

1. INTRODUCTION

Why has this document been prepared?

This document has been prepared to help Board members, management and other employees understand how NHS Lothian's system of corporate governance, risk management and internal control relate to each other, and how they provide assurance to the Board.

The aim is to ensure that there is a common understanding throughout NHS Lothian of what is meant by assurance and its importance in a well-functioning organisation.

What is "Corporate Governance"?

Corporate governance is the system by which organisations are directed and controlled. Boards are responsible for the governance of their organisations. The stakeholders' role in governance is to appoint the board members and the external auditors, and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the organisation's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to stakeholders on their stewardship. The board's actions are subject to laws, regulations, directions and requirements for public accountability.

Corporate governance is therefore about what the board does and how it sets the values of the organisation, and is to be distinguished from executive director led day-to-day operational management.

What is "Assurance"?

Assurance is "confidence based on sufficient evidence that internal controls are in place, operating effectively and objectives are being achieved."

[Source: Building the Assurance Framework: A Practical Guide for NHS Boards \(2003\), Department of Health.](#)

Who is required to seek assurance?

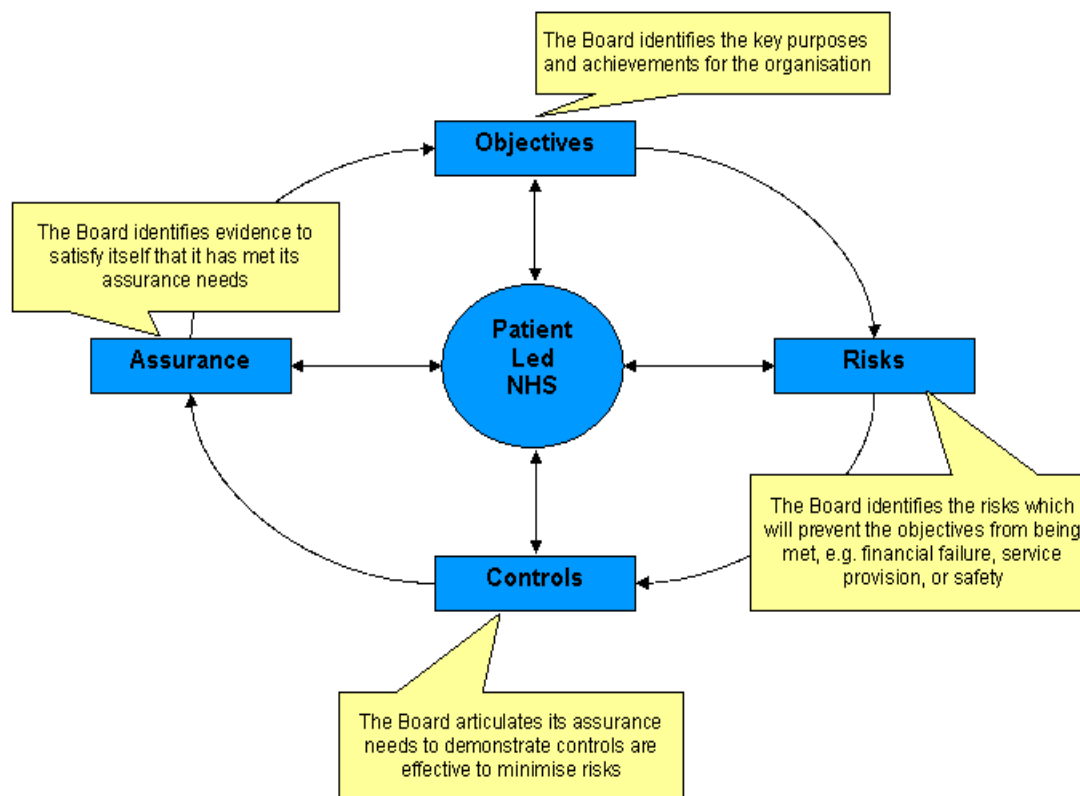
The simple answer is everyone.

The Board and its committees are not involved in operational management and delivery, but exercise oversight of the management of the organisation. The Board and its committees require assurance from management (and other sources) in order to carry out their role in corporate governance.

Managers are responsible for managing risk and developing and implementing the detailed systems of internal control in their areas of responsibility. This effort should be aimed at delivering the Board's strategic objectives and improvement. Consequently management need to assured

themselves that those systems of internal control and risk management are operating as intended. If they successfully do so, they can efficiently provide assurance to a committee and the Board as and when required.

