

**Audit Risk and Finance
Committee Handbook
for District Health
Boards**

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MANATŪ HAUORA

Foreword

Audit, Risk and Finance (ARF) committees provide a cornerstone of good governance for District Health Boards (DHBs). Primary responsibility for financial governance rests with DHB boards but they may look to their ARF committees for much of their assurance.

ARF committees often tackle a significant and complex workload. The Ministry has put together this handbook to assist boards and ARF committee members in defining and planning that workload. Each DHB has developed its own allocation of roles between board and committees, and will therefore use this guidance to suit its own circumstances.

The handbook began as an adaptation of one developed in the UK for NHS trusts. We have deleted material not relevant to DHBs and incorporated other relevant material on best practice as appropriate. We would like to thank those who have commented on drafts, particularly the Office of the Auditor-General and the Audit and Risk Committee of Taranaki DHB – any remaining errors and omissions are our own.

I hope you find this handbook of value. I welcome your feedback on the handbook and on any other areas where guidance of this type may be helpful.

A handwritten signature in black ink, appearing to read 'K O Poutasi', with a long horizontal stroke extending to the right.

Karen O Poutasi (Dr)
Director-General of Health

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Executive Summary

Purpose of this handbook

The purpose of this handbook is to maximise the effectiveness of District Health Board (DHB) Audit, Risk and Finance (ARF) committees by providing concise and practical guidance for board members. The material has been drawn largely from existing best practice guides (see Bibliography).

DHBs have different committee structures. Some of the roles and functions discussed here in relation to ARF committees may be allocated to the board and/or other committees, as appropriate to each DHB's needs. This handbook may therefore also be relevant to board members who are involved in other committees.

Structure

The handbook is divided into five sections. Following this Executive Summary, Section 2 addresses audit related functions, Section 3 financial planning and reporting, Section 4 risk management oversight, and Section 5 practical aspects such as membership, authority, protocols, and meeting arrangements. The appendices provide specimen terms of reference for an ARF committee, a self-assessment checklist and a summary of characteristics of good financial management.

Roles of the DHB board and executive management

The board of the DHB is responsible for governance of the entity. The ARF committee is a mechanism to assist the board to meet this responsibility.

The chief executive is employed by the board to deal with management and operational matters of the DHB, including its employees.

The chief financial officer's role is to maintain a sound system of internal financial control, manage financial risks, and produce management accounts and annual financial statements. The chief financial officer is a key contact for both internal and external auditors.

What is an ARF committee?

Under clause 38 of Schedule 3 to the New Zealand Public Health and Disability Act 2000 (the NZPHD Act), DHB boards are entitled to establish committees. All DHBs currently have some form of ARF committee. The ARF functions discussed in this handbook may be distributed across more than one committee (for example where a DHB has a separate risk committee).

Objectives and functions

ARF committees offer advice and recommendations to the board, independently of management, regarding the DHB's financial performance and major areas of risk.

The overall objective of the ARF committee is to ensure that the DHB board complies with its financial accountabilities and responsibilities including, but not limited to, those set out in sections 39 and 41-42 of the NZPHD Act, section 51 and Part 4 of the Crown Entities Act 2004 (the CE Act) and related regulations.

To fulfil this objective, the ARF committee may undertake audit related functions, review financial planning and reporting, and oversee risk management. Each of these areas is discussed in its own chapter below.

The ARF committee contributes to the board's overall process for ensuring that an effective internal control system is maintained and that financial reporting is robust. An effective committee will not duplicate the work of DHB staff or auditors.

Audit related functions

An independent and effective ARF committee provides internal and external auditors with a reporting line independent of management, giving effect to the principle that the auditors work “for” the board and “with” management.

The key audit related functions of an ARF committee are likely to be:

- liaising with the internal auditor and reviewing internal audit scope, planning and resourcing
- assisting the external auditor to identify risks and issues relevant to the external audit planning process
- receiving the reports of the internal and external auditors and reviewing their findings
- monitoring the progress made by management in implementing recommendations arising from audit.

