

New HFMA NHS Audit Committee Handbook published in March 2024

The Healthcare Financial Management Association (HFMA) is a professional body for finance staff working in healthcare. It provides independent support and guidance to its members and the wider healthcare community. Its **NHS Audit Committee Handbook** is the industry standard, setting out good practice to support NHS boards and audit committees in reviewing and improving their organisation's system of governance, risk management, and control.

A fully revised edition of the handbook was published on 20 March 2024, taking account of recent learning from governance failings in the corporate and public sectors. Developed with input from NHS England (NHSE), this update reflects the changed context following the Health and Care Act 2022: it now includes consideration of the risks and opportunities of system working and collaboration. This edition also applies to integrated care board (ICB) audit committees.

As such, **it is a must-read for those involved in audit committees and/or responsible for corporate governance in NHS provider organisations**. Printed copies of the handbook are available **on request**.

This briefing sets out an overview of the handbook and highlights the key changes. Comments on the handbook should be sent to policy@hfma.org.uk. Comments on this briefing should be sent to Izzy Allen, senior policy adviser (governance), izzy.allen@nhsproviders.org.

Overview

The role of an audit committee is to seek and provide assurance to governing bodies in relation to the effectiveness of their internal system of governance, risk management, and control. It is the senior statutory committee of an NHS board and it is important to boards that their audit committee understands, and is able to effectively undertake, its role and delegated functions. The handbook provides advice to help them do that.

It sets out the key considerations around the management, operation, membership and purview of an effective NHS audit committee, including those of ICBs. Each of the 20 chapters concludes with 'at a glance' key learning points.

Several sections contain suggested questions that audit committee members may wish to ask, for example, when interacting with the trust auditors in private, and when considering the risk management system internally and as part of an integrated care system (ICS). Links to other relevant guidance are provided throughout. A final chapter on 'current issues' is discussed in more detail below.

Its appendices provide an example of audit committee **model terms of reference** (which the handbook says should be adopted on a 'comply or explain' basis), **self-assessment checklists** to aid evaluation of the committee's effectiveness, **an example agenda and timetable**, and an expanded glossary of terms.

New and updated considerations for audit committees

Many updates to the handbook reflect the new operational and regulatory context of system working, while others reflect recent learning from failings and/or evolving NHSE guidance. The new 'current issues' section, which will be updated more regularly than the others, highlights contemporary issues that audit committees will want to monitor.

New considerations for providers in systems

- The handbook highlights the audit committee's role in ensuring controls around potential **conflicts of interest** are effectively addressed and recorded, with more extensive collaborative working making such conflicts more likely to arise.
- There is a need for clarity about roles and responsibilities where organisations have established, or are considering establishing, **audit committees in common**.
- Organisations may consider whether **sharing local audit services with partner organisations** might bring economies of scale, and the handbook recognises that ICSs may bring new risks to independence where auditors engaged by one organisation undertake non-audit work in the system.
- **ICB audit committees can convene provider audit committees** to discuss matters of shared interest, but they cannot direct or control them.

- **System risk management** is considered (with a link to the HFMA and Good Governance Institute [system risk management guide 2023](#)), including the need for audit committees to consider engagement with risk management systems across their ICS(s).
- There is recognition that **ICB and provider audit committees have shared duties, risks and opportunities** they should be aware of. Specifically, the need to meet joint financial objectives and to take decisions with a view of their wider impact are highlighted.
- Collaborative audit committee arrangements, including committees in common, are considered. Also noted are the **importance of each individual organisation being able to demonstrate that it is discharging its statutory duties**, and that conflicts of interest are appropriately managed.

New and updated considerations that reflect good practice

- Members of audit committees should, individually or collectively, have **'more advanced competency'** in areas such as procurement and compliance.
- **Acceptable, though not ideal, options if quoracy is not achieved** include ratification of decisions or actions at the subsequent committee meeting.
- **The post-holders who should be invited to attend most or all meetings** are listed (those being the chief finance officer, representatives of internal and external audit, and a member of the secretariat), as are those who should attend regularly (the company secretary, local counter fraud specialist, and risk management lead).
- The **committee chair should promote internal audit, external audit and local counter fraud's right of access to the committee**; should establish an effective relationship with the CFO; and should work with other committee chairs to ensure effective collective committee oversight is in place.
- **Suggested questions for private meetings with auditors are updated.** Questions on resourcing the audit function and on committee effectiveness are removed, and questions about the control environment and the potential impact of culture and workload upon it are added.
- **External assessments of board and committee effectiveness might optionally be undertaken every three to five years to provide additional independent assurance.** There are now 12 questions to support the self-assessment of effective committee behaviours.
- The **board might delegate appropriate decisions to the committee**, including specific incident investigations and the appointment of audit and counter fraud services.
- While **the committee may undertake a detailed review of the annual report on behalf of the board**, the board remains accountable and should also be able to review and to challenge the report's contents. The committee should seek assurance about the process for drafting it, explicitly consider any deviation from the group accounting manual (GAM) and should have its attention drawn to any sensitive messages.

