

understanding governance in the NHS



A research project by ACCA in collaboration with the Department of Health

Understanding governance in the NHS

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Foreword

I welcome the publication of this report by ACCA as a valuable contribution to our understanding of governance in the NHS and the impact of actions taken by the Department of Health and others to improve governance.

Effective governance is essential in the NHS, to ensure that the significant amount of public money that is spent is effectively used. To this end a number of initiatives over the past few years have been implemented to ensure that NHS organisations develop their governance arrangements in line with good practice.

It is encouraging to note that those responsible for governance understand their responsibilities and view it as a key part of their Board level role.

I am pleased that the report recognises the support and guidance already provided by the Department of Health and that the views of key directors within the NHS confirm that they have found this approach helpful.

Together with the Leadership Team on the NHS Management Board, I will look to take the findings and recommendations of this report and the planned reports in 2008 and 2009 as part of the evidence base to assess improvements in governance and to inform future developments and guidance.

Bob Alexander

Director of NHS Finance
Department of Health

Executive summary

This research project was developed by ACCA, in collaboration with the Department of Health, to identify current understanding of governance in the NHS. The overall objective is to gauge opinions held by Board members of NHS organisations over a three year period, to assess trends in the effectiveness of initiatives to improve governance across the NHS.

Survey findings

This report considers the results of the first survey, conducted in May 2007. Key findings are:

- Those responsible for governance in NHS bodies, i.e. Board members, take their responsibilities seriously and recognise the need for good governance.
- There is a strong congruence of understanding about what governance is. This understanding is very much focused on 'control' rather than 'direction', but is multi-faceted, which becomes more apparent in responses to later questions in the survey. It is also interesting that this understanding is firmly based on the Cadbury Committee's definition of corporate governance, rather than on any subsequent definition designed purely for the NHS.
- There is positive confirmation that the level of guidance is about right and that Boards do not want a checklist approach; however, there are still some gaps in knowledge and, particularly from the specific comments received, a certain level of confusion remaining. There is still a need for a consolidated guide that is useful to all users, but that recognises organisational variations.
- There is a positive view of the role of Non Executive Directors (NEDs) in establishing effective corporate governance practice; however, there was a clear indication that NEDs have insufficient time to properly fulfil their role. A significant minority were

also concerned that NEDs do not have the necessary financial or business skills to undertake the role effectively and there were a number of requests for more training in the feedback received.

- Whilst the responses to specific questions are useful to gauge current views, we also received excellent responses to the 'open' questions where respondents were invited to give their views on how awareness of corporate governance in the NHS could be raised and also to give examples of good practice. This feedback is included throughout this report in the relevant sections.

ACCA's conclusions

The survey has confirmed a strong understanding of corporate governance amongst leaders in NHS organisations, which is a very positive starting point for ongoing enhancement. Feedback also broadly supported the guidance issued to date to provide a framework for developing governance. The role of Non Executive Directors in establishing effective corporate governance practice was also clearly valued by all Board members.

A number of areas for further development were identified in the survey results, primarily concerning the need to consolidate the guidance available to minimise confusion and the need to enhance Board level skills and competencies. The latter point related particularly to the availability of financial and business skills amongst Non Executive Directors.

ACCA's recommendations to the Department of Health

ACCA recognises the importance of effective corporate governance in the Health as well as all other sectors. This was clearly reflected in our *Health Sector Manifesto*, which was launched in December 2006. The manifesto includes specific recommendations on governance.

A review of Board composition

For effective scrutiny, ability to meet increased demands and in the interest of early identification of risk, ACCA believes that all Boards should include one qualified legal and one qualified finance expert amongst their non-executive directors.

Information dissemination

The Department of Health should implement a rolling programme of update briefings for Boards, to keep members up to date with policy changes and their impact on their organisations. Policy Impact Assessments (PIAs) would help feed into this process.

ACCA Health Sector Manifesto

As a result of this survey, and building on the points already made in the *Health Sector Manifesto*, we recommend that:

- Consideration should be given to reviewing current guidance, with a view to producing a clear consolidated document to enhance existing publications. Board members should be involved in the development to ensure user ownership.
- Induction and ongoing training available to Board members should be evaluated to ensure that it is co-ordinated and effective.

ACCA Developments

- ACCA, in conjunction with the NHS Confederation, has developed an intensive two-day programme for all Board members to assist in achieving financial excellence for Boards. The course has been well received and offers a practical approach to equip Board members with the key skills that they need to effectively discharge their responsibilities.
- We will continue running the governance survey for the next two years to monitor improvements in understanding and practice within NHS organisations. Written reports will be produced each year to identify progress made and any new emerging issues. We will also use the outputs to influence policy makers and advise the NHS.

1. Introduction

Good governance is something that effective organisations in both public and private sectors strive for.

In the private sector, research by McKinsey & Company has shown that, whilst there are variances by country, over 80% of investors are willing to pay a premium for shares in a well governed company (three surveys undertaken in 1999 and 2000 and published in the McKinsey Quarterly 2000 Special Edition). In another article, investors in emerging markets claim to be willing to pay up to 30% more for shares in well governed companies (McKinsey Quarterly 2002 number 2). Well governed companies will have good internal controls which mitigate risk and enhance the prospects for corporate success, thus making the investment more attractive.

In the public sector, a significant proportion of public expenditure is spent in the NHS and it is important to all of us as users and taxpayers that the money is spent effectively on the provision of high quality services. "Good governance leads to good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes" (Sir Alan Langlands, Good Governance Standard for Public Services, 2004).

This research project was developed by ACCA, in collaboration with the Department of Health, as part of the Strategy agreed by its Health Service Network Panel during the 2006/07 financial year. The aim of the project was to identify current understanding of governance in the NHS at a time when the focus was not only on the continuous improvement of services but also on sound financial management to bring the overall NHS financial position back into balance.

