Accounts Commission for Scotland

All above board?

Corporate governance in the NHS

DECEMBER 1996

Contents

The Accounts Commission is a statutory independent body which through the audit process assists the NHS and local authorities in Scotland achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources.

The Commission has five main responsibilities:

- securing the statutory external audit
- following up issues of concern identified through the audit to ensure a satisfactory resolution
- reviewing the management arrangements which audited bodies have in place to achieve value for money
- carrying out national value for money studies to improve economy, efficiency and effectiveness in the NHS and local authorities
- issuing an annual direction to local authorities setting out the range of performance information which they have to publish.

The Commission assists the NHS in achieving value for money by highlighting good practice, providing comparative information, and supporting auditors in reviewing performance locally. Its Health and Social Work Studies Directorate is responsible for managing a national programme of value for money studies. Part of the 1995-96 programme included a review of corporate governance in the NHS in Scotland. This national summary contains the key messages arising from this review.

Chairman's foreword

Professor J P Percy CA

This is the first report arising from the Accounts Commission's new responsibilities in the National Health Service. It makes an important contribution to the debate over corporate governance in the public sector, and illustrates the advantages of the Commission's unique public sector audit model. The Commission considers that it exercises its powers and duties in the public interest. It believes that those who pay for public services and those who use them should have confidence that audited bodies are open and accountable.

The last five years have seen wide-ranging changes in the governance of the NHS, with the separation of responsibilities for commissioning and providing services, and the development of the role of the board. These changes have been accompanied by increasing public interest in the management of health services. Together these factors highlight the value of an independent review of the new arrangements.

I believe that Scotland is a nation of natural probity, and this is borne out by the results of our review. In the main, significant reforms have been implemented wholeheartedly over a short period of time. The composition of the new boards has shown its value, with the distinctive skills and experience of non-executive directors complementing the work of professional health service managers. This has contributed to the many examples of good practice and innovation found in the NHS in Scotland. However, we have also identified scope for improvement in some important areas. In particular, NHS trusts and health boards need to give the public real access to information so that they are able to influence important decisions. Without this trusts and health boards will find it difficult to gain the public's confidence and trust.

On behalf of the Commission, I would express thanks to all those who participated in the study; some of the most senior people managing the NHS in Scotland took time and trouble to review with us their own corporate governance arrangements. We look forward to continuing to work with the NHS in achieving high standards of governance and the economic, efficient and effective use of public resources.

Introduction

Major changes have taken place in the NHS over the last five years. Health boards are now responsible for planning and commissioning health services, while NHS trusts are responsible for delivering those services in line with contracts negotiated with health boards and others. Changes have also occurred in the ways in which health bodies are directed and managed. Health boards and trusts are now led by boards of non-executive and executive directors, analogous to boards in the private sector. All board directors share corporate responsibility for the work that is carried out in their name.

These changes in the NHS have been accompanied by two further developments which highlight the importance of good corporate governance:

- the Cadbury report, which identified accountability, integrity and openness as fundamental principles in business life
- the report of the Nolan Committee on standards in public life.

The Accounts Commission believes that these principles are fundamental in safeguarding public funds and achieving value for money. An early and comprehensive review of the effectiveness of the new arrangements was therefore a priority as the Commission took on its new responsibilities in the NHS.

The study of corporate governance was developed and managed by the Commission, and undertaken by local auditors at all NHS bodies in Scotland during 1995-96. A report detailing the local auditor's findings has been produced for each authority, containing an action plan to address any potential improvements identified. This paper summarises the results of the local reviews to provide an overview of corporate governance within the NHS in Scotland.

Overall the new corporate governance arrangements are operating satisfactorily, with NHS bodies responding positively to the general principles involved. Arrangements are either in place or being established to enable the principles of good corporate governance to be incorporated within the service to ensure quality patient care throughout Scotland.

However, the study has identified some areas which require further development if the highest standards of corporate governance are to be achieved throughout the Scottish health service. This paper highlights those areas, together with recommendations for improvement and examples of good practice which many trusts and health boards already achieve.

