

Subject no. C101J

Chartered Secretaries Qualifying Scheme – Level One

Health Service Governance

June 2013

Thursday morning 6 June 2013

Time allowed: 3 hours and 15 minutes
(including reading time)

Do not open this examination paper until the presiding officer or an invigilator tells you to.

You must not take this paper out of the examination room.

The examination paper contains **six** questions. Each question carries 25 marks. You must attempt **four questions only**.

In this examination, abbreviations are usually used to refer to the key terms National Health Service (NHS), Foundation Trust (FT), and Clinical Commissioning Group (CCG).

Questions

Answer **four** questions from this paper.

1. Franks Moor NHS Foundation Trust ('Franks Moor') is well-established. It recently conducted an annual performance review of the board, its committees and its directors, with the assistance of external consultants. Acting on the findings and recommendations of the consultants, the board chairman has arranged a meeting with the deputy chairman and you, as company secretary. The review had highlighted a lack of challenge and scrutiny by the non-executive directors and, in particular, poor board behaviours.

There are ten directors on the board: the chairman, four other non-executive directors and five executive directors, including the chief executive officer (CEO) and finance director. There have been no changes to the board during the past four years.

The board chairman reveals at the meeting that she is considering retirement in 6 to 12 months' time, and before she leaves the trust she wants to make sure that she will leave behind a strong and effective board of directors. However, she is aware that the CEO has also been considering taking early retirement and has expressed an interest in being appointed as the next chairman of the trust. She suggests that you, as company secretary, may be able to offer assistance and advice on these matters.

Required

- (a) Identify factors that may lead to poor board performance. Recommend measures that should be taken by the chairman and the board of Franks Moor to improve the performance of the board in relation to the specific criticisms contained within the review.

(12 marks)

- (b) Outline the process taken by the nomination committee in the appointment of a new chairman and outline the governance issues raised by the possible appointment of the current CEO as chairman.

(13 marks)

(Total: 25 marks)

2. The newly appointed chairman of your trust's audit committee, Danielle Cooper ('Danielle'), is a professionally-qualified accountant with industrial experience. However, her only experience of the NHS is her current appointment as a non-executive director. She clearly has the recent and relevant financial experience necessary to take on the role of chairman but has asked for your advice on the wider role of the audit committee as set out in the NHS Audit Committee Handbook. In particular, Danielle is concerned about the assurance framework and the documents which are to be publicly disclosed that specifically relate to the NHS.

Since taking on the role, Danielle has also been concerned by the large amount of non-audit work the external auditors do for the trust, in addition to the external audit. In recent months, the trust's auditors have installed a new system for payroll and workforce reporting, have provided VAT advice and have carried out the board's annual performance review. As a result, Danielle also wants advice on how the audit committee should review the independence of the external auditors.

Required

- (a) Explain to Danielle how the standards, as set out in the NHS Audit Committee Handbook, apply to role of the audit committee she chairs, paying particular attention to the assurance framework and any documents that are to be publicly disclosed.
(13 marks)
- (b) Explain why the independence of auditors is important and identify the threats to auditor independence.
(7 marks)
- (c) Recommend checks that Danielle and the audit committee should carry out to assess whether the external auditors remain sufficiently independent.
(5 marks)

(Total: 25 marks)

3. You are the company secretary of an NHS Trust, applying to become an NHS Foundation Trust, which previously had a sizeable cumulative deficit. In the last few years, significant progress has been made in recovering the trust's financial performance which has largely been due to improvements in the trust's arrangements for managing performance against budgets. This has required a reorganisation of the management structure into a smaller number of clinical divisions and a revised financial strategy. As a result, the trust's budgetary control arrangements have improved considerably over the past three years, resulting in the trust being able to deliver a small surplus this year.

