



The Governance  
Institute

Student exam responses

# Health Service Governance

**November 2015**

## **Important notice**

This is an authentic student response from the November 2015 examination series. This response has been typed and the examiner's marks and commentary have been replicated on this document.

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✓ It is the Board's responsibility to ensure it 'owns' the BAF and gains assurance from it and it looks to the management to integrate that into the organisation's risk management processes and for the audit committee to review these processes so that the Board can be assured:

- ✓ • That lower level risks escalated where necessary to the BAF should they become sufficiently concerning.
- The controls and actions to mitigate risks on the BAF are integrated into the organisations processes and day to day operations.

The BAF will have number of headings for each risk identified.

✓ **Risk description**

✓ **Strategic objective to which the risk applies:**

✓ **Controls** what measures are in place to mitigate the risk and its impact on achieving the strategic objective.

✓ **Assurances** what assurances are in place that the controls are effective (e.g. Internal audit reviews, extended validation, etc.)

✓ **Gaps in controls** what other assurance could/should be put in place to improve confidence of the controls

✓ **Actions** what actions are underway to close gaps In controls and/or assurances , their Ownership and timescales.

Many organisations combine the BAF with the risk register. This makes escalation and integration easier and allows for the higher risks (i.e. those saving most on over 5x5 matrix).

✓ Auditor independence:

✓ External auditors fulfil a vital function in providing external assurance to the board and the audit committees. It is important that they are independent of the CCG in order to give objective and impartial advice and assurance. Many firms offering external audit services also offer various types of management consultancy services and it is therefore vital that any overlap between the two is avoided or minimised. There are other risks to auditors' independence including those arising from over-familiarisation of the firm by the relevant audit team to the organisation and for this reason it is good practice for the firm to rotate members of its audit team every few years, and for the organisation to consider changing audit firms from time to time.

✓ In this instance, however, the risk to independence relates to the work that our auditors would like to do in relation to the potential merger. This work will not be audit work and the CCG should consider carefully what the impact of doing this work could have. In carrying out the work the CCG would be inevitably rely on, to some extent, the advice the firm offers in respect of the merger. In subsequent annual reports and accounts these decisions would need to be substantial and it is difficult to see how the activities could be impartial in assessing their validity if the CCG acted on their advice in the transaction.

There is also the risk that in its eagerness to win the work, a perception could be created that their independence was compromised and that they may not be so robust in their assessment as the CCG auditors.

<p>✓ ✓ ✓  ✓</p>	<p>HFMA and FRC amongst others have issued guidance on setting restrictions on non-audit work for the organisation external auditors.</p> <p>These could include:</p> <ul style="list-style-type: none"> <li>• A complete ban on any non-audit work for CCG</li> <li>• A partial restriction, either limited to various areas of work or by reference is a % of audit fee. HFMA suggest a limit of no more than 15% of total fees paid by the organisation should be non-audit work.</li> </ul> <p>These are difficulties in imposing any restriction:</p> <ul style="list-style-type: none"> <li>• Identifying in advance the areas of work that are 'safe' for the firm to work in pre-supposes knowing what will be important in the future audit.</li> <li>• A merger would be a major transaction so it is difficult to imagine how their advice would not be a subject to future audit.</li> <li>• Setting a percentage would work, but without understanding how the firm operate, this could be misleading.</li> </ul> <p>In the case of a celebrated USA case (Enron / WorldCom) the local office stood to gain from non-audit work much more proportionately than did the firm as a whole.</p> <p>It would be advisable to consider carefully before agreeing to allow the audit firm to provide advice on a potential merger.</p> <p>Please speak to me if any of this is not clear or more advice is needed.</p> <p><b>22/25 marks</b></p>
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<p><b>Q6.</b> ✓  ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓</p>	<p style="text-align: center;"><u>Briefing Note</u> <u>Role of the Chair</u></p> <p>This document briefly sets out the role of the Chair and it's key relationships, the governance issues and criteria for independence required for a Chair upon appointment and the behaviours of an effective Chair:</p> <ul style="list-style-type: none"> <li>• Lead the board</li> <li>• Chase Board meetings effectively ensuring inclusive discussion and debate.</li> <li>• Agree the agenda for Board meetings with the Trust Secretary, ensuring sufficient time is allowed for items and that the key items are addressed early in the meetings so time does not run out.</li> <li>• Ensure that the papers are of sufficient quality and are produced to enable effective decision making.</li> <li>• Support the Trust Secretary and the rest of the organisation to ensure papers are issued in advance of the meetings so that they can be read and understood.</li> <li>• Chose the Council of Governors and ensure that they feel able to contribute to their important role.</li> <li>• Develop NED's to improve their knowledge and effectiveness, making sure that they are able to attend training or other Development opportunities</li> <li>• Regularly appraise the NEDs (annually)</li> <li>• Provide visible leadership to the organisation and of the organisation to the outside world</li> </ul> <ul style="list-style-type: none"> <li>• Ensure effective communication between: <ul style="list-style-type: none"> <li>• The Board and its committees</li> <li>• The Board and the organisation</li> <li>• The Board and the council of Governor</li> </ul> </li> </ul>
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- The Council of governors and the members
- The trust and its shareholders