The role of the board

Strategic, business and financial planning

The first function of all NHS boards is to set the strategic direction of the organisation (within the overall policies and priorities of the Government and the NHS), define its annual and longer term objectives, and agree plans to achieve them. Guidance has recently been issued on new arrangements for planning within trusts, which are now required to submit strategic plans covering a three to five year time period to the Management Executive of the NHS in Scotland. Only around one-third of NHS bodies in Scotland had developed a strategic plan at the time of audit.

Below the strategic planning level, it is useful for organisations to have business or operational plans covering a one to three year timescale and focusing on the action needed to meet the objectives outlined in the organisations' longer term, strategic plans. They should be developed in the context of the strategic plan, contain measurable objectives, give target dates for the achievement of these objectives, and clarify who is responsible for ensuring that the objectives are met. For health boards, the production of a corporate contract, agreed with the Management Executive, provides a similar function to the business plans produced by trusts.

The review found that all NHS bodies have developed some kind of plan below the strategic planning level: all have developed a business plan; and most (80%) have operational plans at directorate or department level.

Monitoring performance

"Although most NHS boards are actively involved in developing strategy, few have formal arrangements for ensuring that progress against strategy is reported to the board."

NHS boards also have a duty to ensure that senior managers within the authority implement the board's plans and take action on them as appropriate. The board should therefore receive regular reports on how the organisation is performing. Health boards (but not trusts) undergo an accountability review, in which the Management Executive assesses performance against targets, and the results are fed back to each board. However, in addition to this high level process, all health boards and trusts should develop their own systems for monitoring the implementation of strategy.

Although most NHS boards are actively involved in developing strategy, few have formal arrangements for ensuring that progress against strategy is reported to the board. Whilst most boards monitor performance against budget, contracted activity and quality standards, there is little monitoring of progress against their strategic and business plans. Some have attempted to ensure that the board is kept informed by arranging forward programmes for board and committee meetings which contain progress reports at appropriate intervals.

For the performance review process to be genuinely useful, board members should discuss and agree which areas of the board's performance require a report. Around 20% of boards have not discussed the format, frequency and content of performance monitoring reports which are presented to the board.

Corporate responsibility

The board is responsible for developing strategy and monitoring its implementation. All board directors are equal in status and share corporate responsibility for the work that is carried out in their name. Directors should be sure of the role of the board and about the separation of strategic from executive action, setting out clearly the authority and responsibility of the board and the senior management team. Boards

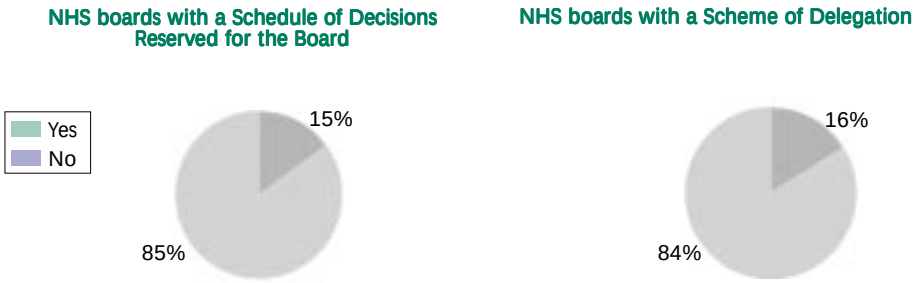
"Only a small number of NHS boards (around 20%) have a formal process in place to review their performance as a board."

should also have some means of assessing the effectiveness of their contribution to the running of the organisation. Only a small number of NHS boards (around 20%) have a formal process in place to review their performance as a board. Good practice involves all board directors reviewing the board's performance at least once a year, enabling the board to identify:

- whether the board is setting a clear strategy
- whether the board has set reliable and measurable plans
- how well the board monitors the performance of the organisation, particularly the critical areas of change
- areas where the board's input could be more effective
- whether the board is becoming too involved in the day-to-day, operational matters of the organisation
- the contribution of the board to the running of the organisation
- whether the performance reports presented to the board are useful and to consider their frequency, content and presentation.

The majority of health bodies have followed the guidance set out in the 'Code of Accountability' and produced a Schedule of Decisions Reserved for the Board and a Scheme of Delegation, incorporating these within standing orders (exhibit 1). However, some health bodies have not detailed the scope of delegation in their Scheme of Delegation, such as the amounts of money which delegated officers are permitted to commit. The clarity of these frameworks is central to good corporate governance.