Internal audit

Internal auditors undertake detailed examination, evaluation and testing of financial and management systems in order to ensure the quality of the internal financial control system and proper application of processes. This systems focus may also be applied to non-financial control systems such as quality systems and clinical information systems.

The internal audit function may also review and report on key areas where risks may become apparent, such as complaints, DHB-funded providers, major projects and procurement issues. The internal auditors should also liaise closely with the ARF committee with regard to prevention and detection of fraud.

A large proportion of most DHBs’ funds is spent on non-DHB providers. Some DHBs use internal audit resources to provide a mechanism over and above normal contract monitoring for verifying the performance of contracts by outside providers and ensuring early warning of any problems.

For some DHBs, it may be practical for the ARF committee to receive and review all internal audit reports on behalf of the board. However, it is important that the committee does not duplicate the work of senior management or of any other committee. It may be more appropriate for the ARF committee to focus on financial control issues while ensuring that other assurance activities such as quality management are covered elsewhere. It is up to the board to decide on the extent of the ARF role and to ensure that all necessary aspects are covered in practice. The board as a whole is responsible for the integrity of the DHB’s financial (and other) reporting.

Effectiveness of internal audit

The ARF committee must evaluate the scope, standard and effectiveness of work carried out by the internal audit service, and consider whether it is adequately resourced. It should do this by:

- seeking feedback from the external auditors and considering the extent of the reliance they place on work performed by internal audit in planning their own work
- obtaining feedback from executive management
- reviewing internal audit reports
- observing any apparent weaknesses in or failures of the internal audit programme when internal control issues arise.

External audit

In relation to any body being audited, the external auditors review and report on:

- the financial aspects of its corporate governance arrangements, as they relate to:
 - financial standing
 - systems of internal financial control
 - standards of financial conduct, legality of significant transactions, and the prevention and detection of fraud and corruption
- its financial statements
- its other published reports or disclosures. In the case of DHBs, the external auditors must audit statements of service performance against the Statement of Intent.

The ARF committee's relationship with the external auditor provides an opportunity to secure an independent view of any major activity within the auditor's remit.

Reviewing the external audit plan

Under the Public Audit Act 2001, the Auditor-General is the auditor for all DHBs. In practice, this means that the Office of the Auditor-General appoints the external auditor and issues specific audit standards, guidelines and briefs to reflect specific public sector audit requirements, which are in addition to general auditing standards.

Although a DHB ARF committee is therefore not responsible for the appointment of the external auditor, the Auditor-General expects the appointed auditor to meet regularly with the DHB's ARF committee. The ARF committee should discuss with the external auditor the annual audit plan and strategy. In planning their audit work, external auditors are expected to consider and assess the relevant significant operational and financial risks that apply to the DHB, the arrangements it has put in place to manage these risks and the extent of relevant internal audit work. This assessment enables the external auditors to plan their audit to direct effort to areas of greatest risk.

Involvement in finalising the financial statements

The ARF committee may be involved in the finalisation of the financial statements, subject to final board approval, before the audit opinion is given. The ARF committee can play a valuable role in resolving differences in judgements between external auditors and management.

Reporting arrangements

The external auditor is required to provide an opinion on the accounts of the DHB. They also typically issue an audit letter or memorandum to the board, setting out their observations of issues and weaknesses identified during the audit and their recommendations to address these. Draft recommendations are usually discussed with management to determine their feasibility.

Monitoring implementation

The ARF committee can play an active role in following up agreed actions contained in the internal and external auditors' reports and letters. The value of these reports is not in the acceptance of issues raised but in the implementation of agreed actions. The ARF committee should monitor these agreed actions until the benefits have been realised or circumstances have changed.

Typically this monitoring will involve the preparation of a summary of outstanding recommendations and receipt of progress reports from the managers responsible for their implementation. Lack of progress on important action points should be escalated to the board.

Co-operation between internal and external audit

The ARF committee should ensure that a professional relationship between the internal and external auditors is maintained to maximise the effectiveness of each and minimise duplication of effort.

