

MIAA Insight 24/25 – Changes to the NHS Audit Committee Handbook

On the 20th March 2024 the HFMA issued the new [NHS Audit Committee Handbook](#). The Handbook replaces the previous version issued 2018 and has been substantially restructured and rewritten.

The fundamental basis of the Handbook has not changed, and these core principles remain:

- All NHS organisations must have an audit committee, internal auditors, external auditors and counter fraud function
- Purpose of the NHS audit committee remains unchanged in supporting the Board by critically reviewing and reporting of the robustness the governance and assurance mechanisms on which the Board place reliance (including ensuring there is an effective internal audit function, reviewing the work and findings of external auditors, local counter fraud services and other significant assurance functions, review of the financial statements and the effectiveness of arrangements to allow staff to raise concerns).
- Committees should have a minimum of 3 members all of which must not have management responsibilities within the organisation and collectively have the skills and experience required to meet the roles and responsibilities of the committee.
- The committee should meet 4/5 times a year (or more if required).

Key Changes/Additions

At the end of each chapter of the Handbook there are lists of **Key learning points** which provide useful summaries of the key points in each chapter. Since the previous version of the Handbook was published there have been significant structural changes in the NHS. The new Handbook reflects current NHS structures including the formation of Integrated Care Boards and the increased use of Group provider models as well as changes to the regulatory environment. Other significant changes/additions are highlighted below:

Membership

- **Senior Independent Director (SID)** whilst not usually expected to be an Audit Committee member if collectively the skill sets of non-executives mean the SID is the most suitable non-executive they can be a member of the committee with the arrangement noted and managed appropriately.
- **Integrated Care Boards (ICBs)** must actively consider diversity and equality when determining committee membership.
- Either individually or collectively members should 'have **more advanced competency**' in procurement and compliance.

Attendance at Meetings

- Includes advice on approaches to adopt **if quoracy cannot be achieved** e.g. invite other non-executives to the meeting or ratification of decisions/actions at the next meeting.
- More specific details included on which **roles that should attend all or most audit committee meetings:**
 - Chief finance officer
 - Internal audit representative
 - External audit representative
 - Board secretary or equivalent
 - Counter fraud representative
 - Governance lead
 - Risk management lead.

Attendance at Meetings

- To **promote right of access** the Chair should have scheduled conversations outside committee meetings with internal audit, external audit and counter fraud.
- The Chair should work with other committee chairs to ensure **collective effective committee oversight** to avoid duplication and omission.
- Key that the Chair has a strong relationship with and supports the **Chief Finance Officer**.

Access

- **Private meetings with auditors** – example questions that could be covered at these meetings have been amended with questions on resourcing of the audit functions and auditor views on committee effectiveness removed. Questions added/amended which focus on control environment and the potential impact of culture and workload on this.

Frequency

- **Scheduling** should account for the audit cycle (both internal and external audit), financial year and periodic reviews e.g. annual effectiveness self-assessment.

Authority

- **Delegated decision making** – whilst not part of the committee standard functions the governing body can delegate some decisions to the committee. For example:
 - Detailed review of the annual report and accounts
 - Investigations into specific incidents
 - Deep dives into specific topics
 - Decisions about the appointment of auditor and counter fraud services.

Responsibilities

Annual Report and Accounts

- Explicitly states that preparing the annual report and accounts is the **responsibility of the full Board/CEO** and that while the committee may be delegated to review the documents in detail there should still be some challenge and review from the Board.
- **Prompts of areas for the committee to consider** when reviewing the annual accounts now include ‘any deviation from the *Group accounting manual (GAM)*’ and ‘consistency between the financial outturn and the month 12 management accounts’.
- As well as the accounts the committee should seek assurance on the **process for the drafting of the annual report** as well as having its attention drawn to any key messages of particular sensitivity in the report.

Accounting policies and judgement

- More detailed coverage on this topic, key message is that before year-end ‘the committee should **review the proposed accounting policies**’ and be assured of the process to make key accounting judgements.

Quality Accounts

- Amended to reflect that the Quality Account is **no longer subject** to External Audit review.

Governance

- Emphasis on the audit committee roles in **reviewing constitutional documents** (e.g. Standing Orders, Standing Financial Instructions etc...), assessing ‘compliance culture’ and the implications of this and seeking assurance on the maintenance of the system of governance.

Assurance Framework

- Whilst there is commonality between the old and new handbook on this topic there is a **change in focus** in the new Handbook with an emphasis on the committee's role in reviewing the robustness of the processes that unpin the Assurance Framework.
- The Assurance Framework should be used to support the **committee work plan and agenda setting**.
- Regular **deep dives** into risks on the Assurance Framework are good practice.
- When evaluating assurances the committee should **take account** of the scope, timeliness, reliability and overall conclusion of assurances.

Risk Management

- In the previous Handbook risk management was included in the chapter focusing on the framework of assurance and is now a separate Chapter. This new chapter emphasises the elements the committee should consider when **reviewing the risk management framework** including effectiveness, maturity and system risks (the Handbook includes some key questions for committees to use when looking at system risk management: page 71). Internal audit is a key mechanism to support these assessments.

Internal Audit

- Key considerations in the **appointment of internal auditors** are specified and include that: the organisation should consider its assurance needs and that lowest proposed plan may not meet those needs, quality and mix staff available to deliver the service e.g. are IT or clinical specialists included in the service, key performance indicators, breadth and depth of coverage, alignment to audit committee Terms of Reference and what the current service provision is.

