

Audit Committee Update

Introduction to the audit committee

Getting assurance at the time of COVID-19 operational pressures

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Why an audit committee

In simple terms, the committee helps the NEDs get an answer to these questions:

- How do I know that the information given to me is right?
- Is the data correct?
- How can I be certain that things are working appropriately?
- How do I trust what management is saying?
- How do I know that the Trust is compliant with all the regulations?
- Are risks understood and monitored internally? What are the main risks against our objectives?

The committee helps the board ensure that the Trust has the right internal control processes to meet its statutory and strategic objectives. It is the 'lens' through which the board examines the assurance it needs to discharge its duties.

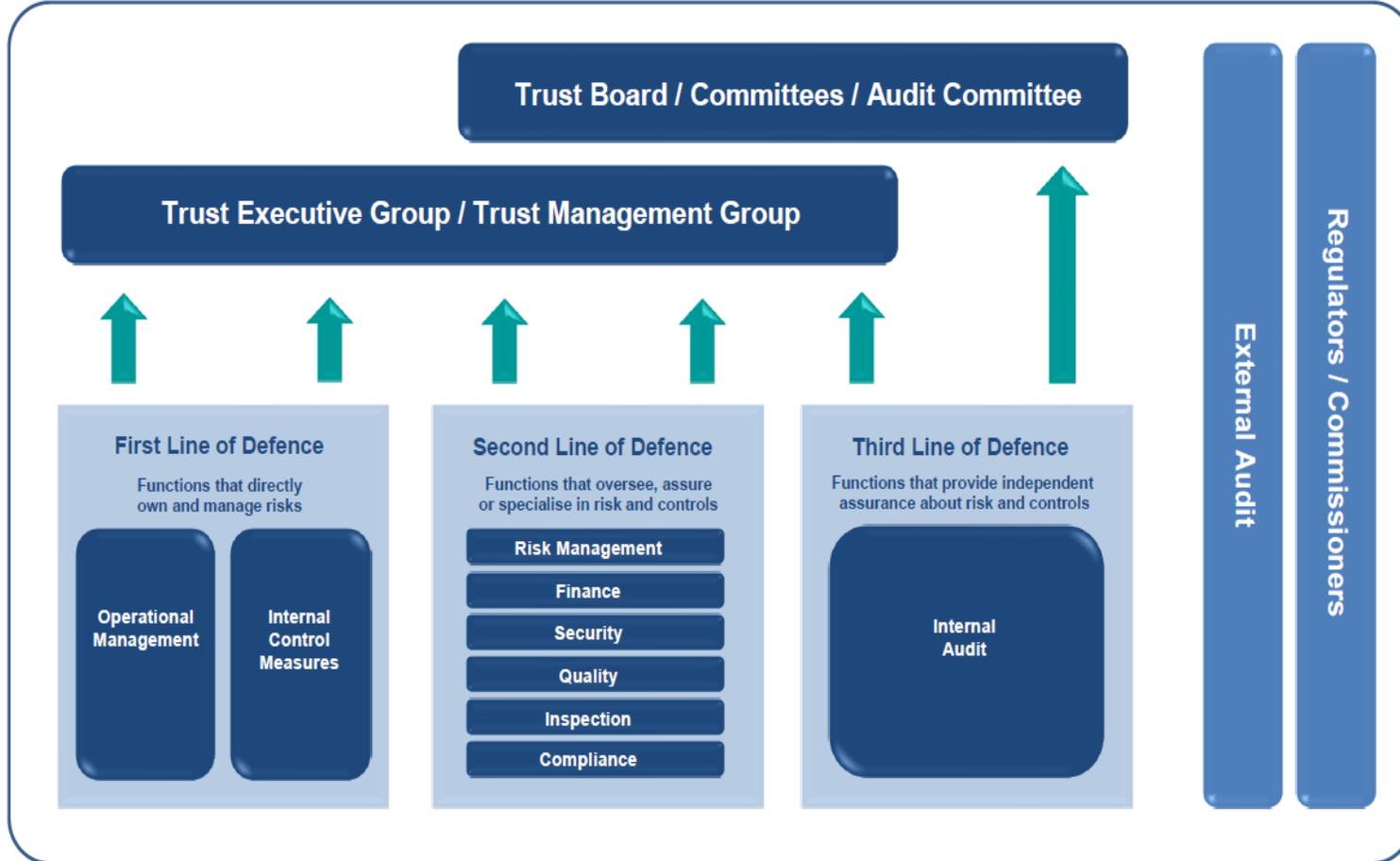
Role of the audit committee

- The audit committee is a board committee, the existence of which is mandated for NHS trusts
- Formally, its members can only be independent NEDs (i.e. not employees)
- **Role: review and report to the board on the suitability and efficacy of the Trust's provisions for governance, risk management and internal control**
- To get assurance, the committee is assisted by independent external auditors (Grant Thornton) and internal auditors (KPMG). It also relies on the counter-fraud function, run by KPMG
- With the assistance of Grant Thornton and KPMG, the audit committee needs to:
 1. Scrutinise the overarching **framework of governance, risk and control**
 2. Ensure there is a process in place to **identify, understand and monitor risks**
 3. Identify the **key risks** that could prevent the Trust from achieving its statutory and strategic objectives
 4. Review and assure the integrity of the financial statements
 5. Scrutinise **counter-fraud systems** and individual **fraud referrals**