Private discussions

Although the chief executive remains responsible for implementing actions agreed following audits, both internal and external auditors should have a reporting line independent of management. The ARF committee as a whole and/or its chairperson should meet periodically with each of the internal and external auditors without management being present. This will enable the ARF committee to obtain the frank views of the auditors, uninhibited by the presence of management.

Planning and reporting

The ARF committee is likely to be involved in reviewing both external reporting issues and internal planning and reporting, both financial and non-financial, where they are relevant to the board's compliance with financial accountabilities and responsibilities.

The ARF committee may undertake any or all of the following roles in relation to planning and reporting:

- review and advise the board on its approval of the DHB's financial statements and disclosures
- review draft District Annual Plans, Statements of Intent and District Strategic Plans for their financial impact
- review and advise the board regarding finance-related policies and procedures requiring board approval, including delegation policies
- review management accounting and internal financial reporting practices and issues and alert the board to any areas which appear ineffective
- review capital expenditure and asset management planning and their relationship with service planning
- monitor the financial performance and position of the DHB against budget and forecast.

Financial statements and disclosures

The committee should review the annual report and financial statements prior to approval by the board, focussing particularly on:

- any changes in accounting policies and practices
- major judgemental areas
- significant adjustments arising from the audit
- compliance with financial reporting and other applicable standards
- compliance with statutory requirements
- consistency with other reports prepared by management for release to stakeholders, such as statements of service performance and any summary reports.

The timeframe for the preparation of the annual financial statements is typically tight. If the ARF committee is to play an effective role in advising on issues of judgement, then a meeting needs to be planned before the agreement of the financial statements. The role of the ARF committee and the purpose of the meeting should be made clear.

If the ARF committee is to be involved in the resolution of significant accounting issues raised in the context of the annual audit, then meetings need to be scheduled prior to the signing of the audit report.

The ARF committee should pay particular attention to proposed changes in accounting policies and issues involving significant judgements as these may be subject to manipulation to meet key performance indicators or bank covenants. ARF committee members should ensure that they are familiar with the covenants, ratios etc which may affect the DHB's borrowings or position on the Monitoring and Intervention Framework.

Financial content of plans and SOIs

As part of its overview role for financial documents issued by the board, the ARF committee should review the financial content of draft District Annual Plans, Statements of Intent and District Strategic Plans to ensure that these are consistent with each other and fall within required parameters (such as breakeven or agreed funding path).

Finance-related policies and procedures

The board is required to approve changes in certain policies and procedures, including delegation policies (where approval is also required from the Minister). These will tend to affect how the internal controls of the organisation operate. The committee should therefore advise the board on whether to approve changes.

Management accounting/internal financial reporting

The ARF committee is well-placed to have an overview of the various financial reports which are produced for internal use and for the various committees. It also receives feedback from auditors on apparent weaknesses in financial management of the DHB. It should therefore regularly review the form, content and timeliness of internal reports. If weaknesses are not addressed, it should alert the board to any areas in which current practice appears ineffective.

Capital expenditure/asset management

The ARF committee should ensure that all plans take account of relevant capital expenditure and explain how it will be funded. Conversely, it should also obtain regular assurance that appropriate asset management planning is routinely undertaken by the DHB to ensure early identification, prioritisation and planning for capital items, and that such planning is based on robust analysis of health needs and service planning. The ARF committee should ensure that business cases for capital expenditure, joint ventures and other proposals, including those requiring Ministerial approval, are robustly developed within the DHB's overall strategy.

The detail of such plans and proposals may well be addressed elsewhere, for example by the Hospital Advisory Committee.

Monitoring the financial performance and position of the DHB against budget and forecast

The ARF committee should always have a clear understanding of the current overall financial performance and position of the DHB, of its expected future performance and position and of the reasons for any significant variances from budget. The committee

should also ensure that all board members are kept fully informed of the financial performance and position of the DHB.

The ARF committee should ensure that its time is not absorbed by detailed financial monitoring tasks if such monitoring would be more appropriately done by other committees (such as Hospital Advisory Committees for issues relating to the provider arm).