Exhibit 1



Source: The Accounts Commission (findings from local audits)

Remuneration committee

In both the public and private sectors, there has been much public interest recently in the remuneration of executive directors and the award of pay increases. Salaries and other financial rewards of executive board members should therefore be seen to be determined through a fair and justifiable process.

All NHS bodies in Scotland have established a remuneration committee. However one-fifth do not have arrangements in place for agreeing formal objectives with executive directors at the beginning of the year and then appraising their performance against objectives at the year-end. As well as providing a basis for setting pay for the coming year, such a process is essential to ensure that the executive directors are working towards the corporate objectives of the organisation and to highlight areas where further development is needed.

Ensuring quality of clinical care

"Clinical quality is central to health boards and trusts, and is a key area for boards to address."

Clinical quality is central to health boards and trusts, and is a key area for boards to address. Clinical audit can therefore play an important role in highlighting areas for improvements in clinical services. Clinicians may be sensitive about the findings from clinical audit being shared with others, particularly people without a clinical background. However, it is the board's responsibility to ensure that the quality of health care is of a high standard. In order to make a judgement on the quality of care the board must have an opportunity to consider it.

There are processes in place within all health bodies for bringing the quality of clinical care onto the board agenda, but these focus mainly on contract monitoring arrangements. A few health bodies have taken this a step further and receive reports on clinical audits undertaken in different areas of medical provision. The most comprehensive way to ensure that clinical care is being delivered to the highest standards is for the clinical audit committee to provide a regular report to the board containing a brief description of the clinical audit programme, the outcome of these audits, and the action taken on the findings. This is a powerful mechanism for keeping the quality of health care at the top of the agenda. Only 15% of boards stated that they receive reports on clinical audit.

Development of non-executive directors

The whole concept of corporate governance is based upon all directors sharing corporate responsibility. The status, level of involvement and development of non-executive directors are important if they are to provide both balance to the board and a full corporate contribution.

While the non-executive director is an equal member of the board, in reality this equality may be more difficult to achieve. Executive directors have a detailed involvement with all the issues which come before the board for discussion; they meet as a senior management team; and are full-time employees of the health body. By contrast, non-executive directors have two to three days in a month (for which they are paid) in which to discharge all their duties. If non-executive directors are to successfully balance the executive and make a full contribution to fulfilling the board's duties, it is important that:

- they fully understand the role and duties expected of a non-executive director
- the relative importance of each duty is clear to all board members
- non-executive directors have a good understanding of the environment within which their organisation operates as well as of the main risks and opportunities facing the organisation
- non-executive directors are presented with the various options open to the board on major issues (rather than being asked to approve a final plan after options have been discussed by the senior management team)
- all board members are clear about the differing roles of the board and of the senior management team.

In a few boards (around 15%) the chairman meets on a regular basis with non-executive directors to discuss their role and how they are performing as board members. This enables non-executive directors to identify areas where they could contribute more to the running of the board. Several directors also indicated that they would welcome the opportunity to meet with board members from other local health boards or trusts, to discuss common areas of interest and to learn how others have dealt with opportunities and problems they also face.

The review found that the majority of non-executive directors have been given a grounding on the overall structure of the NHS in Scotland and an outline of the responsibilities of a non-executive director, often through courses run nationally by the Development Group. However, induction and further training vary locally in their existence and usefulness. Induction training for non-executives is necessary to provide them with knowledge both of the NHS in general and of their own organisation. Health bodies should recognise that the training requirements of their non-executive directors will change over time and so should establish a formal review of their training and development needs, at least on an annual basis. This review could be undertaken as part of the chairman's review of the contribution of individual non-executive directors.

Local auditors reported a number of different ways developed by health bodies to increase the knowledge of their non-executive directors in the NHS and in their own organisation (exhibit 2).

