Audit?				
1	Does the Committee hold periodic private discussions with the Head of Internal Audit?				
2	Does the Committee review the effectiveness of Internal Audit and the adequacy of staffing and resources within Internal Audit?				
2	Has the Committee evaluated whether internal audit complies with the <i>NHS Wales Internal Audit Standards</i> ?				
3	Has the Committee agreed a range of Internal Audit performance measures to be reported on a routine basis?				
1	Does the Committee receive and review the Head of Internal Audit's annual report and opinion?				
2	Is there appropriate cooperation with the Auditor General's representatives and inspectorate bodies?				
2	Are there any quality assurance procedures to confirm whether the work of the Internal Auditors is properly planned, completed, supervised and reviewed?				

Status	Issue	Yes	No	N/A	Comments / Action
External Audit					
1	Do the Auditor General's representatives present their audit plans and strategy to the Committee for consideration?				
2	Has the Committee satisfied itself that audit work not relating to the financial statements work is adequate and appropriate?				
2	Does the Committee receive and monitor actions taken in respect of prior years' reviews?				
2	Does the Committee consider the Auditor General's annual audit letter?				
1	Does the Committee consider the Auditor General's use of resources conclusion?				
1	Does the Committee hold periodic private discussions with the Auditor General's representatives?				
2	Does the Committee assess the quality and effectiveness of external audit work (both financial and non-financial audit)?				
3	Does the Committee require assurance from the Auditor General about the policies for ensuring independence and compliance with staff rotation requirements?				
3	Does the Committee review the nature and value of non-statutory work commissioned by the organisation from the Auditor General?				

Status	Issue	Yes	No	N/A	Comments / Action
Clinical Audit					
1	Is the Committee clear about where clinical audit assurances are received and monitored?				
2	<p>When the Audit Committee receives and monitors clinical audit assurances does it:</p> <ul style="list-style-type: none"> • Review the clinical audit plan at the beginning of each year? • Confirm that clinical audit plans are derived from clear processes based on risk assessment with clear links to the system of assurance? • Receive periodic reports from the person responsible for clinical audit? • Effectively monitor the implementation of management actions from clinical audit reports? • Ensure that person responsible for clinical audit has a direct line of access to the Committee and its Chair? • Hold periodic private discussions with the person responsible for clinical audit? • Review the effectiveness of clinical audit and the adequacy of staffing and resources available for clinical audit? • Evaluate clinical audit against the Annual Delivery Framework? • Confirm that there are quality and safety 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? 				

Status	Issue	Yes	No	N/A	Comments / Action
Counter fraud					
1	Does the Committee review 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?				
1	Does the Committee review the effectiveness of the local counter fraud service and the adequacy of its staffing and resources?				
1	Does the Committee receive and review the Local Counter Fraud Specialist's annual report of counter fraud activity and qualitative assessment?				

Status	Issue	Yes	No	N/A	Comments / Action
1	Does the Committee receive and discuss reports arising from quality inspections by NHS Protect?				
Annual accounts and disclosure statements					
1	Is the Committee's role in the approval of the annual accounts clearly defined?				
2	Is a Committee meeting scheduled to discuss proposed adjustments to the accounts and issues arising from the audit?				
1	Does the Committee specifically review: <ul style="list-style-type: none"> • Changes in accounting policies? • Changes in accounting practice due to changes in accounting standards? • Changes in estimation techniques? • Significant judgements made? 				
3	Does the Committee review the draft accounts before the start of the audit?				
1	Does the Committee ensure it receives explanations as to the reasons for any unadjusted errors in the accounts found by the Auditor General's representatives?				
1	Does the Committee receive and review a draft of the organisation's Annual Governance Statement?				
1	Does the Committee receive and review a draft of the organisation's Annual Quality Statement?				
2	Does the Committee receive and review a draft of the organisation's Annual Report?				

Status	Issue	Yes	No	N/A	Comments / Action
Other issues					
3	Has the Committee considered the costs that it incurs; and are the costs appropriate to the perceived risks and the benefits?				
2	Has the Committee reviewed its performance in the year for consistency with its: <ul style="list-style-type: none"> • Terms of reference? • Programme for the year? 				
3	Does the Annual Report and Accounts of the organisation include a description of the Committee's establishment and activities?				

REFERENCES AND FURTHER READING

NHS Wales Governance e-Manual: [NHS Wales Governance e-Manual](#)

Healthcare Inspectorate Wales: <http://www.hiw.org.uk/>

Wales Audit Office: <http://www.wao.gov.uk/>

Internal Audit Standards for the NHS in Wales:

[Internal Audit Standards for the NHS in Wales](#)

Standards for Health Services in Wales:

[Doing Well, Doing Better: Standards for Health Services in Wales](#)

The Code of Conduct and Accountability for NHS Boards and the Code of Conduct for NHS Managers Directions 2006: WHC (2006) 090:

[WHC \(2006\) 090: Code of Conduct And Accountability](#)

Clinical Audit: [An Introduction to Clinical Audit](#) , [Clinical Audit Summary Guide](#)

Annual Governance Statement:

http://www.hm-treasury.gov.uk/d/mpm_annex3.1.pdf

Annual Quality Statement:

[Achieving excellence - The quality delivery plan for the NHS in Wales 2012-2016](#)

A series of Good Practice Guides has been issued to the NHS in Wales. These include:

- Good Practice Guide on Citizen Centred Governance Principles:
[Citizen Centred Governance Principles - Making Sense of Them](#)
- Good Practice Guide on the role of the Board Secretary:
[The Role of the Board Secretary](#)
- Good Practice Guide to Boards on designing, operating and evaluating committees and advisory groups:

[Effective Board Committees and Sample Terms of Reference & Operating Arrangements](#)

- Good Practice Guide to support Boards in designing and embedding effective Risk and Assurance arrangements:

[Your Risk and Assurance Framework - A Structured Approach](#)

- Good Practice Guide on how you might gain the assurance you need:

[Getting the Assurance You Need - A guide for Boards](#)

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

Government Internal Audit Standards, HM Treasury:

http://www.hm-treasury.gov.uk/psr_governance_gia_guidance.htm

Statement on Auditing Standards (SAS) 70: Service Organisations:

<http://www.aicpa.org/research/standards/auditattest/pages/sas.aspx>

International Auditing and Assurance Standards Board (for more about ISAE 3402: Assurance reports on controls at a service organisation):

<http://www.ifac.org/auditing-assurance>

Auditing Standards (ISAs (UK and Ireland)): <http://www.frc.org.uk/apb/publications/isa.cfm>

Clinical Audit: a simple guide for NHS Boards, Healthcare Quality Improvement Partnership, 2010:

<http://www.hqip.org.uk/assets/Guidance/HQIP-Clinical-Audit-Simple-Guide-online1.pdf>

Bristol Royal Infirmary Inquiry (The Kennedy Report): <http://www.bristol-inquiry.org.uk/>

NHS Counter Fraud Service: www.nhsbsa.nhs.uk/fraud

NHS Security Management Service: www.nhsbsa.nhs.uk/security

The Financial Aspects of Corporate Governance (the Cadbury Committee Report, 1992):

http://www.ecgi.org/codes/code.php?code_id=132

The UK Corporate Governance Code, Financial Reporting Council, 2003, 2006, 2008 and 2010: <http://www.frc.org.uk/corporate/ukcgcode.cfm>