Where the DHB needs to determine a plan of action to address major issues relating to its financial performance and position, the full board should participate in the discussion.

Risk management oversight

Although ultimate responsibility rests with the DHB board, risk management oversight is likely to be a key part of the ARF committee's role.

Strategic and operational risks – such as clinical, media, legislative, personnel and public health emergencies – may well result in financial consequences downstream if the DHB does not identify, manage and mitigate them effectively. Depending on the roles played by other committees and by management, the ARF committee's oversight role may need to include monitoring of certain non-financial reporting systems and processes. Standards New Zealand has developed guidelines for managing risk in healthcare, focusing mainly on operational risk, which the committee may find useful (see bibliography).

The key functions of risk management oversight for an ARF committee are likely to be:

- ensuring that the DHB complies with its obligations under key legislation
- keeping other legislative compliance arrangements under review (such as employment legislation)
- monitoring risk assessment and risk management mechanisms, including internal control
- receiving and investigating disclosures under the DHB's 'whistle-blowing' policy where it is not appropriate for these to be received and investigated by the chief executive
- monitoring and reviewing policies and procedures to minimise and manage conflicts of interest among DHB board members, management and staff
- monitoring and reviewing policies and procedures to minimise and manage risks in the contracting of health services
- other monitoring responsibilities as determined by the board, for example in relation to major contracts or construction projects.

The ARF committee should play a key role in the process of review, not only in respect of its internal financial control oversight activities, but also in contributing to the assessment of wider aspects of risk management control. Where not dealt with by separate committees, this might well involve the ARF committee in the consideration of aspects of the following:

- operational efficiency and effectiveness
- health and safety
- reputation and communication.

Where it has responsibility for oversight of a DHB's risk management programme, the ARF committee may need to assure itself that:

- the risk management policies and strategies reflect board views and priorities

- the DHB's risk management structure is appropriate to support the strategy, and is coherent across the DHB
- there is adequate monitoring of critical risks and responsibility for risk management has been appropriately delegated within the organisation
- a robust risk identification and assessment process is in place
- appropriate early warning systems are in place and warnings are escalated appropriately
- risks and risk treatments are regularly reported to the board in a meaningful format
- risk reporting within management, to the board and to the Ministry of Health (where required) is consistent.

The committee may also need to consider risk management of particular issues as required by the board.

How can ARF committees work most effectively?

Membership

Effective oversight requires objectivity and relevant experience. These are among the attributes that board members bring to the committee. The ARF committee provides members with access to financial information, internal control systems, and to external and internal auditors. Members are thereby able to bring their skills and experience to bear on the financial, risk and control issues, and to do so independently of senior management.

The full board is responsible for appointing and removing committee members. For reasons of independence, best practice indicates that the board chairperson should not chair the ARF committee, although it may be helpful for them to be a member. In making its appointments, the board should consider the requirements of clause 38 of Schedule 3 to the NZPHD Act, including representation of Māori where appropriate and the need for disclosure of conflicts of interest by external committee members. The board should avoid appointing any individual whose full participation in the committee's work might be inhibited by conflicts of interest. No executive of the DHB should be a member of the committee, although the chief executive and chief financial officer may be asked to be in attendance at most meetings.

Although a limited number of DHB board members will be members of the ARF committee, most DHBs currently indicate that all board members are welcome to attend. The board should consider the balance between openness to the board as a whole and the risk that the committee might be swayed or distracted by non-committee members with a limited understanding of the committee's work. The NZ Stock Exchange, for example, requires that directors who are not audit committee members only attend audit committee meetings by specific invitation.

All members of the committee, whatever their background, should be able to participate fully. To be effective, committees need some members to have the necessary skills to familiarise themselves with the organisation's financial reporting processes and its system of internal control. At least one member of the committee should therefore have a financial background, although the board should be careful to avoid placing too much reliance on any one member's expertise. The board may decide to appoint external members with relevant expertise in finance or other necessary skill areas to the ARF committee. Alternatively, the committee may commission external advisers as required.