Objective

The overall objective of the project is to gauge opinions held by key executive and non-executive officers, as those responsible for directing and controlling NHS organisations, towards the impact and effectiveness of governance initiatives on service improvement and financial management, now and in the following two years.

The project seeks to capture views over a period of three years, using a survey as the medium to communicate with participants. By monitoring over a number of years, we hope to identify trends and then to provide feedback on the effectiveness of initiatives such as Integrated Governance. The outputs from the survey will be published annually and should provide useful reference for NHS organisations and will support the work of policy makers at the Department of Health. Richard Douglas, Director General of Finance and Investment, is supportive of the project, which was developed in partnership with his office, and he encouraged NHS organisations to participate.

This document reports on the outputs from the first survey, which was sent to participants in March 2007. In developing the survey at this time, we recognised that the NHS had been subject to significant organisational change as a result of *Commissioning a Patient-led NHS* with a number of new Board members joining the newly merged Primary Care Trusts and Strategic Health Authorities. It was therefore considered to be a useful point to obtain a base line assessment of executive and non-executive officers' views.

1. Introduction

Definition of Corporate Governance

Corporate Governance was defined by the Cadbury Committee as:

*“The system by which an organisation is **directed and controlled**, at its most senior levels, in order to **achieve its objectives** and meet the necessary standards of **accountability and probity**”*

Cadbury Report, 1992

It is clear from this definition that corporate governance is not solely about introducing systems of control, it is fundamentally linked to *directing* the organisation in order to achieve *objectives*. This is critical to the success of the organisation and is a central part of the role of the Board.

The definition of corporate governance developed by the Cadbury Committee in the private sector has been considered and amended for the health sector, to reflect the relationship with the community, as:

“The systems and processes by which health bodies lead, direct and control their functions, in order to achieve organisational objectives and by which they relate to their partners and wider community.”

Audit Commission, Corporate Governance in Health Organisations, 2002

This was further reinforced with the definition of Integrated Governance included in the *Integrated Governance Handbook* issued by the Department of Health in 2006 as a good practice guide.

Integrated governance is defined as: ‘Systems, processes and behaviours by which trusts lead, direct and control their functions in order to achieve organisational objectives, safety and quality of service and in which they relate to patients and carers, the wider community and partner organisations’.

Department of Health - Integrated Governance Handbook, 2006

The NHS already has a significant number of mandatory arrangements in place for corporate governance, including:

- Standing Orders, Standing Financial Instructions, Reservation of Powers to the Board and Scheme of Delegation
- Requirement for a statutory Board
- Committee structure – key ones include Audit, Remuneration, Risk Management & Clinical Governance, Professional Executive Committee (for Primary Care Trusts)
- Line management
- Codes of conduct and accountability
- Business planning
- Procedural guidance for staff
- Risk register and assurance framework
- Internal audit
- External assurers including Healthcare Commission, external audit and Monitor

This framework has also been augmented by guidance published by bodies such as the Department of Health, Monitor and the Appointments Commission, to assist Boards in developing governance arrangements at their organisations. A full list is included in Appendix 3 – Bibliography.

Key pieces of recent guidance include *Governing the NHS – a guide for NHS Boards* (2003), the *Integrated Governance Handbook* (2006) and the *NHS Foundation Trust Code of Governance* (2006), whilst broader public sector guidance includes the *Good Governance Standard for Public Services* (2004). ACCA also launched its Health Manifesto in December 2006.

Whilst the current arrangements, as described above, give the opportunity to put in place an effective framework, there is the risk that too much focus will remain on the control environment rather than ensuring that the Board directs the organisation effectively to achieve its objectives.

2. Survey respondents

Survey documents were sent out to Chairs, Chief Executives, Directors of Finance and Audit Committee Chairs of all NHS organisations, together with a small group of associated Non Departmental Public Bodies, in March 2007. Over 200 responses were received from a broad cross section of responders; for those who identified the type of organisation that they work in, the data (as shown below in Table 1) demonstrated a breadth of coverage, with larger numbers coming from NHS Trusts and Primary Care Trusts (PCTs), which are the largest groups by volume.

TABLE 1
Respondents by organisation

	Response per cent	Response total
Strategic Health Authority	2.9%	6
Foundation Trust	12.3%	25
NHS Trust	30.6%	62
Mental Health Trust	7.9%	16
Primary Care Trust	25.1%	51
Other	7.4%	15
Not stated	13.8%	28
TOTAL	100%	203

There was also a breadth of responses from Executive and Non-Executive Board members (Table 2). It was disappointing that so few Audit Committee Chairs responded and we will assess how the surveys are issued for the next iteration.

TABLE 2
Respondents by post held

	Response percent	Response total
Chair	36.0%	73
Chair of Audit Committee	1.0%	2
Chief Executive	31.5%	64
Finance Director	15.3%	31
Not stated	16.2%	33
TOTAL	100%	203

The findings and outputs from the survey can be broken down into a number of subject areas, which are considered in more detail in the following sections.

3. Understanding corporate governance

What does governance mean?

The first section of the survey sought to gain an overview of respondents' understanding of corporate governance. The first question invited respondents to identify terms and phrases that they associate with corporate governance. The overall results are shown in Chart 1, below. Respondents demonstrated that they associate a broad range of terms and phrases with corporate governance, with most people including around 15 of the 23 terms provided in their response.

Of the 23 possible choices provided, there was a clear view that issues relating to control were the most important.