Exhibit 2

- A formal board development programme has been established by one trust, which includes a series of workshops on matters facing the organisation together with presentations by executive members of the board and clinical directors. This enables board members to learn of key issues of concern facing individual directorates.
- Another trust has arranged feedback to the board from non-executive directors following their attendance at training seminars.
- Several health bodies pair non-executive directors with directorates which facilitates communication between board members and staff. This arrangement can be strengthened by rotating the pairings, perhaps on an annual or two yearly basis.
- A health board has developed a liaison programme, under which each non-executive director has responsibility for liaising with individual local trusts, facilitating communication between the health board and its local providers.
- Another health board has established three purchasing teams, each involved in developing strategy for key areas of activity and for monitoring performance against these strategies. Each non-executive director is linked with one of these teams, enabling them to learn more about particular parts of the organisation's business as well as promoting communication between non-executive members of the board and members of the health board's staff.

Source: The Accounts Commission (findings from local audits)

Openness

Code of Practice on Openness

The 'Code of Practice on Openness' sets out the basic principles underlying public access to information about the NHS in Scotland. It recognises that since the NHS is a public service it should be open about its activities and plans, with information made widely available on how the NHS is being managed, who is in charge and how it is performing.

On the whole, health bodies in Scotland have complied with the requirements of the Code. However, almost one-fifth have not yet taken action to publicise the intentions of the Code and how the public may obtain information. Examples of some of the methods adopted by health bodies to encourage openness and communicate with the public are noted in exhibit 3.

Exhibit 3

Examples of encouraging openness ...

- including the main points of the Code and the authority's main point of contact in: leaflets and posters in hospitals, health centres and libraries; patient information literature; the annual report; and the local newspaper
- holding all trust board meetings in public
- circulating draft strategies and other plans to local authorities, local health councils etc for comment
- establishing telephone enquiry lines
- the employment of a public relations officer (in some cases this employee provides services to more than one health body)
- inviting a representative of the local health councils to attend board meetings

... and of involving the public

- One health board has developed a consumer service strategy which has committed the board to listening, informing, discussing and reporting issues within the local community.
- The patient representative at one trust attends board meetings on a quarterly basis.
- A health board has established a network of residents to which it issues questionnaires asking for views on local strategies and developments.
- Another health board contracts with the local health council to carry out projects on its behalf, for example, on communication and access arrangements at local hospitals. Project results are fed back to the board, enabling directors to gain an appreciation of issues concerning local consumers of services.
- A health board has set up a "local health alliance" with wide-ranging membership; members include representatives from organisations with an interest in health matters such as local authorities, housing bodies and nursing homes.
- A trust has established a community liaison committee whose remit includes facilitating communication with the community. Members of the committee include four non-executive and three executive directors of the trust board.

Source: The Accounts Commission (findings from local audits)

Register of interests

All health bodies except one have a register detailing board members' interests. However, while registers of interests are public documents, their existence may be unknown to members of the public and few health bodies have a mechanism for publicising them. In the annual reports of three-quarters of health bodies, a statement is included of significant interests held by board directors and a note made that the register of interests is available for public scrutiny.

Board meetings

"Board meetings may seem more like a 'rubber stamping' exercise where most discussion of issues takes place privately."

Trusts are required to hold an annual public meeting at which their annual report is discussed. Others have taken a step further and hold all or most board meetings in public. Health boards are required to hold all board meetings in public.

Some health boards reported that discussions are held quite freely in the presence of the public; however others felt that conducting all their board meetings in public caused problems. Board meetings may seem more like a "rubber stamping" exercise where most discussion of issues takes place privately. The issues which are discussed at public board meetings by these health boards are often those which are less contentious or which have received a lot of discussion by board members beforehand.

One of the main aims of public board meetings is to keep the public informed of what is going on within the organisation. Some health bodies are also using other methods to inform the public: some pass copies of the minutes of board meetings to local libraries, the local press and the local Member of Parliament; and one trust holds a press conference after each board meeting to publicise matters discussed. Some health bodies cover fairly large geographical areas, and others include more than one main centre of population. A few health bodies have overcome potential communication problems by rotating the location of board meetings. To encourage two-way communication with the public, some involve different groups representing the public's interests in the decision making process, such as local health councils, voluntary groups, and local authorities.

The NHS is a public service and as such is accountable to the general public. This brings responsibilities, but greater sharing of information will also help to foster mutual confidence between the NHS and the public.