Authority

The ARF committee must be invested with sufficient authority and resources to act with independence and to investigate any matters within its terms of reference. It should be constituted as a committee of the board and the terms of reference should be agreed by the board. Appendix 1 gives an example set of terms of reference.

The Minister of Health has authorised DHBs to pay fees consistent with the Fees Framework to members of an ARF committee, subject to membership of the committee and its terms of reference being regularly advised to the Ministry of Health.

Access

The ARF committee should have direct contact with the internal and external auditors, as well as the DHB chief executive, chief financial officer and possibly other staff who make regular reports relevant to the committee's role (such as risk management).

Other contacts would be arranged as required, through the DHB chairperson or chief executive. The committee should have the ability to call for independent advice from consultants and to request the attendance of any employees of the DHB at committee meetings.

Meetings

Thorough preparation of agendas can have a significant influence on the effectiveness of an ARF committee. Agenda and briefing papers should be prepared and circulated in sufficient time for the members to give them due consideration.

The timing of ARF committee meetings should be planned in advance, to address key deadlines in the DHB's year relating to the committee's remit (such as audit and District Annual Plan timetables). However, the ARF committee should also be able to call ad hoc meetings if required.

Instituting such a work programme gives the ARF committee the opportunity to provide timely and forward-looking recommendations to the board.

The timing of meetings needs to be discussed with all parties, including the internal and external auditors.

It is for each ARF committee to decide what will work in practice. In doing so, the committee will weigh up competing demands on board members' time against an assessment of local needs.

Information

Information required by the ARF committee

The minimum information required by the ARF committee is likely to include, as it arises:

Audit

- Draft and final internal and external audit plans and strategies
- External audit engagement letter
- Internal and external audit reports/letters (draft and final)
- Schedule of action points and management reporting of progress made.

Financial reporting and monitoring

- Draft and final financial statements of the DHB

- Details of any proposals to change accounting policies and their impact
- Draft and final District Annual Plans, District Strategic Plans and Statements of Intent
- Finance-related policies and procedures of the DHB and details of any planned amendments
- Management accounts and financial reports as supplied to the board and other board committees
- Capital expenditure proposals and draft asset management plans.

Risk management oversight

- Risk management policies, procedures and regular reports.

Public availability of information

Under clause 38(4) of Schedule 3 to the NZPHD Act, the board may regulate the procedure of any committee in any manner not inconsistent with the Act that it sees fit. Under clause 38(5), the same requirements for routine public access to meetings and related documents as apply to the full board (clauses 16-24, 28 and 31-35) also apply to a committee **if** its meetings involve making resolutions or decisions.

Most ARF terms of reference require all recommendations to be referred to the board for decision, allowing ARF meetings to be held in closed session. Conversely, minutes of ARF meetings should be promptly made available to the board, with the expectation that non-confidential minutes will also be available to the public as part of the board papers.

DHBs are subject to the Official Information Act 1982 (OI Act). Irrespective of whether routine public access to meetings and related documents is provided, ARF documents including meeting agendas, reports and minutes may be requested by members of the public under the OI Act. The general principle of the OI Act is that information should be made available on request. However, a request may be refused if any of the grounds described in the OI Act apply.

Other matters

Other aspects of the committee's conduct should be governed by the NZPHD Act and CE Act as regards meeting procedure, record-keeping, confidentiality and conflicts of interest, with specific points in the terms of reference. The process for dealing with declared interests in a board committee is set out in clauses 38-39 of Schedule 4 to the NZPHD Act.

Relevant training should be provided to committee members as required, consistent with the DHB's obligations to board members under clause 5 of Schedule 3 to the NZPHD Act.

The committee should undertake regular self-assessment of its performance and effectiveness in the same way as the full board. An example self-assessment checklist is attached at appendix 2.