TABLE 3
Control (■ element in Chart 1)

Term or phrase	Percentage response
Accountability	92.2
Internal control	88.8
Risk management	87.7
Roles and responsibilities	72.6
Financial management	69.8
Reporting	54.7

It is also interesting to note that there is a strong association with the Cadbury definition of corporate governance, with accountability being the term most associated with respondents' understanding of corporate governance. This term was not included in the Audit Commission definition for the NHS.

Whilst the focus on control is encouraging, given the Board's responsibility for public money, it does not strongly show an understanding of the role of good governance in the organisation's *direction*. There is a critical role in the delivery of effective services to patients, which was recognised by a proportion of respondents (as shown in Table 4 below), but which could indicate a need for further training on Board effectiveness to build on the framework outlined in the *Integrated Governance Handbook* in order to ensure effective implementation.

TABLE 4
Service delivery (■ element in Chart 1)

Term or phrase	Percentage response
Protecting patients	67.0
Effective healthcare	54.2
Strategy	44.7
Objectives	44.7
Value for money	44.7

There is also a clear understanding that high ethical standards are a key part of corporate governance and therefore that behavioural aspects are important, as well as systems and processes. These 'people' elements do not always get the same level of focus and are essential components of good governance.

3. Understanding corporate governance

TABLE 5

Ethical values (■ element in Chart 1)

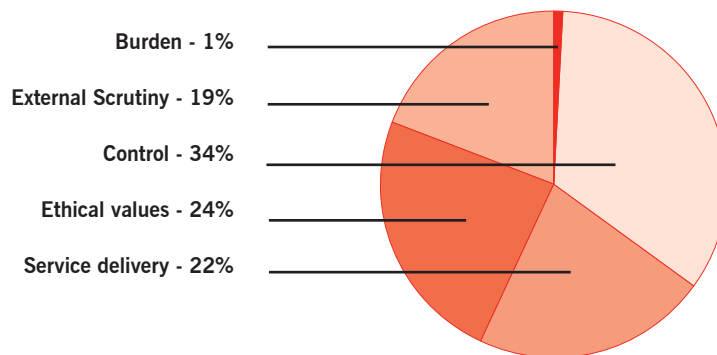
Term or phrase	Percentage response
Integrity	81.6
Transparency	74.3
Ethics	50.8
Independence	22.3

It is also encouraging to note that only a very small proportion of responses indicated that governance was viewed as a burden (2.8%) or a box ticking exercise (1.7%).

CHART 1

Analysis of the terms and phrases that respondents associate with 'corporate governance' (question 1)

Relative perceived importance of identified features of governance



What are the aims and benefits of introducing corporate governance to the NHS?

Building on this view, the next two questions in the survey sought to identify what respondents considered to be the government's main aims in introducing corporate governance to the NHS and what the main benefits had been.

The most important aim was considered to be 'to ensure effective management of public funds', with 51% placing it first in order of importance. Thirty-three per cent of respondents also considered this to be the main benefit; however, 36% felt that 'to provide internal as well as external accountability' was the most important benefit.

As with the first question, there was a less clear appreciation of the role of corporate governance in achieving objectives relating to the provision of effective healthcare and protecting patients.

Is there an appreciation of the value of corporate governance?

Respondents demonstrated a strong appreciation of the value of corporate governance, when asked to indicate how much they agreed or disagreed with the following statements, as shown in Table 6:

TABLE 6

An indication of the value of corporate governance (question 4)

	Agree strongly	Agree somewhat	Neither agree nor disagree	Disagree somewhat	Disagree strongly
Overall, I appreciate the value of corporate governance to the NHS	83%	17%	0%	0%	0%
Overall, my organisation appreciates the value of corporate governance	60%	34%	3%	3%	0%
Corporate governance guidelines will not prevent high profile scandals in the NHS	14%	63%	10%	13%	0%
Overall, my organisation spends too little time on the corporate governance process	2%	16%	12%	43%	27%
Overall, my organisation spends too much time on the corporate governance process	1%	9%	20%	41%	29%

3. Understanding corporate governance

Is corporate governance effective?

When asked about the effectiveness of corporate governance, respondents had a broader view encompassing more of what good governance can deliver in terms of outputs and benefits, rather than just focusing on control. The responses showed that the majority of respondents considered that good corporate governance practice had been very or somewhat effective in improving all of the suggested elements (see Table 7):

This encouraging response indicates a wider appreciation of the benefits of good corporate governance rather than a focus purely on control.

This is further reinforced by the response to the final question (question 6) in this series regarding current understanding, where 87 of the 178 respondents (49%) who answered the question felt that Board accountability is the most important aspect of corporate governance for their organisation.

We invited respondents to feed back examples of good corporate governance practice at their organisations. This elicited a number of ideas that could be used for further development, including those shown in Table 8.

TABLE 7

Effectiveness of corporate governance practice (question 5)

	Very effective	Somewhat effective	Somewhat ineffective	Completely ineffective	Don't know
Providing internal as well as external accountability	40%	52%	4%	1%	3%
Ensuring good business practice	18%	68%	11%	1%	2%
Effective management of public funds	9%	77%	12%	1%	1%
Improving organisational efficiency	9%	68%	19%	3%	1%
Protecting patients	9%	62%	21%	4%	4%
Contributing to the provision of effective healthcare	6%	60%	25%	3%	6%
Adding value	4%	50%	38%	5%	3%

TABLE 8

Examples of good practice from respondents

We have reviewed our governance structure and cut committees by 50%. We have also increased financial awareness across the organisation following a targeted campaign.

The creation of a single performance review group of the board brought together key issues of business planning sustainability and governance. The clinical governance structures have been reissued to reflect the single system working.

We have introduced a new governance framework that links all the strands of good governance. Corporate governance is not seen in isolation. We are using a model for this based loosely within the good governance standard for public services.