The following diagram illustrates this concept:



Source: Health Care Standards Unit, as referred to in the [Oxford University Hospitals Foundation NHS Trust Assurance Strategy](#) (September 2015)

If the systems of assurance within the organisation are designed properly, they can add value by reducing bureaucracy, and allowing the Board and senior management to confidently focus on the key matters which do require attention.

The design of the systems of assurance should reflect the strategic aim of making NHS Lothian a more data driven organisation. Work has been commissioned with regard to a revised information strategy which will underpin the Board's approach to quality, efficiency & productivity improvement programme for theatres, and a frail elderly pathway project.

2. HOW WILL THE BOARD AND ITS COMMITTEES IMPLEMENT THE CONCEPT OF ASSURANCE?

When the Board or a committee receives a report which has been provided for assurance purposes, its aim will be to reach a conclusion on the level of assurance gained on the purposes of the report.

A report may focus on one or two types of purpose:

1. To operate in a way that satisfies a particular assurance need, such as a quality standard, a professional standard, a regulatory requirement, a legal requirement, or a basic principle of internal control.
2. To achieve a defined level of organisational performance or impact in terms of outcomes for stakeholders. Stakeholders can mean anyone affected, interested or concerned with the Board’s activities, such as patients, the general public, taxpayers, the Scottish Government, other public bodies, its employees, independent contractors such as GPs, suppliers, and others in the community.

There are five possible levels of assurance:

Definition	Most likely course of action by the Board or committee
<p>LEVEL - SIGNIFICANT</p> <p>The Board can take reasonable assurance that the system of control achieves or will achieve the purpose that it is designed to deliver. There may be an insignificant amount of residual risk or none at all.</p> <p>Examples of when significant assurance can be taken are:</p> <ul style="list-style-type: none"> • The purpose is quite narrowly defined, and it is relatively easy to be comprehensively assured. • There is little evidence of system failure and the system appears to be robust and sustainable. • The committee is provided with evidence from several different sources to support its conclusion. 	<p>If there are no issues at all, the Board or committee may not require a further report until the next scheduled periodic review of the subject, or if circumstances materially change.</p> <p>In the event of there being any residual actions to address, the Board or committee may ask for assurance that they have been completed at a later date agreed with the relevant director, or it may not require that assurance.</p>

Definition	Most likely course of action by the Board or committee
<p>LEVEL - MODERATE</p> <p>The Board can take reasonable assurance that controls upon which the organisation relies to manage the risk(s) are in the main suitably designed and effectively applied. There remains a moderate amount of residual risk.</p> <p>Moderate assurance can be taken where:</p> <ul style="list-style-type: none"> • In most respects the “purpose” is being achieved. • There are some areas where further action is required, and the residual risk is greater than “insignificant”. • Where the report includes a proposed remedial action plan, the committee considers it to be credible and acceptable 	<p>The Board or committee will ask the director to provide assurance at an agreed later date that the remedial actions have been completed. The timescale for this assurance will depend on the level of residual risk.</p> <p>If the actions arise from a review conducted by an independent source (e.g. internal audit, or an external regulator), the committee may prefer to take assurance from that source’s follow-up process, rather than require the director to produce an additional report.</p>
<p>LEVEL - LIMITED</p> <p>The Board can take some assurance from the systems of control in place to manage the risk(s), but there remains a significant amount of residual risk which requires action to be taken.</p> <p>Examples of when limited assurance can be taken are:</p> <ul style="list-style-type: none"> • There are known material weaknesses in key areas. • It is known that there will have to be changes to the system (e.g. due to a change in the law) and the impact has not been assessed and planned for. • The report has provided incomplete information, and not 	<p>The Board or committee will ask the director to provide a further paper at its next meeting, and will monitor the situation until it is satisfied that the level of assurance has been improved.</p>

Definition	Most likely course of action by the Board or committee
<p>covered the whole purpose of the report.</p> <ul style="list-style-type: none"> The proposed action plan to address areas of identified residual risk is not comprehensive or credible or deliverable. 	
<p>LEVEL - NONE</p> <p>The Board cannot take any assurance from the information that has been provided. There remains a significant amount of residual risk.</p>	<p>The Board or committee will ask the director to provide a further paper at its next meeting, and will monitor the situation until it is satisfied that the level of assurance has been improved. Additionally the chair of the meeting will notify the Chief Executive of the issue.</p>
<p>NOT ASSESSED YET</p> <p>This simply means that the Board or committee has not received a report on the subject as yet. In order to cover all aspects of its remit, the Board or committee should agree a forward schedule of when reports on each subject should be received (perhaps within their statement of assurance needs), recognising the relative significance and risk of each subject.</p>	

It may be the case that the author of a report is independent (e.g. internal audit, an external auditor) and uses a different grading system in their report. Nevertheless the Board or committee should use that report as part of the evidence to determine which one of the five levels it is going to arrive at.