Appendix 1: Specimen Terms of Reference

The following specimen terms of reference expand upon the summary included in the Minister of Health's letter to DHBs of September 2003 and are for DHB boards and their ARF committees to adapt to suit their own circumstances. Individual DHBs operate different models for deriving assurance in relation to financial, risk and internal control issues, and the scope of work of the ARF committee will therefore vary (for example, some DHBs operate a separate risk committee). Each board will need to determine the role and functions of its ARF committee as part of the total governance structure of the DHB.

Terms of Reference

Constitution

The board hereby establishes a committee of the board to be known as the [Audit, Risk and Finance committee (ARF committee)].

Membership

The ARF committee shall comprise [3-6 members] to be appointed by the DHB board from amongst the board members and/or other persons. Notes:

- The board must endeavour, where appropriate, to include Māori representation on the committee (clause 38(2), Schedule 3, NZPHD Act).
- Best practice indicates that the chairperson of the board should not chair the ARF committee.
- No executive of the DHB should be a member of the ARF committee (although the attendance of the chief executive and other senior staff may frequently be required).
- It may be desirable to appoint one or more external members with relevant professional experience, especially where board members on the committee have limited financial skills and experience. Alternatively, individuals with appropriate skills and experience could be appointed as advisors to, rather than members of, the committee. External committee members must disclose any conflicts of interest (clause 38(6) of Schedule 3, NZPHD Act)
- Board members serving on the committee may require training to be provided under clause 5 of Schedule 3, NZPHD Act.

Objective

The objective of the ARF committee is to ensure that the DHB board complies with its financial accountabilities and responsibilities including, but not limited to, those set out in sections 39 and 41-42 of the New Zealand Public Health and Disability Act 2000 (the NZPHD Act) and section 51 and part 4 of the Crown Entities Act 2004 (the CE Act) and related regulations.

Functions/duties

Audit

- liaise with the internal auditor and review internal audit scope, planning and resourcing
- assist the external auditor to identify risks and issues relevant to the external audit planning process
- receive the reports of the internal and external auditors and review their findings
- monitor the progress made by management in implementing recommendations arising from audit.

Financial planning and reporting

- review and advise the board on its approval of the DHB's financial statements and disclosures
- review draft District Annual Plans, Statements of Intent and District Strategic Plans for their financial impact
- review and advise the board regarding finance-related policies and procedures requiring board approval, including delegation policies
- review management accounting and internal financial reporting practices and issues and alert the board to any areas which appear ineffective
- review capital expenditure and asset management planning and their relationship with service planning
- monitor the financial performance and position of the DHB against budget and forecast.

Risk management oversight

- ensure that the DHB complies with its obligations under key legislation
- keep other legislative compliance arrangements under review (such as employment legislation)
- monitor risk assessment and risk management mechanisms, including internal control
- receive and investigate disclosures under the DHB's 'whistle-blowing' policy where it is not appropriate for these to be received and investigated by the chief executive
- monitor and review policies and procedures to minimise and manage conflicts of interest among DHB board members, management and staff
- monitor and review policies and procedures to minimise and manage risks in the contracting of health services
- other monitoring responsibilities as determined by the board, for example in relation to major contracts or construction projects.

Quorum

A quorum of the ARF committee shall be at least [two] members.

Attendance

The committee may invite the chief executive, chief financial officer, internal and external auditors and/or any other party to attend its meetings as required and when appropriate.

Frequency

Meetings shall be held at least [four] times a year. The number and timing of meetings may vary depending on board requirements. The external or internal auditors may request additional meetings if necessary.

Authority

The ARF committee is constituted by the board under clause 38 of Schedule 3 to the NZPHD Act and must operate in accordance with directions from the board.

The ARF committee is authorised by the board to investigate any activity within its terms of reference. It has no decision-making powers but makes recommendations to the board on the agenda items submitted to it. [Some ARF committees hold delegations from the board for some specific tasks, such as approval of the external audit plan].

Access

The ARF committee has free and confidential access to the internal and external auditors (and vice versa) as required to fulfil its objectives, roles and responsibilities. It also has access to the DHB's chief executive officer and chief financial officer and to any other staff through the chief executive officer.