Corporate governance system, processes and procedures are reported to the Audit Committee and Board using good templates.

Building on these ideas, we contacted a number of organisations to try to identify whether further details could be provided as case studies to assist in the further development of good governance arrangements across NHS organisations.

Case study – structures and processes

Two years ago, at South Downs Health NHS Trust, risk management was viewed chiefly as the responsibility of the Director of Corporate Governance and the risk managers, but now, following the introduction of new structures and processes, it is being embedded throughout the Trust.

The first step in this process was to establish a single Integrated Governance Committee with responsibility for monitoring all Trust risk. The committee was formed by merging the Audit, Risk Management and Clinical Governance Committees. It is chaired by one of the Trust NEDs and NEDs form the membership. In addition, in attendance at each meeting, are representatives from internal and external audit, the Chief Executive, the Finance Director, the Director of Nursing and Governance, the Medical Director, the Head of Clinical Effectiveness, the Governance Manager and other Directors as required. Prior to the establishment of the committee, the chief executive of the internal audit consortium provided integrated governance preparation training to the NEDs and directors. This helped ensure all directors and NEDs see risk as their corporate responsibility. The minutes of the Integrated Governance Committee and the annual report on governance go to the Trust Board.

The Trust Board agrees the Trust's objectives before the start of the year. These objectives are linked to the standards for better health domains. The risk assessments of the objectives constitute the assurance map. The assurance map and the corporate risk register are taken

3. Understanding corporate governance

to the Governance Committee. The Governance Committee has an annual schedule of work which informs the agenda. At each meeting, the Committee also focuses on one particular area of risk. The Trust employee responsible for managing that risk is asked to attend the meeting to discuss the key issues.

The Trust has been working to embed risk management and standards for better health through the organisation. There is an ongoing risk management training programme for managers and risk assessors and there is enhanced use of an electronic risk register. Individuals are given responsibility for uploading risk assessments and action plans onto the directorate risk registers. The Trust risk manager manages the corporate risk register and assurance map.

The Governance Committee oversees the assurance process for standards for better health. A domain report goes to each Board meeting and the Board signs off the final declaration, as detailed on the annual schedule of work for the Board. Domain, Standard and Element owners have been identified and given responsibility for uploading the evidence and action plans relating to their particular areas onto the electronic performance management tool that the Trust has installed. This tool is used for all action plans, business plans, audits and standards for better health evidence and action plans. The system notes the timetables detailed on the action plans and sends automatic reminder emails to the relevant person when an action is due.

These steps have helped embed risk management throughout the organisation and to change the way it is now perceived; it is no longer seen as the sole responsibility of one director but as a corporate responsibility. The Trust accepts that there are still a few challenges ahead (in particular ensuring that the Integrated Governance Committee does not lose the clinical focus and that standards for better health are embedded throughout the organisation) but it is proud of the achievements it has made to date.

Karen Swirsky, Governance Manager, South Downs Health NHS Trust

ACCA'S view

We consider that there is an opportunity for NHS organisations to learn from good practice elsewhere, to reduce the potential for 're-inventing the wheel'. This could be incorporated into enhanced guidance for the NHS, which is an area that is covered in more detail in the next section of this report.

4. Guidance issues

As well as gaining an appreciation of current understanding of corporate governance in the NHS, the survey sought to identify whether the guidance issued had been useful in the development of governance arrangements.

Integrated Governance Handbook

The Department of Health issued the *Integrated Governance Handbook* in 2006. This good practice guide (rather than mandatory instruction) is the most recent element in the framework set up to assist in the development of effective NHS organisations. It was encouraging that only 7.8% (14 of the 170 respondents to this question) were not aware of the Handbook. However, within this percentage were 6 Chief Executives and 7 Chairs, which could indicate that the communication to raise awareness of the Handbook and its potential benefits has not been effective.

Only 11 of the 164 respondents to question 8 '*What action have you taken to prepare for Integrated Governance?*' confirmed that the organisation is not implementing the Handbook at this time. Five of these came from Foundation Trusts, who could, perhaps, have elected to follow guidance issued by Monitor instead.

Effectiveness of guidance

From analysis of earlier questions, we have established that respondents have a shared understanding of corporate governance and its potential benefits. We also sought to ascertain whether the guidance currently provided to the NHS is effective.

It was encouraging to note that the responses to questions on this area were very positive, with respondents confirming that the guidance has helped to provide internal and external accountability and to ensure effective management of public funds (see Table 9 below).

4. Guidance issues

TABLE 9

Effectiveness of NHS guidance (question 8)

	Agree strongly	Agree somewhat	Neither agree nor disagree	Disagree somewhat	Disagree strongly
The guidance helps to provide internal as well as external accountability	39%	53%	7%	1%	0%
The guidance helps to ensure effective management of public funds	26%	64%	8%	1%	1%
The guidance helps to ensure good business practice	26%	57%	15%	1%	1%
The guidance encourages effective healthcare	12%	61%	23%	3%	1%
It would be easier for my organisation to perform well if the guidance encouraged good practice, rather than compliance with checklists	25%	36%	28%	9%	2%
The guidance helps to protect patients	12%	51%	34%	2%	1%

However, there is less consensus when respondents were asked if the guidance helps to ensure good business practice, encourages effective healthcare and helps to protect patients. An increasing proportion of respondents neither agreed nor disagreed that the current guidance helped with these outcomes, which suggests that the guidance is not yet fully meeting the needs of NHS organisations.

Whilst 61% of respondents agreed that it would be easier for their organisation to perform well if the guidance encouraged good practice, rather than compliance with checklists, it is not so clear whether the guidance has been successful in this regard and the commentary provided by a number of respondents, as shown in Table 10, suggests that there is still a need for an overarching strategic document that is understandable to users, which the *Integrated Governance Handbook* appears not to have delivered.