- The committee should **review the proposed accounting policies before the year end, particularly if new or amended, and seek assurance that the process for making material accounting judgements is sound.** The handbook notes the resource implications of changes such as IFRS 16 on lease accounting.
- The **quality account is no longer subject to external audit.**
- **Constitutional documents** including standing financial instructions should be reviewed, and the degree of 'compliance culture' in relation to governance arrangements can be assessed, seeking to understand the reasons and impact in any areas of non-compliance.
- The **assurance framework should inform the committee's workplan** and agendas, and assurance as to the robustness of systems underpinning the framework should be sought.
- **Internal auditor appointment considerations are updated,** including the importance of ensuring the proposed audit plan provides the required level of assurance.
- The internal audit cycle is set out, and the handbook details how **audit plans should include data quality as required by NHSE.**
- **Assurance about the clinical audit programme might be received from the quality committee or through clinical audit reporting directly to the audit committee:** either model is acceptable.
- Assurance should be sought that **systems for referring matters between committees are in place.**
- **Speaking up and whistleblowing assurance seeking** is emphasised.
- **Cyber security assurance seeking is enhanced,** and the committee should receive assurances around the annual data security and protection (DSP) toolkit audit, key information governance systems, and regulatory interventions following security breaches.
- **Exception reporting should cover areas where controls are not operating effectively or have been circumvented.**
- **Summary reports from the committee chair** as well as the minutes should be shared with the board.

Current issues for audit committees

The development of ICSs

The handbook is clear that, given there is no 'one size fits all' as system working develops, there is little detailed direction on what good looks like. This means committees need to be clear about the key principles behind integrated care, but keep a watching brief on developments in their own system(s), including by asking the executive. As highlighted above, system risk management and any arrangements for system wide assurance will likely be on the audit committee's radar.

External audit market

Providers continue to experience difficulties securing external audit services, with invitations to tender often going unanswered. The HFMA produced a [briefing](#) on this in late 2022. In addition, the handbook flags how digital technologies are changing the approach external auditors are taking, and how increased automation of audit processes to supplement the judgement of the auditor(s) is progressively likely.

Financial sustainability

The handbook highlights the position of NHS organisations and their audit committees in seeking to manage the money and ensure financial controls are robust when demand for care continues to outstrip supply.

Environmental, social and corporate governance

Boards should consider the increasing reporting and transparency demands in relation to these areas, including green plans. Audit committees may wish to refer to the several sustainability guidance documents this section of the handbook points to, including the National Audit Office's [A good practice guide to climate change risk for audit committees](#).

Digital developments

Audit committees, and through them boards, should be mindful of the risks that innovative change such as the use of robotics and artificial intelligence may bring, and seek to assure themselves that developments are being appropriately managed.

Internal audit standards

The global internal audit standards (GIAS) released in January 2024 will take effect from January 2025, and it is likely the public sector internal audit standards (PSIAS) (with which NHS internal auditors currently comply) will be updated to take account of the GIAS. The handbook gives advanced sight of the 15 principles that make up the GIAS and notes that audit committees should expect to be briefed by their internal auditors on any resulting proposed changes in practice.

NHS Providers view

This is a timely update to the handbook, setting out principles and practice which we would commend to all involved in NHS audit committees. It is accessibly structured and easy to read, with

insightful suggested questions for committee members, and a welcome focus on culture and behaviours as components of good governance.

Updates to the handbook which recognise the complexities of control, risk management and governance when working within systems and in partnership are particularly important for audit committees to consider, and the wider board membership would likely also find it of interest.

The Health and Care Act 2022 and subsequent NHSE guidance about the role and membership of ICBs mean careful consideration about how potential **conflicts of interest** are recorded and managed within systems is needed, as the handbook explains. NHS Providers has commissioned [legal commentary](#) to set out the relevant directors' duties for provider board members also sitting on ICBs, and to support provider organisations with their effective management.

The handbook emphasises that audit committees should carefully consider collaborative arrangements involving audit committee functions, and **be mindful that individual organisations need to continue to demonstrate that they are discharging their statutory duties**. In our view, audit committees might also seek to assure themselves that collaborative arrangements in which their organisations participate have clear and effective delegation, oversight and control arrangements in place, and are legally constituted where relevant. We have produced advice on [good governance in collaboration](#) to support this.

The handbook's focus on **system risk management** is welcome: this is an area of concern for provider organisations. While national guidance from NHSE is unavailable, the HFMA and Good Governance Institute [system risk management guide 2023](#) provides sound support.

The handbook is right to highlight current **issues around financial sustainability**, and to outline challenges implementing accounting changes. The financial planning process is extremely challenging for providers, and its credibility is being stretched by unrealistic central assumptions and recovery trajectories. Members are also concerned that national funding to cover IFRS16 changes is insufficient in some areas. Similarly, the HFMA's focus on the audit committee role in providing assurance around an organisation's contribution to system finances is welcome: where trusts are working across more than one system, this is even more complex to achieve.

The new 'current issues' section of the handbook should provide audit committees with regular updates on the context in which they work. It is not clear how regularly this section will be updated,

but audit committees should also expect their auditors to be updating them on current issues relevant to the committee's purview.

The HFMA will likely provide a more nuanced account of the **challenges NHS organisations are facing in securing audit services**. The account given in the handbook matches the experience of many trusts and foundation trusts struggling to appoint auditors due to cost and availability. NHS Providers has also heard that where auditors are contracted to work with an ICB, they are then unavailable to local trusts, which can make it even more difficult to appoint an auditor.