The audit committee

Role of the audit committee

Every health body has established an audit committee. Common areas of responsibility were found in audit committees' terms of reference such as reviewing internal and external audit. However, often there is no specific reference to the audit committee's responsibilities regarding internal control. The recently published 'Audit Committee Handbook' makes clear that the audit committee has a key role in assuring the board that the organisation's system of internal control is operating effectively.

"No audit committees have a formal mechanism for reviewing their own effectiveness or investigating ways to improve their operation."

At the time of the review no audit committees had a formal mechanism for reviewing their own effectiveness or investigating ways to improve their operation. There is value in obtaining feedback from management within the organisation as well as from internal and external audit. The handbook lists some measures which audit committees may use to improve their effectiveness (exhibit 4).

Exhibit 4

Measures to improve the effectiveness of NHS audit committees:

- formally record the goals and duties of the audit committee
- specify the nature and form of reports presented to the audit committee and seek areas for improvement in the quality of audit committee agenda briefing papers
- re-assess whether the committee chairman and other committee members have the appropriate skills and commitment
- consider assigning responsibility for leading the discussion of specific topics to individual committee members in advance of meetings
- encourage audit committee members to increase their familiarity with the authority's financial reporting process by, for example, visiting the finance department and meeting with clinicians and managers
- consider the key risk areas and whether the committee is allocating them sufficient attention
- re-examine and, if necessary, re-define the nature and extent of the relationship between the committee and the internal and external auditors
- seek feedback from management, internal audit and external audit on the effectiveness of the audit committee and suggestions on ways to improve the operation of the committee.

Source: The NHS in Scotland Management Executive (1996), The Audit Committee Handbook

With the guidance outlined in the handbook, audit committees now have a wider role than they did previously, for example, in terms of providing assurance on internal controls to NHS boards and evaluating decision making processes. This affects audit committee members, both in the knowledge and understanding of the organisation's control environment which they need, and in the duties expected of them. Few audit committees have reviewed their members' training requirements to ensure that they can fulfil all their responsibilities as effectively as possible.

Risk management

Whilst the Commission's review of corporate governance did not look directly at the issue of risk management, it is an area which requires more attention from

"NHS bodies need to have effective risk management policies and practices in place."

some boards. Like other public sector organisations, NHS bodies need to have effective risk management policies and practices in place. Trusts have the added risk arising from claims for clinical negligence. All NHS boards should address what action they need to take in the area of risk management and the role of clinical audit in clinical risk management. With a responsibility for providing the board with assurance on the effectiveness of internal controls within the organisation, audit committees also have a key role to play in risk management.

The audit committee is charged with assuring the board that internal control mechanisms are working effectively and should provide an annual statement to the board on its evaluation of the systems. To achieve this, the audit committee should receive an annual statement from internal audit on the adequacy and effectiveness of internal control within the organisation, but this happens in very few NHS bodies.

Internal controls in an organisation should change as developments take place in the organisation itself and in the environment within which it operates. The Chartered Institute of Public Finance and Accountancy states that boards should therefore make sure that arrangements are in place to:

- identify the risks attached to the organisation's activities and resources
- identify potential liabilities
- review past risks
- identify and evaluate new risks associated with new developments
- attempt to anticipate future risks and developments.

Internal audit

To make as full a contribution as possible in providing an internal audit service, internal audit requires the support of the board to ensure that resources are provided to carry out its role effectively and that management is taking the action necessary to introduce, maintain and develop effective systems of internal control.

The local reviews of corporate governance found no major areas of concern over the internal audit service provided to the NHS. The vast majority of internal audit providers were judged to be adequately independent in their duties although in around 5% of health bodies there is a concern that the independence of the internal auditor could be compromised: internal audit reports in one health body are first sent to the director of finance who then issues summarised versions to the audit committee.

Ninety percent of internal auditors undertake some form of needs or risk assessment on the organisation, and use the results of this assessment to develop a strategic plan for internal audit. The majority of internal audit providers have prepared a strategic audit plan, usually covering a three year period and setting out a framework of internal audit work. A couple of health bodies do not have a strategic plan for internal audit work as their internal auditors are currently employed on a one year contract. This situation may lead to problems in ensuring that all areas of the organisation's activities receive adequate audit coverage.