TABLE 10**Comments on guidance and suggestions for improvement from respondents**

Examples of good integrated governance reporting structures would be helpful; many organisations are restructuring reporting mechanisms and this would save time and effort contacting other organisations.

Too many people are approaching the issue from too many viewpoints. As well as the *Integrated Governance Handbook* there is the integrated commissioning board, all good stuff but not co-ordinated.

Awareness of corporate governance is high in the NHS. Key messages, however, could be gathered together and simplified - there are too many documents rather than a strategic holistic view being taken.

Better explanation of corporate governance and clinical governance, risk management and integrated governance.(i.e. people are confused).

A conceptual framework is needed showing how the various strands hang together. Also it would help to have some evidence base that all of the red tape is necessary.

I feel we are reaching saturation point with all the information and guidance we are given on “Integrated Governance”. As an aspiring FT we have been given guidance from DoH, Monitor and the Audit Commission to name but a few. I think awareness needs to be raised and maintained at a high level in a coordinated way by all the organisations involved in monitoring the governance process and outcomes.

It is sometimes hard to see how all of the different strands of corporate governance fit together e.g. Audit Commission ALE / Healthcare Commission annual health check / NHSLA & CNST / clinical governance / assurance framework. We could do with stepping back and looking at the whole.

There needs to be a “de-mystification” of what corporate governance means at lay person level; an outline of what it will do and equally importantly an outline of what it won't do; expectations and realities need to be aligned. More guidance than prescription is published and this allows variance due to significant ranges of interpretation; compounded by public perception. There needs to be good communication and greater clarity.

4. Guidance issues

Again, we sought to obtain case studies where more commentary was provided and another example is included below:

Case study – Embedding integrated governance

Devolution of responsibility combined with a strong clinical focus has enabled Norfolk and Waveney MH Partnership NHS Trust to embed integrated governance across the whole organisation.

The Trust has set up local governance groups in each area (both clinical and non-clinical) of the Trust. Each of these groups is charged with monitoring local risks and overseeing delivery of the related risk action plans.

The groups are attended by the Deputy Director of Governance. She chairs a weekly meeting to help guide staff through the risk assessment process, to ensure staff properly understand the risk assessment process and to encourage a consistent approach to risk across the organisation.

Each risk identified by the local governance groups is assessed using the National Patient Safety Agency 5 x 5 matrix. This assigns a score where the higher the score, the greater the risk. All risks with a score of 8 or more are reported to the Audit and Risk Committee and all risks with a score of 15 or more are reported directly to the Trust board. This process acts as a filter, ensuring that only risks of most concern reach the board. Each local governance group is required to give a monthly update on its risks

rated 8 or more; if the monthly update is not returned or there are concerns about the return the Locality Manager is requested to attend the Audit and Risk Committee and provide an explanation.

The Trust has instilled a strong clinical focus across the organisation and this has helped encourage a more joined-up approach to risk assessment. For example, whenever a Trust vacancy occurs, the decision on when and whether to fill the post is based on a risk assessment that takes account of both affordability and service/clinical risks. Vacant posts can also be role re-designed to ensure clinical needs are met.

By setting up local governance groups and by instilling a strong clinical focus across the organisation Norfolk and Waveney MH Partnership NHS Trust has successfully managed to embed integrated governance throughout the organisation. The Trust is now building on its success by installing an electronic Board Assurance Framework. This will record the organisation's annual objectives, ALE, Standards for Better Health etc, thereby ensuring that all the necessary assurance evidence is collected in one place and eliminating any possibility of contradictory data. Once fully operational the Trust will have an integrated, systematic method of looking at assurance that ensures transparency and is in line with 'The Intelligent Board'.

Laura Mouland, Deputy Director of Governance,
Norfolk and Waveney MH Partnership NHS Trust

The subsequent question, regarding the volume of guidance issued by the Department of Health, identified that 18.6% of the respondents considered that too much guidance had been issued and 9% felt that there was too little.

This could well indicate that Boards' needs might be more effectively met through clearer principles based guidance that improves understanding rather than a more compliance-based approach.

The feeling of 'information overload' and the difficulties faced by Board members in identifying key information on which to base decisions formed a key driver for the development of Assurance Frameworks as the main tool for identifying risks to the achievement of objectives, controls in place to manage those risks and the assurances being received to confirm that the controls are working and the risks mitigated. NHS organisations are reviewed by a broad range of regulators and other assurers (over 160 external bodies have been identified) and therefore a tool to help Boards collate and prioritise this information is essential.

Whilst we did not specifically examine whether Assurance Frameworks are working effectively in this survey, the feedback would suggest that there is further scope for development.

ACCA'S view

We consider that enhanced guidance for the NHS is required to assist in addressing the confusion that has been identified by this survey. This guidance could augment the training for Board members that has already been developed.

5. Compliance with standards for better health

The Healthcare Commission monitors NHS organisations against the Standards for Better Health issued by the Department of Health using their Annual Health Check process. The Standards cover seven Domains, of which one is governance. The survey asked *'were your existing governance arrangements sufficient to enable compliance with the core Standards for Better Health monitored by the Healthcare Commission?'* Whilst 113 of the 177 respondents who answered this question confirmed that this was the case, a further 40 (23%) stated that the arrangements were not sufficient and 18 (11%) did not know.

Whilst there were no subsequent questions to explore why this was the case, it is of concern that so many respondents did not see a clear linkage between their own governance arrangements and their ability to confirm compliance with the Standards, particularly as all respondents were Board members. This could demonstrate a silo approach rather than viewing governance as the overarching means for directing and controlling the organisation and the achievement of its objectives.