Some committees already use a statement of assurance needs which they can update as and when reports are received to reflect the level of assurance received.

Determining the Level of Assurance

The Board or committee will decide what level of assurance it will take from a report, and will periodically review the totality of assurances received. There are several factors which can influence this.

Independence of the provider of the assurance
Management will most likely provide the bulk of assurances. However an assurance from someone who is not responsible for the function/ service to which it relates may carry more weight due to independence. Auditors, regulators, and quality assurance functions are sources of independent reports.
Reliability of the Information
Is the information that has been provided evidence-based? Where does it come from? Is it drawn from reliable data? How has it been generated and prepared? Is it complete?
Relevance of the Information
Do the assurances that have been provided align to the risks of the subject that is being considered?
Age
How current is the information being used and does this have a bearing on the assurance that can be taken? How much time has elapsed since assurance was last provided?
Durability
The assurance may endure as a permanent assurance on a historical matter, e.g. the external audit of the annual accounts for a particular financial year. Alternatively the assurance may lose relevance over the passage of time, e.g. a clinical audit.

Preparing papers for the Board and its Committees

As a matter of standard procedure authors of Board and committee papers will be asked to include a recommendation which invites the Board/ committee to select one of the above levels of assurance to reflect its conclusion from its consideration of the paper. It is entirely for the Board or the committee to decide what level to accept.

When the paper relates to providing assurance on the systems of internal control
The paper should focus on the desired outcomes or assurance needs for the subject area. The recommendation(s) should invite the Board or committee to determine the level of assurance it has that the arrangements/ systems of control in place attend to the risks.
When the paper relates to performance reporting, and action plans to improve or sustain the Board's performance
The Board or committee should be recommended to consider a standard question on each occasion that a report/ action plan is prepared (<i>such as the exceptions proforma in the Quality & Performance Improvement report</i>) which

sets out proposed actions to satisfy performance requirements.

The standard question is:

“What assurance do you take that the actions described will deliver the outcomes you require within an acceptable timescale?”

3. HOW DOES THIS ALL RELATE TO THE WORK OF OPERATIONAL MANAGEMENT AND THE IMPLEMENTATION OF RISK MANAGEMENT AND INTERNAL CONTROL?

Managers are responsible for identifying, assessing and managing risk in their areas of responsibility, and designing and implementing systems of internal control. Part of this effort is systematically and effectively implementing the Board’s policies and procedures. The Board’s Risk Management Policy and Operational Procedure already require managers to methodically assess their systems of internal control as follows:

Level of Adequacy of Controls	Definition
Satisfactory	The system of control is adequately designed to manage the risk, and the system is operating as intended.
Adequate but partially effective	The system of control is adequately designed to manage the risk, but it is not being implemented properly.
Inadequate	The system of control is not properly designed, and further controls and measures are required.
Unknown	The details of the system of internal control are not known at this time, and further work is required to find out what the situation is, and whether or not there are any controls in place.

Managers will have several systems of internal control in place, and they should have monitoring arrangements to assure themselves that they are operating as intended. Managers are free to use the levels of assurance as defined in Section 2 if it helps them in their local assurance processes. If managers identify a risk where the system of internal control is less than satisfactory, then it should be explicitly captured in their local risk register and an action plan be put in place. By implementing the risk management policy and embedding systems of internal control, managers should be able to easily provide assurance to the Board and its committees as and when required.

4. HOW DOES THIS RELATE TO PERFORMANCE MANAGEMENT?

Performance management is a key aspect of corporate governance. The role of the Board and its committees with respect to performance management is quite different from that of managers.

In simple terms, the Board will determine what the organisation's aims, objectives and performance requirements are. The Board and its committees will require assurance that performance is in line with expectations. Where this is the case, any papers simply need to confirm that is the case to provide assurance.

Where performance is not in line with expectations, they will be seeking assurance that the causes of the level of performance are understood, and that any remedial action plan is comprehensive, deliverable, and will attend to the performance issue within an acceptable timescale. Consequently any papers that are prepared for this purpose should include the standard question for each relevant performance measure:

“What assurance do you take that the actions described will deliver the outcomes you require within an acceptable timescale?”

It remains the role of management to determine how to manage risk, and how to deliver the performance requirements.

It is possible that a dip in performance could indicate a non-significant, or a self-correcting temporary event. Management need to properly understand what performance information is telling them, as taking inappropriate action could lead to an unnecessary diversion of resources and unintended consequences. Management must also ensure that the Board and its committees are provided with accurate, timely and clear information so that they can effectively discharge their governance roles.