Assurance, reassurance and triangulation

- How do I, as a NED, know that things are what they should be?
 - **Triangulated assurance** is the best source of assurance
- Assurance
 - An evaluated opinion based on information, evidence, systems and triangulation
 - Assurance is often presented in “three lines” of assurance sources (see next slide)
 - It involves an element of formality (e.g. a report rather than a discussion)
- Reassurance
 - Reassurance is based on opinion, professional expertise and trust
 - Often verbal and simpler to produce (e.g. a briefing call) – but it can be documented for future reference
 - Its value is dependent on the context and on the source of the reassurance
- Example: NEDs ask Executive Directors: *“Do we still comply with regulations ABC despite Covid-19 pressures?”*
 - Assurance: *“Yes, we comply. We have a weekly management meeting to check that we comply and here are the latest minutes. Here is a report with the relevant data, the latest evaluation by our auditors, and an independent survey of processes”*
 - Reassurance: *“Yes, we comply”*, says an Executive Director, and in the right context, the NEDs believe no other checks are needed
- Triangulation
 - Observing and listening to how the organisation is operating
 - Formal data and information sources are complemented by discussions with multiple stakeholders, anecdotal evidence, site visits
 - Compare data and reports from multiple sources: *“Does all the information I have make sense?”*

The three lines of assurance



Triangulation



Board assurance framework – Risk register

- The starting point: what are the Trust's strategic objectives?
- The risks: what could prevent each objective from being met?
- Each risk is looked at in a structured way
 - Description of the risk against the objective
 - Risk owner and/or Executive Director in charge
 - Existing controls/systems in place to assist in securing delivery of the objective
 - Assurance on controls: how we gain evidence that the controls work
 - Gaps in controls and assurance that need to be worked on
 - Analysis by likelihood and severity
 - Ranking of the risk pre- and post-mitigations (RAG ratings)
 - Action plan and mitigations to reach the desired target rating
- The Trust has a risk register with 400+ individual risks but a shortlist of 10-15 top strategic risks
- The board assurance framework is currently under review to improve its use by the NEDs

Assurance: the scrutiny

- **Governors**
 - Hold to account the NEDs *for the performance of the board*
 - Ensure that the NEDs scrutinise (hold to account) the work of the executive team
 - If governors are unhappy with the performance of the CEO (and of the executive team), it is typically for the NEDs to deal with that. For the NEDs not to do so would question their performance in relation to the performance of the board
- **Non-executive directors**
 - Hold to account the executive team *for the performance of the Trust*
 - Act as critical friends and provide constructive challenge to the executive team
 - NEDs seek assurance (evidence) on all aspects of the Trust's work
 - The audit committee reviews assurance processes, internal controls and risk monitoring tools
- **Executive team**
 - Puts in place processes, teams etc to achieve statutory and strategic objectives
 - Relies on powers formally delegated by the board
 - Some but not all sources of assurance come from teams inside the Trust
- **Line management and other staff**
 - Assurance mechanisms embedded in work practices and risk control mechanisms

Asking questions and reviewing the assurance

- Non-executive directors
 - NEDs seek and review sources of assurance, and triangulate the information
 - NEDs scrutinise audit reports, management information, data, surveys: are things really what NEDs told they are?
 - Example: in the context of specific staffing constraints, review the evidence (data) and triangulate it with multiple sources of information. Review management's response to the constraints and how that response is implemented. In the process, challenge and support the executive team to help achieve stronger HR outcomes
 - NEDs are not the "do-ers" and cannot behave as if they had an executive or operational role
- Governors
 - They ensure that the NEDs review, question and challenge the work of the executive directors
 - Governors ask NEDs: *How did you get the assurance that XYZ... ? How did you satisfy yourselves that this investment decision was the right one? What steps did you take to scrutinise this particular activity of the Trust? How do you know that the Trust complies with the right regulations? On what basis do you trust what has been said?*
 - More generally, they seek assurance on the performance of the board, e.g. by reviewing the performance of individual NEDs
- Compare and contrast
 - NEDs ask executive colleagues: *Give me assurance/evidence on XYZ and on how you are managing XYZ...*
 - Governors ask NEDs: *What assurance did you get to understand XYZ? How do you know the Trust is dealing well with XYZ?...*

Getting assurance under COVID-19

- Getting the best form of *triangulated assurance* has been more challenging under Covid
 - NHSE guidance to shorten/streamline governance meetings to free up executive time
 - No site visit by NEDs/Governors and limited face-to-face interactions. No walkabouts
 - But considerable NHS-wide information (e.g. NHS publications, media) and Covid public data
- A bit less assurance, a bit more reassurance than before Covid
 - Getting the balance right between verbal reassurance and the formality of reports
 - Focus on key strategic issues
 - At the time of intense operational pressure, NEDs have had to rely more on executive briefings
 - Example: additional conference calls with CEO/NEDs as opposed to weekly detailed reports
- External/internal audit and counter-fraud teams have worked well: no interruption
- Wherever possible, governance meetings were streamlined rather than cancelled
- Good teamwork and exchange of information
- Overall, the NEDs have maintained a strong level of oversight