Internal Audit

- Overall content is similar between the old and new Handbook, but the new Handbook is structured differently **focusing on elements of the audit cycle**: planning, reporting, implementing agreed actions, opinions (including example definitions of assurance opinions), handling disagreements and reviewing effectiveness.

External Audit

- Audit plans should include coverage of **data quality**.
- References to requirement of External Audit to **report on regularity for ICBs**.
- This Chapter covers the following topic areas: **appointment and tendering, planning, reporting and non-audit work**.
- The section on **non-audit work** has been updated to reflect current standards.

Counter Fraud

- Changes made to reflect **NHS structural amendments**, but fundamentally requirements are unchanged. The section has been restructured to cover the following: role and regulation, counter fraud functional standard return, professional requirements, counter fraud provision, planning, reporting, handling disagreements, reviewing effectiveness.

Clinical Audit

- **Change in emphasis** from previous Handbook with removal of detail on clinical audit as a discipline with focus on Audit Committee role in receiving assurance regarding the clinical audit programme.

Other Committees

- Mechanisms should be in place for the committee to **receive matters of relevance** to its Terms of Reference from other committees and refer appropriate matters to other committees.

Speaking up and Whistleblowing

- Audit committees should expect to receive **regular assurance** on the effectiveness of mechanisms to deal with concerns raised including freedom to speak up, results of whistleblowing (i.e. concerns raised with an external body) and assurance that there are no instances where disciplinary action has been taken against individuals for 'speaking up'.

Conflicts of Interest

- Updated to reflect **current NHS guidance**.
- Model Audit Committee Terms of Reference for **ICBs** states that the **Chair of the committee is the organisation's Conflicts of Interest Guardian**.
- **ICB** Audit Committee Chairs 'should ensure that a **written protocol** setting out how conflicts of interest will be addressed and recorded is in place'.

Information Governance (IG) & Cyber Security

- Committee to ensure it receives the **results of the annual Data Security and Protection Toolkit audit** and receives assurances on the organisation's plans to address issues identified.
- Committee to receive assurance reports on **key IG areas** (e.g. freedom of information compliance).
- Committee to **seek/receive assurance** on:
 - Effectiveness of IT management arrangements
 - Lessons learned from the crystallisation of cyber security risks
 - Organisation's liaison with regulators and support to affected parties following significant security breaches.

Exception Reporting

- The committee should receive regular reports on **areas where controls are not operating effectively or have been circumvented** (either in fact or appearance) including but not limited to: bad debts & special payments, waivers, major incidents & near misses, legal cases and insurance claims, lessons learned exercises and national studies and learning from governance failings.

Other

Behaviours & Conduct

- Annual self-assessments can be supplemented with **external assessments every 3/5 years**.
- Whilst checklists are a key tool for assessing effectiveness approaches should be tailored to **reflect the specific organisation and its issues**.
- There were 3 questions in the previous handbook designed to support the assessment of **effective behaviours** this list has now be extended to 12 questions (pages 26-27).

Accountability & Reporting

- **Integrated Care Systems (ICSs)** – ICB audit committees cannot direct or control other audit committees 'but they do have convening authority' to bring committees together to discuss areas of mutual interest e.g. ICS risks.
- **System risks** – whilst audit committees must continue to meet their responsibilities within their own organisation they must also take a wider system view particularly with regard to system risks that have potential to impact them.
- **Committees in common** – an option available to support working together but each organisation must ensure it discharges its statutory duties and manages conflicts of interest appropriately.
- **Reporting to the board** – recommends that summary reports from the committee Chair as well as committee minutes are shared with the Board.

Secretariat & Administration

- **Commissioning papers** – Purpose of the agenda items and committee expectations should be made clear to authors with approach tailored to reflect author experience.
- **Minutes** should reflect the item discussed, how well the discussion went, different opinions stated and importance of the item.

Secretariat & Administration

- **Actions logs** should clearly and completely capture agreed actions and be regularly updated.

Current Issues

- This chapter (20) highlights **current topics** audit committees should be monitoring. This chapter currently summarises the latest position on the following topics:
 - ICSs
 - External audit market
 - Financial sustainability
 - Environmental, social and corporate governance
 - Digital developments
 - Internal audit standards.

Supporting Documents

- **Example Terms of Reference** – there are example documents for Trusts/FTs and ICBs which have been updated to reflect changes to the main Handbook and the requirements of the organisation type. The Handbook outlines the expectation that organisations will adopt these templates (amended for local arrangements) on a ‘comply or explain’ basis.
- **Self-assessment checklists** - updated to reflect changes to the main Handbook and additional questions have been included to cover:
 - Confirmation of financial knowledge of the committee
 - Executive officer attendance
 - Chair succession planning
 - Committee working with the ICS
 - Committee review of the effectiveness of the risk management framework
 - Private discussions with internal auditors

Supporting Documents

- Assessing the performance of internal audit
- External audit procurement
- External audit right of access to the committee/Chair.
- **Glossary** – substantially added to with 29 new terms defined.

It is important that all NHS audit committee members and staff that regularly attend and support audit committees are aware of content of the Audit Committee Handbook and the changes from previous versions.

This Insight summarises the major changes between the new Handbook and the previous versions and reiterates some of the key elements of the Handbook (which have not changed but all audit committee members should be aware of).

Find out more: If you have any queries or feedback on this briefing, please contact: Sarah Dowbekin, Associate Director – Continuous Improvement at MIAA.

(M: 07788 308 155; E: sarah.dowbekin@miaa.nhs.uk)