Reporting

The ARF committee is authorised by the board to obtain outside legal or other independent professional advice if necessary to fulfil its role.

The minutes of ARF committee meetings will be submitted to the board. [Copies may also be forwarded to the chief executive, chief financial officer and internal and external auditors either routinely or where actions are required.]

All recommendations from the ARF committee will go to the DHB board for decision.

Information

The following information will be supplied to the ARF committee in accordance with deadlines set in its workplan for the year:

Audit

- Draft and final internal and external audit plans and strategies
- External audit engagement letter
- Internal and external audit reports/letters (draft and final)
- Schedule of action points and management reporting of progress made.

Financial reporting and monitoring

- Draft and final financial statements of the DHB
- Details of any proposals to change accounting policies and their impact
- Draft and final District Annual Plans, District Strategic Plans and Statements of Intent
- Finance-related policies and procedures of the DHB and details of any planned amendments
- Management accounts and financial reports as supplied to the board and other board committees
- Capital expenditure proposals and draft asset management plans.

Risk management oversight

- Risk management policies, procedures and regular reports.

Appendix 2: Self Assessment Checklist¹

Issue	Yes	No	N/A	Comments / Action
COMPOSITION, ESTABLISHMENT AND DUTIES				
Does the ARF committee have written terms of reference that adequately and realistically define the committee's role?				
Have the terms of reference been adopted by the DHB board?				
Are the terms of reference reviewed annually to take into account governance developments and the remit of other DHB board committees?				
Has the ARF committee been provided with sufficient membership, authority and resources to perform its role effectively and				
Are changes to the ARF committee's current and future workload discussed and approved at board level?				
Are ARF committee members independent of the management team?				
Does the ARF committee report regularly to the board?				
Are members, particularly those new to the ARF committee, provided with training?				
Does the board ensure that members have sufficient knowledge of the organisation to identify key risk areas and to challenge both line management and the auditors on critical and sensitive matters?				
Does at least one ARF committee member have a financial background?				
Does the ARF committee have the ability / authority to seek independent advice?				
Does the ARF committee have a mechanism to keep it aware of topical legal and regulatory issues?				

¹ This checklist has been adapted from the Department of Health (UK) 2001, *Audit Committee Handbook*.

INTERNAL AUDIT				
Do formal terms of reference exist, defining internal audit's objectives, responsibilities and reporting lines?				
Does the ARF committee review and approve the internal audit plan at the beginning of the financial year?				
Are audit plans derived from clear processes based on risk assessment?				
Does the ARF committee receive periodic reports from the internal auditors at the desired level of				
Does the ARF committee monitor follow up audits and the implementation of recommendations?				
Are the internal auditors able to report directly to the ARF committee and its chairperson?				
Does the ARF committee hold periodic private discussions with the internal auditors?				
Are any scope restrictions placed on internal audit and, if so, what are they and who establishes them?				
Is internal audit free from any operating responsibilities or conflicts of interest that could impair its objectivity?				
Does the ARF committee review the adequacy of staffing and resources within internal audit?				
Has the ARF committee agreed internal audit performance measures to be reported on a routine basis?				
Is there appropriate cooperation with the external auditors?				
Are there any quality assurance procedures to confirm whether the work of the internal auditors is properly planned, completed, supervised and reviewed?				
EXTERNAL AUDIT				
Do the external auditors present their audit plans and strategy to the ARF committee for discussion?				

Does the ARF committee review the external auditor's annual audit letter and monitor implementation of recommendations?				
Does the ARF committee hold periodic private discussions with the external auditor?				
Does the ARF committee assess the performance of external audit and provide feedback to the auditor and, where appropriate, the Office of the Auditor-General?				
FINANCIAL REPORTING				
Is the ARF committee's role in the approval of the annual financial statements clearly defined?				
Is a ARF committee meeting scheduled to discuss proposed adjustments to the financial statements and issues arising from the audit?				
Does the ARF committee annually review the accounting policies of the DHB?				
RISK MANAGEMENT				
Has the board considered how the ARF committee integrates with any other committees that are reviewing risk or financial issues?				
Has the ARF committee been briefed on its assurance responsibilities with regard to internal control and risk management?				
Has the ARF committee reviewed whether the reports it receives are timely and have the right format and content to ensure its risk management responsibilities are discharged?				
Is the ARF committee satisfied that the Board has been advised that assurance reporting is in place to encompass all the organisation's responsibilities?				
ADMINISTRATIVE ARRANGEMENTS				
Does the ARF committee have a plan of matters to be dealt with over the coming year?				