It was also of concern that the largest group of respondents who answered negatively were Chief Executives, who as Accountable Officers are charged with ensuring appropriate arrangements are in place and formally reviewed before signing the Statement on Internal Control. Only 55% were able to confirm that existing arrangements were sufficient. We consider that these results merit further investigation and will explore them further in subsequent surveys.

Annual Health Check results for 2006/07 have not been issued yet, but in reviewing the Healthcare Commission's commentary on the 2005/06 results and on the 2006/07 declarations from NHS organisations, no specific concerns were raised about compliance levels within the governance domain that cross-reference to the issues raised in this survey.

6. Role of non executive directors

Background to the role

Boards in NHS organisations are made up of Executive and Non Executive Directors, who jointly direct and control the organisation through whole Board working as well as having specific roles and responsibilities.

The key responsibilities for Non Executive Directors (NEDs), who should be drawn from the local community, have been defined by the Appointments Commission as:

- Helping to plan for the future to improve healthcare services
- Making sure that the management team meets its performance targets
- Making sure that the finances of the organisation are managed properly with accurate information
- Helping the Board to be sure that it is working in the public interest and keeps its patients and the public properly informed
- Serving on important board committees

Their guidance also recommends that NEDs should spend 2.5 days per month on their role and that Boards need a range of skills and experience among their NEDs in order to fully reflect the communities they serve. This range includes finance, governance, strategic planning, commercial management, voluntary or community roles and professional areas related to the organisation.

Recognition of the role

The survey included a question on the role of NEDs, which confirmed that the majority of respondents (161 out of 169 answering the question) agreed that NEDs play an important role in establishing effective corporate governance practice in the organisation, recognising the benefits of effective, constructive challenge within the Board.

Time availability

Two thirds of respondents considered that NEDs have insufficient time available to properly fulfil their role. This was evenly spread across Executive Director respondents as well as NEDs and recognises the difficult balance that is required.

Given the responsibilities as defined above, with attendance at Board and committee meetings as well as time to understand the organisation in order to constructively challenge executive decision making, there is little scope for additional involvement within the recommended timescales.

There was clear feedback from respondents that more effective training would be appreciated, with examples shown in Table 11.

6. Role of non executive directors

TABLE 11

Training requirements

A regular programme for non-executives to attend and develop their knowledge and expertise further. Sadly when things go badly wrong there is often a greater importance to secure engagement and improved performance.

All training on corporate governance to explicitly include executive directors/non-executive directors and PEC Chairs.

More accessible induction training for non-executives, senior managers, especially electronic to avoid waiting for courses. Networking for non executives is helpful too.

Minimum standards of induction for all board members across all trusts...Minimum coverage should include Standards for Better Health and criteria laid down by the Auditor's Local Evaluation (ALE) standards in internal control.

Properly structured induction for all board members when they join the board, not just for non executives. The executives need to understand the board constitution and the responsibilities required for corporate governance to become instilled throughout the organisation.

Knowledge levels

Whilst the majority of respondents considered that appropriate knowledge and skills were available in current NEDs, a relatively large minority were concerned about gaps.

Financial knowledge

Nearly one third of the respondents considered that NEDs in the NHS do not have the necessary financial knowledge to undertake the role. This view was held more strongly by Executive Directors, with 45% of Finance Directors and 39% of Chief Executives concurring with this opinion.

Business Knowledge

Nearly a quarter of the respondents considered that NEDs do not have the necessary business knowledge. Again this view was held more strongly by Executive Directors, with 26% of Finance Directors and 32% of Chief Executives concurring with this opinion.

It is recognised that the pool of skills available may not always include all requirements, when the need for local representation is also required. It is interesting to note that respondents from Foundation Trusts were more confident than other organisations on these issues.

ACCA's view

The issues highlighted relating to Non Executive Directors reinforces our recommendations made in ACCA's *Health Sector Manifesto*, launched in December 2006. Governance and Board capability was one of the five key areas where specific recommendations were made, these being:

A review of Board composition

For effective scrutiny, ability to meet increased demands and in the interest of early identification of risk, ACCA believes that all Boards should include one qualified legal and one qualified finance expert amongst their non-executive directors.

Information dissemination

The Department of Health should implement a rolling programme of update briefings for Boards, to keep members up to date with policy changes and their impact on their organisations. Policy Impact Assessments (PIAs) would help feed into this process.

ACCA's Health Sector Manifesto

In addition, recommendations were made relating to financial management that included:

*A move to a culture of shared responsibility
Cultural change should accompany wider reforms.
Implementation of most new initiatives falls on the finance function, but it is critical that responsibility for health organisations' performance is shared across the Board, both executive and non-executive directors – not deposited solely at the door of the Finance Director. Until all Board members are confident in their ability to read and interpret the key financial statements, understand how these relate to the past and future performance of their organisation and understand the likely financial impact and associated risks of new initiatives, there cannot be collective ownership for health organisations' performance.*

*Cross-Board training programme
Good financial management will only become embedded within the organisation when all managers, throughout the organisation, are fully aware of the financial implications of their decision-making. In many organisations there is a need to improve financial literacy and to foster a greater sense of responsibility and collective ownership of financial issues. There is a need to improve financial and commercial awareness initially across the Board and then throughout the organisation. This should be taught as part of a cross-Board training programme.*

ACCA's Health Sector Manifesto

The survey results demonstrate that the issues identified in the *Health Sector Manifesto* are still relevant and valid and we would recommend that they are addressed.

7. Conclusion

This project was developed to identify current understanding of corporate governance in the NHS and, through repeated use of a survey, to monitor trends and developments in that understanding.