Almost all internal audit providers draw up an annual audit plan outlining the aims of each audit to be undertaken and the staff and other resources to be allocated to each area of work. All audit committees receive reports on progress against the annual internal audit plan. For those health bodies where no internal audit plan has been produced, reports are given on the areas of activity which have received audit coverage and on the audit points arising.

Audit committees should have a process in place for evaluating the internal audit function as a way of ensuring that there is an effective mechanism for review and appraisal of internal control. The Management Executive suggests different methods which audit committees may adopt to judge the performance of internal audit (exhibit 5). The review found no instances of audit committees assessing the effectiveness of the internal audit function.

Exhibit 5

Performance measures for internal audit

- benchmarking against other internal audit providers
- percentage of audit recommendations implemented by management
- customer satisfaction surveys
- customer requests for internal audit assistance
- staffing statistics such as turnover and promotions
- audit report cycle times
- productivity statistics.

Source: The NHS in Scotland Management Executive (1996), NHS Internal Audit Standards

"It is good practice for audit committees to maintain active involvement by considering audit plans and reports, and ensuring that recommendations are implemented effectively."

External audit

External and internal audit have complementary roles in ensuring that adequate control arrangements are operating within the organisation. Co-operation and sharing of information between the two audit functions are therefore paramount to developing and maintaining an effective relationship.

Overall, health bodies reported that good relations exist between audit committees, internal auditors and external auditors. Both internal and external audit share their plans for audit coverage and internal audit regularly submit copies of their reports to external audit for review purposes. Some health bodies require more contact between their audit committee and their external auditor, through attendance at more audit committee meetings. It is good practice for audit committees to maintain active involvement by considering audit plans and reports, and ensuring that recommendations are implemented effectively.

Conclusion

Overall, the new corporate governance arrangements for the NHS in Scotland are operating well, with boards of directors responding positively in adopting the general principles involved. Arrangements are either in place or are being established to satisfy both the underlying principles of good corporate governance, as set out in the Cadbury and Nolan reports, and the detailed guidance issued by the NHS Management Executive and others.

However, there are three areas where further development is required if the highest standards of corporate governance are to be achieved throughout the NHS in Scotland:

- **Monitoring the implementation of strategy and quality of clinical care** Although boards are generally actively involved in developing strategy and taking major decisions affecting their organisations, few have formal arrangements for monitoring progress against their strategic and business plans. Even where such arrangements are in place, most boards have not discussed and agreed the format, frequency and content of performance monitoring reports. Also while boards do monitor the quality of clinical care, mostly though focusing on contract monitoring arrangements, many health bodies have not yet established a process for sharing the outcomes of clinical audits.
- **Openness in the conduct of NHS business** is another area which requires further development. Although most NHS bodies comply with the letter of the 'Code of Practice on Openness', many do not yet have arrangements which really ensure that members of the public have access to information about the NHS, and involvement in planning and decision making. This is important not only because the NHS is a public service with a need for public accountability, but also because greater sharing of information will help to foster mutual confidence between the NHS and the public.
- **Audit committees** are a new requirement in the NHS, and were recognised by the Cadbury report as fundamental to good corporate governance. While all NHS bodies have now established an audit committee, a number of shortcomings in their operation were identified by auditors. The most important of these is a common failure to operate effective risk management, by identifying high risk areas and ensuring that audit work is concentrated on them. In addition, no audit committees were found to be formally reviewing their own effectiveness or investigating ways to improve their operation.

This paper has highlighted examples of good practice which are already being achieved. Each NHS body has received a review of its individual performance against the standards described, including a local action plan. More general recommendations are contained in the Annex to this paper. Implementing these recommendations will help to ensure that the highest standards of corporate governance are achieved across the NHS in Scotland. This will help to safeguard public funds, ensure best value for money, and foster public confidence.