Are papers distributed in sufficient time for members to give them due consideration and are minutes received as soon as possible after the meetings?				
Are the timing and frequency of ARF committee meetings appropriate to deal with planned matters?				
Is the timing of ARF committee meetings discussed with all the parties involved?				
OTHER ISSUES				
Does the ARF committee assess its own effectiveness periodically?				
Does the annual report and accounts of the DHB include a description of the ARF committee's establishment and activities?				

Appendix 3: Text of Minister's letter authorising payment to ARF committees, September 2003

Payment of fees to board members serving on DHB audit, risk and finance committees

Since I wrote to DHB chief executives on 9 April 2003 regarding payment of fees to committees, several DHB chairpersons have expressed their concern that board members serving on audit, risk and finance committees would no longer receive payment for their work.

I have noted these concerns and propose to allow DHBs to make additional fee payments to those board members who serve on board audit and finance committees. Audit, risk and finance committees make complex and time-consuming demands of their members and therefore the contributions to them by board members deserve financial recognition.

A decision to pay fees to a board committee in this fashion is an exception to the Cabinet Office Circular CO (01) 8, *Fees Framework for Members of Statutory and Other Bodies Appointed by the Crown* (the Fees Framework). Under paragraph 42 of the Framework I have therefore been required to consult with both the Minister of State Services and Cabinet before issuing this approval.²

My approval is subject to the following conditions:

- only one committee dealing with audit, risk and/or finance matters is to be paid. Some DHBs have more than one committee dealing with such issues and will need to select which committee is to receive payment
- the justification for the approval is to recognise the significant additional workload involved in audit, risk and finance (ARF) committees, the specialist nature of the work and the difficulty of recruiting and retaining high calibre individuals to serve on an ARF committee. It is therefore expected that a small number of board members will serve on the ARF committee
- I am to be advised of committee membership and terms of reference and future changes to these
- fees are to be based, as a maximum, on those established in the Fees Framework for board members serving on the advisory committees established under sections 34-36 of the Act
- as part of its normal processes for monitoring and reviewing board performance, the Ministry will monitor the performance and effectiveness of ARF committees and advise me of any issues arising.

² CO (01) 8 has been superseded by an updated version of the Fees Framework (CO (03) 4) but the approval given in this letter still applies.

To assist you in determining which committee of your board should be paid under this approval, I have attached to this letter an outline of the functions which an audit, risk and finance committee of a DHB might fulfil.

I look forward to receiving notification from you as to the committee membership and terms of reference of your audit, risk and/or finance committee.

Typical functions of DHB audit, risk and finance committees

Based on DHB experience to date and other examples of good governance practice, the functions of an audit, risk and finance committee would be as follows:

- to receive the reports of the internal and external auditors and monitor the progress made by management in implementing recommendations arising from those reports
- to provide a reporting line for the internal auditor independent of the chief executive
- to receive and investigate disclosures under the DHB's whistle-blowing policy where it is not appropriate for these to be received and investigated by the chief executive
- to review and advise the board on its approval of:
 - the DHB's financial statements and disclosures
 - the draft District Annual Plan
 - those finance-related policies and procedures which require board approval, including delegation policies
- other monitoring responsibilities which may be delegated to it by the full board, for example in relation to major contracts or construction projects.

Such committees would be established pursuant to clause 38 of Schedule 3 to the Act.

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The Institute of Internal Auditors (www.iianz.org.nz) and Institute of Chartered Accountants (<http://www.nzica.com/>) both carry a range of relevant material.