The initial survey results confirm that there is a clear understanding of corporate governance amongst Board members in the NHS and that understanding is primarily focused on controlling those organisations rather than directing them.

Whilst respondents largely supported the guidance issued by the Department of Health (and others), there was still a considerable amount of confusion, together with gaps in knowledge that suggest the need for a more effective, overarching guidance document.

The majority of respondents confirmed that their existing governance arrangements were sufficient to enable compliance with the core Standards for Better Health (published by the Department of Health as the mandatory minimum for NHS organisations and monitored by the Healthcare Commission). However, a third of respondents considered that arrangements were insufficient or they did not know. Again, more effective guidance could improve this situation.

Non Executive Directors (NEDs) are clearly viewed as playing an important role in establishing effective corporate governance practice in NHS organisations. There were, however, concerns that NEDs have insufficient time to properly fulfil their role and that the necessary levels of financial or business knowledge were not always available.

ACCA's recommendations

1. Our recommendations in the *Health Sector Manifesto* are still valid and should be implemented.
2. *A clear, consolidated guide that is useful to all users, but that recognises organisational variations, should be produced to enhance existing publications.*
3. *Induction and ongoing training available to Board members should be evaluated to ensure that it is co-ordinated and effective and enhanced to meet members' needs more effectively, where necessary.*

ACCA's contribution

ACCA recognises the importance of good governance and to this end has developed an intensive, practical two-day training programme with the NHS Confederation, aimed at equipping individuals on Boards with the key skills that they need to effectively discharge their responsibilities. The programme is being run on a number of dates in 2007.

Further governance surveys will be undertaken in 2008 and 2009, with the results being published in follow-up reports to this publication, to monitor trends and identify any additional action that is required to continue to develop good governance practice in the NHS. The outputs will also be used to influence policy makers and advise the NHS.

Appendix 1

SURVEY QUESTIONNAIRE

1. Here is a list of words and phrases that other people have used to describe their understanding of the term 'corporate governance'. Which of these do you associate with the term 'corporate governance'?

(PLEASE TICK AS MANY AS APPLY)

- | | | |
|---|---|--|
| Value for money <input type="checkbox"/> | Roles & responsibilities <input type="checkbox"/> | Best practice <input type="checkbox"/> |
| Reporting <input type="checkbox"/> | Protecting patients <input type="checkbox"/> | External scrutiny <input type="checkbox"/> |
| Independence <input type="checkbox"/> | Financial management <input type="checkbox"/> | Integrity <input type="checkbox"/> |
| Internal control <input type="checkbox"/> | Effective healthcare <input type="checkbox"/> | Ethics <input type="checkbox"/> |
| Burden <input type="checkbox"/> | Transparency <input type="checkbox"/> | Stakeholders <input type="checkbox"/> |
| Objectives <input type="checkbox"/> | Risk management <input type="checkbox"/> | Strategy <input type="checkbox"/> |
| Accountability <input type="checkbox"/> | Box-ticking <input type="checkbox"/> | Improve organisational efficiency <input type="checkbox"/> |
| None of these <input type="checkbox"/> | Don't know <input type="checkbox"/> | |

2. In your opinion, what have been *the Government's main aims* in introducing corporate governance to the NHS? (Please rank all in order of importance, where one is most important)

I BELIEVE THE GOVERNMENT'S MAIN AIMS IN INTRODUCING CORPORATE GOVERNANCE HAVE BEEN

- | | |
|---|---|
| To ensure effective management of public funds <input type="checkbox"/> | To ensure good business practice <input type="checkbox"/> |
| To add value <input type="checkbox"/> | To contribute to the provision of effective healthcare <input type="checkbox"/> |
| To provide internal as well as external accountability <input type="checkbox"/> | Other – please specify <input type="checkbox"/> |
| To protect patients <input type="checkbox"/> | |
-

3. In your opinion, what have been *the main benefits to the NHS* through the introduction of corporate governance? (Please rank all in order of importance, where one is most important)

I BELIEVE THE MAIN BENEFITS OF CORPORATE GOVERNANCE TO THE NHS HAVE BEEN

- | | |
|---|---|
| To ensure effective management of public funds <input type="checkbox"/> | To ensure good business practice <input type="checkbox"/> |
| To add value <input type="checkbox"/> | To provide internal as well as external accountability <input type="checkbox"/> |
| To contribute to the provision of effective healthcare <input type="checkbox"/> | To protect patients <input type="checkbox"/> |
| Other – please specify <input type="checkbox"/> | |
-

4. Please indicate how much you agree or disagree with the following statements:

	Agree strongly	Agree somewhat	Neither agree nor disagree	Disagree somewhat	Disagree strongly
Overall, I appreciate the value of corporate governance to the NHS	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate governance guidelines will not prevent high profile scandals in the NHS	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Overall, my organisation appreciates the value of corporate governance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Overall, my organisation spends too little time on the corporate governance process	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Overall, my organisation spends too much time on the corporate governance process	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5. How effective do you think that good corporate governance practice has been in improving each of the following in the NHS?