Internal audit is provided by the Mike Consortium, which follows the NHS Internal Audit Standards. You have been discussing the audit committee's review of the effectiveness of the internal control system with the head of internal audit, Shane Williams ('Shane'). As an internal auditor, Shane's concern is related to the production of this year's Annual Governance Statement. He believes that, given the amount of change that has been experienced, there should be regular internal audit testing to assess the effectiveness of internal controls, so that he can adequately prepare for the Head of Internal Audit Opinion which he is required to give. Shane believes that this would give added assurance to the board that the changes have been embedded within the trust.

Required

- (a) Describe the main elements of an internal control system, and the contribution of each of these elements to an effective internal control system.

(15 marks)

- (b) Explain why internal controls need to be reviewed regularly, particularly in light of:
(i) the progress made by the trust; (ii) the role of internal audit in monitoring the internal control system; and (iii) what other sources of assurance may be considered by the audit committee.

(10 marks)

(Total: 25 marks)

4. You are advising Whitmore Partnership NHS Trust ('Whitmore'), as a mental health trust applying for FT status. Whilst much of the FT process is designed to test clinical quality and financial viability, the Department of Health has recognised that this has to be underpinned by robust governance. The Board Governance Assurance Framework (BGAF) is designed to support boards in the assessment of their governance processes. The shift to FT status requires the trust board to understand the key role played by stakeholders and to engage with the increased accountability which will be required of them. As a result, the BGAF includes a section that specifically focuses on board engagement and involvement and the trust board will be required to self-assess its approach to stakeholders.

Required

Advise the board of Whitmore:

- (a) On the importance of the stakeholder approach to governance for the trust, identifying the differences in its application to the trust and the wider corporate sector, and contrasting the stakeholder approach with other approaches to governance.

(18 marks)

- (b) On the range of internal and external stakeholders that the board might need to consider within the BGAF.

(7 marks)

(Total: 25 marks)

5. You have just been appointed as the company secretary of a well-established FT. In discussions with your chairman, you discover that he has serious concerns about the quality of the decision-making by the board of directors. He believes that decisions by the board are often taken without due regard for the quality and safety implications for patients. He mentioned that a recent example of poor decision-making had been a decision by the board to invest in the redevelopment of the outpatient department, which later led to a deterioration in the quality of patient experience. A possible Health and Safety improvement notice demonstrates that there are some lessons to be learnt from the process around how the board came to its decision.

This was just one example of badly informed decision-making by the board and the chairman says that there have been others. He wants to improve the work of the board, but is unsure about what needs to be done, and he has asked for your views and advice in the form of a report.

Required

Write a report to the chairman, advising on the measures that might be taken to improve the quality of decision-making by the board. In the report, you should take into consideration the concerns that he has expressed and the recent example of poor decision-making that he mentioned.

(25 marks)

6. The chairman of a new CCG, Monopoly Clinical Commissioning Group ('Monopoly'), has called a meeting of its governing body to begin discussions about risk and risk management within Monopoly. As a new CCG, the governing body needs to consider what is required to deliver best practice in risk management.

The chairman is concerned by a recent substantial increase in the number of complaints received about a number of GP practices and falling performance levels in the Clinical Domain of the Quality and Outcomes Framework. He has also been angered by the following incidents reported to him by the Accountable Officer:

- (i) There has been a serious breach of health and safety regulations, resulting in a serious injury to three employees.
- (ii) An important new IT system was introduced by the CCG a few months ago, apparently without adequate testing of the back-up system in the event of system failure.
- (iii) A significant provider being considered under the Any Qualified Provider provisions (AQP) is having serious financial difficulties and the administrators have been called in.

Required

- (a) Explain the difference between business risk and internal control risk in the health sector.

(5 marks)
- (b) Suggest how a system of business risk management should operate within Monopoly.

(10 marks)
- (c) Discuss how a system of business risk might have assessed the incidents referred to in (i) to (iii) above and discuss whether the more explicit requirements of the King III Code would have benefited Monopoly in regard to these incidents.

(10 marks)

(Total: 25 marks)

The scenarios included here are entirely fictional. Any resemblance of the information in the scenarios to real persons or organisations, actual or perceived, is purely coincidental.