Annex

The role of the board

Boards should:

- consider the long-term objectives for their organisation and discuss their plans with stakeholders, such as purchasers or providers as appropriate, the Management Executive and the public, as part of an information-giving and opinion-seeking process
- produce a formal document outlining the strategic plans for the organisation
- ensure that operational plans for the short to medium-term continue to be prepared, reflecting the strategic aims of the organisation and setting out how these may be achieved in practice
- ensure that they are advised of progress against strategies, plans and key decisions made by the board and the impact which they are making. This could be achieved by arranging forward programmes for board and committee meetings to make sure that items are kept on the agenda for future review and discussion
- discuss which areas of their organisation's performance require a report to be presented to the board. Board members should specify the format, frequency and content of such performance reports
- discuss which performance reports may benefit from the inclusion of an executive summary to highlight the main points for the board to consider
- set objectives for the board at the start of the year
- review the performance of the board at least annually, asking questions such as:

  How is the board performing against the six key functions of NHS boards as defined in the 'Code of Accountability'?

  Has the board achieved what it set out to achieve?

  What contribution is the board making to the running of the organisation?

  Is the board too concerned with the detail of how the organisation is functioning?

  Is the board receiving useful information on which it can base decisions?

  What are the board's strengths and weaknesses?

  What action is required to improve the board's performance?
- ensure that a Schedule of Decisions Reserved for the Board and a Scheme of Delegation are produced and included in the standing orders
- have arrangements in place for keeping the directors up-to-date on issues affecting the organisation's activities. This may be achieved by inviting senior managers and clinical directors to make presentations to the board on issues affecting their part of the trust or health board
- consider extending the remit of the remuneration committee to include senior managers within the organisation
- receive regular reports on completed clinical audits carried out within the organisation and which contain details of recommended action
- ensure that there is a mechanism in place for reviewing progress in implementing the recommendations of clinical audits and reporting such progress to the board
- discuss what induction is currently offered within the organisation for new non-executive directors and identify what changes are necessary
- consider ways of enhancing the knowledge of its members in relation to the organisation itself and to the NHS as a whole. This may include presentations by senior managers at board meetings, pairing non-executive directors with clinical/functional directorates or providing feedback to other board members following attendance at training seminars.

Members of the remuneration committee should:

- ensure that there are formal arrangements in place for agreeing objectives with individual executive directors at the start of the year
- undertake a review of the executive directors' performance against their objectives at the year-end, using this as a basis for recommending their remuneration for the year ahead.

The clinical audit committee should:

- provide regular reports to the board listing the clinical audits undertaken during the year, the main recommendations of clinical audit reports and what action is being taken as a result of audit findings. Future clinical audits should also feature in these reports.

The board chairman should:

- discuss with each non-executive director their expected input to the board
- agree objectives with each non-executive director at the start of the year
- review how each non-executive is performing against their objectives on a regular basis, discussing their contribution with them on at least an annual basis
- discuss training needs with each non-executive director, perhaps tying this in with the performance review process above.

To enhance non-executive directors' knowledge of the NHS and develop communications with other NHS bodies:

- consideration should be given to enabling non-executive directors to meet with their counterparts from other NHS bodies on an informal basis to share ideas and discuss areas of common interest.

Openness

Boards should:

- ensure action is taken to publicise the intentions of the 'Code of Practice on Openness' and how the public may obtain information
- consider holding board meetings in different localities, where the organisation covers a large area or more than one main centre of population
- state in the annual report that a register of interests is maintained by the organisation and is available for scrutiny by members of the public, mentioning from where it may be obtained.

The audit committee

Audit committees should:

- use the opportunity provided by the publication of the new 'Audit Committee Handbook' to review their terms of reference
- review their own effectiveness
- in light of the clarification and greater detail which the 'Audit Committee Handbook' provides on the role of an audit committee, consider whether any committee members require training on internal control, finance or related matters
- discuss what role they might have in risk identification and management, and include this in their terms of reference
- receive an annual assurance statement from internal audit on the adequacy of the organisation's internal controls
- put in place arrangements to formally review the adequacy of the internal audit service being provided.

Boards should:

- consider the key areas of current and potential risk to the organisation
- develop policies on risk management
- ensure that effective arrangements are in place to manage risk
- appoint an officer with responsibility for risk management
- consider the role of the audit committee in identifying and managing risk
- discuss the training requirements of board members in relation to risk management.

Internal audit should:

- ensure that there is a system in place to review satisfaction with its work.

The external auditor should:

- ensure their attendance at audit committee meetings where key external audit matters, such as planned audit coverage, the management letter and value for money reports, will be discussed.

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