	Very effective	Somewhat effective	Somewhat ineffective	Completely ineffective	Don't know
The effectiveness of corporate governance in improving...					
the effective management of public funds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
improving organisational efficiency adding value	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ensuring good business practice	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
providing internal as well as external accountability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
contributing to the provision of effective healthcare	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
protecting patients	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
other please specify	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**6. In your view, which ONE of these aspects of corporate governance is MOST important to your organisation?
(PLEASE TICK ONE ONLY)**

Board accountability	<input type="checkbox"/>	The risk management process	<input type="checkbox"/>
Composition of the board	<input type="checkbox"/>	Relationship with stakeholders	<input type="checkbox"/>
Board performance	<input type="checkbox"/>	Disclosure	<input type="checkbox"/>
The effectiveness of the audit committee	<input type="checkbox"/>	None of these	<input type="checkbox"/>
Don't know	<input type="checkbox"/>		

**7. Are you aware of the Integrated Governance Handbook 2006?
(If you answer no, then please go to question 9)**

Yes No

8. What action have you taken to prepare for Integrated Governance?

We are fully adopting best practice as per the Integrated Governance Handbook	<input type="checkbox"/>	We have started to implement best practice as per the Integrated Governance Handbook	<input type="checkbox"/>
We are not implementing Integrated Governance as per the Handbook at this time	<input type="checkbox"/>	Don't know	<input type="checkbox"/>

9. Please indicate how much you agree or disagree with the following statements about the current NHS guidance on corporate governance?

	Agree strongly	Agree somewhat	Neither agree nor disagree	Disagree somewhat	Disagree strongly
The guidance encourages effective healthcare	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The guidance helps to ensure effective management of public funds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The guidance helps to ensure good business practice	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The guidance helps to provide internal as well as external accountability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The guidance helps to protect patients	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
It would be easier for my organisation to perform well if the guidance encouraged good practice, rather than compliance with checklists	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

10. Do you think that the Department of Health has produced:

Too much guidance on governance Sufficient guidance on governance
 Too little guidance on governance

11. Were your existing governance arrangements sufficient to enable compliance with the core *Standards for Better Health* monitored by the Healthcare Commission?

Yes No Don't know

12. Please indicate the extent to which you agree or disagree with each of the following statements about non-executive directors in your organisation:

	Agree strongly	Agree somewhat	Neither agree nor disagree	Disagree somewhat	Disagree strongly
Non-executive directors play an important role in establishing effective corporate governance practice in my organisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Non-executive directors play an important role in my organisation's effectiveness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Non-executive directors bring objectivity and integrity to my organisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The role of the non-executive director in the NHS is more challenging than it was three years ago	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
In general, NHS non-executive directors have insufficient time available to properly fulfil their role	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
In general, non-executive directors in the NHS find it difficult to understand NHS policy issues (priorities / targets)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
In general, non-executive directors in the NHS do not have the necessary business knowledge to undertake the role	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
In general, non-executive directors in the NHS do not have the necessary financial knowledge to undertake the role	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
In general non-executive directors make a valuable contribution to the audit committee	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

13. If you believe that awareness in the NHS of corporate governance could be raised, and have any ideas on how this could be achieved effectively, please would you briefly describe them here?

14. If you have any examples of good practice relating to corporate governance in the NHS that can be shared with other NHS organisations, please would you provide a brief description here?

ABOUT YOU & YOUR ORGANISATION

A. What is your role in the organisation?
(Please tick ONE only)

- Chair
- Non-executive director
- Chair of Audit Committee
- Chief Executive
- Finance Director
- Other

B. What sort of organisation do you work in?
(Please tick ONE only)

- SHA
- Foundation Trust
- NHS Trust
- MH Trust
- PCT
- Other

Appendix 2

ABOUT ACCA

ACCA (the Association of Chartered Certified Accountants) is the largest and fastest-growing global professional accountancy body with 296,000 students and 115,000 members in 170 countries. We aim to offer first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We deliver our qualifications in partnership with many organisations. We operate 18 joint examination schemes with national bodies around the world and work closely with 470 registered tuition providers and 8,400 employers of accountants and finance professionals. We aim to support our students and members throughout their careers, delivering services through a network of nearly 80 offices and centres.

We use our expertise and experience to work with governments, donor agencies and professional bodies to develop the accounting profession. We aim to achieve and promote the highest professional, ethical and governance standards and advance the public interest.

ACCA's reputation is grounded in over 100 years of providing accounting and financial qualifications. Our long traditions are complemented by modern thinking, backed by a young, dynamic membership.

ACCA UK has six employment-based members' networks: Financial Services, Corporate Sector, Public Sector, Health Service, Internal Auditing and Practitioners. These networks aim to provide sector-specific support to members. Each network (except Practitioners') organises a programme of free events. All produce in-depth quarterly magazines that aim to discuss issues pertinent to the sector. The networks also advise on ideas for support services which could include membership facilities, publications or partnerships.

The Health Sector Network, through its elected Panel of nine members, develops an annual strategy (based on ACCA UK's strategic imperatives) to support members in the Health Sector. As a provider of healthcare finance professionals, ACCA and our members can also give valuable support and recommendations to policy-makers, to help them meet the ever-increasing challenge of meeting healthcare demands and achieving better value from healthcare resources.

In December 2006, then Health Minister Lord Warner launched ACCA's health sector manifesto, *'Accounting for the nation's health'*. The manifesto addresses the Government's major health policy initiatives and offers a series of recommendations, in the areas of financial management; payment by results (PbR); governance and board capability; technological innovation and practice-based commissioning. The manifesto is available to download at www.accaglobal.com/policy

Given our global expertise, we also work in collaboration with many governments and health sector organisations. We have forged constructive working relationships with key health sector organisations, including, in the UK, the Department of Health, the British Medical Association (BMA), the NHS Institute for Innovation and Improvement, the Healthcare Financial Management Association, the NHS Confederation, and Monitor, the independent regulator of Foundation Trusts. In the EU arena, at the request of the European Commission, we have conducted a number of studies in EU Member States assessing the economic impact of eHealth initiatives and have addressed high-level Ministerial conferences and contributed to debates in the European Parliament. Internationally, we have examined specific areas of health systems beyond the EU, including the use of the Payment by Results funding system in Singapore and Australia, health demand management systems in the US and the Chinese healthcare system.

Appendix 3

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Appendix 4

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