✓ Have a good and effective relationship with Monitor so that if any issues arise, there is an easier route to a resolution. For all directors, they must declare any interest and these must be published on the Trust website and declare, when appropriate, at meetings where relevant items occur that may lead to a conflict. In the case of the Chair, it is important that there is some separation between the executive and governance.

✓ Terms of office are limited for NEDs (including the Chair) specifically to avoid the risk of over-familiarity with the organisation and a lot of independence.

✓ Whilst there is the provision for non-independent NEDs, this does not extend to the Chair. There are no specific rules excluding existing executive directors from becoming NEDs or the Chair but these are roles that would make this inadvisable without a reasonable gap (e.g. 2 years)

- The Chair should not be operational and there is a risk that those previously holding executive position in the organisation would be appointed.
- Those remaining executive directors may still look at their ex-colleagues for managerial guidance thereby undermining the new CEO.
- In leading discussions about the organisation effectiveness there may be a tendency to not be as critical or questioning if the Chair previously had executive responsibilities.

As well as the duties and the role of the Chair, set out earlier, they are some key behaviours that will also make for an effective Chair:

- ✓ • Not getting too operational. It is important to remain aloof from operational decisions as this is the remit of the CEO and the executive directors.
- ✓ • They should ensure that meetings are well managed, making sure those who want to speak are allowed to and those who may be more reluctant are encouraged to contribute. Welcoming guests and new members.
- ✓ • They should promote the united team amongst the Board and therefore private meetings of NED's should be used only when needed, and not as a regular event to prepare for Board Meetings
- ✓ • Support the Council of Governors and ensure that they are capable to fulfil their function. Given the diverse nature of governors and the fact that many of them may not have operated in such an environment before, the Chair should take a special care to make sure issues are properly explained and to keep jargon to the minimum.
- Having good relationships especially with the : CEO, the NED's, the executive directors, the Trust Secretary, the head governor, the council of governors, the regulator (monitor), the key shareholders, especially Commission.

This will help to ensure that formal process, such as Board and other meetings run smoothly and are not being tainted by animosity or ill feelings.

- ✓ • Well run boards should have not be 'comfortable' places and there should be the appropriate level of challenge and debate in a grown up way. The Chair has a key role in setting the tone so that there is a balance between hostility and animosity on the one hand and 'cosiness' on the other.
- ✓ • The Chair should be calm and authoritative ensuring that, their tone and body language are appropriate and neither too passive nor aggressive.
- ✓ • They should ensure that they, the NEDs and the Board as a whole are constantly developing and improving and ensuring there are enough opportunities to spend time discussing strategic issues.

**14/25 marks**

