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A Critical Analysis of the Development of the Roles and Responsibilities of the UK Audit Committee for Effective and Good Governance

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Abstract: *The main purpose of this research is to identify the responsibilities and roles of the UK audit committee on the effectiveness of Foundation Trusts (FTs) in the UK, as it relates to good and effective governance. The study is exploratory and explanatory in nature. The study is motivated by the dearth of empirical studies as compared to the private sector. The conflicting and complex nature of the accounting expectations underscores the constraint on how the corporate administration mechanism contributes to the effectiveness and efficiency of the public sector performance. The findings show that the audit committee's functions are effective, although still developing and with some challenges. It was recommended that more intensive training programs should be organized for associates of the audit commission; Auditors must be more professional in carrying out their duties, with ethical considerations, encourage cordial relationship with the management, and a more frequent interaction with the management of Foundation Trust (FTs) in order to develop reliable and quality accounting reports.*

Keywords: UK audit committee, corporate governance code, corporate governance, foundation trust

INTRODUCTION

Inaccurate financial information possesses the potential to ruin a company and damage its reputation and goodwill. This is one major reason the responsibilities and roles of the UK audit committee cannot be overemphasized when it comes to effective and efficient corporate governance. As a case study, Foundation Trusts are semi-autonomous organisations, with a degree of autonomy from the Health and Social Care Department, which operate within the UK National Health Service (NHS). There were 151 Foundation Trusts (FTs) as at 2019 (see Appendix A for list of Foundation Trusts). The UK audit committee is anticipated to provide the essential and relevant review process in order to build both local and foreign investor's confidence. It is also necessary for a sound corporate administration and to enable top management focus its attention on the review process as a check, so that the credibility of the financial statements can be ensured (Zhou and Maggina, 2018). UK Corporate Governance Code exists for the UK organisations to own an audit administrative body, and the services of the external auditors are still much needed by the public organisations. The financial reports of public organisations were lacking consistency and credibility which made the Institute of Chartered Accountants of England declared an audit plans be carried out in order to know the standards that were adopted to analyse the financial statements whether they comply with the IFRS or GAAP accounting principles.

This project provides a deep understanding of the major changes in the UK auditor administrative body to monitor the financial matters, the risks, and the issues of sustainability (Bravo and Alvarado, 2019). Rising level of corruption have been responsible for the collapse of major corporations and also as an indicator of weak and poor governance. To this light, there is great need for transparency and accountability to shield and restore stakeholders and investors' confidence in the UK health sector. (Glaum et al., 2004; Fearnley and Beattie, 2004). The roles of the governments of the Western world have come up with relevant initiatives like the UK Combined Code and the Sarbanes Oxley Act (SOX) (2002) (FRC, 2003), which explicitly state and make governance mechanisms to assist boards of directors and stakeholders of different organisations to promote effective and efficient management of firms and avert possible liquidation. For instance, the study carried out by Fichtner (2010) revealed the collapse of Enron Corporation, a company with great and unbelievable heights with a share worth of $90.75, but only to slide abruptly and declared bankrupt on 2 Dec., 2001, trading at just $0.26. One unbelievable question was how its management was able to deceive regulators with false holdings and accounting statements and practices. Enron was able to hide its huge debts and 'poisonous' assets from both creditors and investors alike due to the weakness and inefficiency of the audit committee practice in the United States. The study of Rustam et al. (2013) revealed that current corporate use of scandals that have given birth to the corporate governance guidelines that explicitly states the functions and responsibilities of the UK audit committee. However, the expectations surrounding audit committees in the UK are quite enormous because their effectiveness and efficiency will not only encourage investment but will also lead to the growth and development of the health sector and the country at large. The study of Okpara (2011), for example, found series of bottlenecks that hinder the promotion and implementation of corporate governance in Nigeria, which include non-existent and weak institutions like weak law enforcement framework and the absence of disclosure and transparency. This has led to adverse effects on their practice and effectiveness as a mechanism of corporate governance.

Statement of Research Problems

This research is actuated by the dearth of empirical survey of the governance structure of the UK public sector as compared to private sector corporate governance research (Broadbent and Guthrie, 2008). The issues of the UK public sector corporate governance go further than that of the private sector. The stewardship of UK state-supported funds is prioritised and due process requirements only mean that transparency surpasses the requirements of the corporate sector. Furthermore, the UK health sector, with about 151 Foundation Trusts, exhibit a complex and some elements of bureaucratic practices which do not encourage efficiency and effectiveness in discharging their responsibilities given the interest of the various shareholders with changing and conflicting but legal financial expectations (Evans and Freeman, 1990). The conflicting and complex structures, requirements and processes in the UK public sector and the dearth of studies in the development of the roles and responsibilities of the UK audit committee for effective and good governance is a motivation to carry out this study and consequently, creating a gap for further study (Pollitt, 2011). However, most of the few studies that exist about the audit committee in the UK public sector context had explained why the UK public sector audit committees exist in different structures and forms, primarily for their efficiency and effectiveness (Boardsource, 2010), However, few studies exist about the structure of the UK audit committee and its broad responsibilities. Besides, there exist few studies on the UK audit committee roles and responsibilities of Foundation Trusts, which is also a motivation for this study.

Objectives of the Research Study

This research aims to investigate the structural framework of the UK audit committee's responsibilities, roles and development in the UK health sector using Foundation Trusts (FTs) as a case study, as it relates to good and effective governance. The study adopted an approach that is based on Institutional Theory (IT). The approach explains how the Audit Committees (ACs) have come to be adoptive into public sector organizations through the Corporate Governance Code implementation that was derived from the successive UK Cadbury Code. The specific objectives include to:

(i) examine the responsibilities and roles for UK audit committee on the effectiveness of corporate organisations in the UK.

(i) ascertain the strategies and policies employed by the UK audit committee in achieving its aims and objectives as it relates to good and effective governance.

Research Questions

The study develops two research questions as follows:

(i) What is the composition including appointment, size and membership of Foundation Trusts (FTs) as it relates to good and effective governance?

(ii) How have the roles and works of the audit committee developed in Foundation Trusts (FTs) as it relates to good and effective governance?

Justification of the Research study

This research deliberately investigates how and why the UK audit committee has developed in a public sector framework. The NHS Foundation Trusts (FTs), within health, represents a good sample of adopting the NPM techniques to the UK public sector. The NHS Foundation Trusts (FTs) came into existence and set up as an independent and separate legal entity. With a centralised top-down direction structure, the UK corporate governing body structure and model is similar to a private sector corporate governance model. Their board of politicians are elected by associate of the Foundation Trusts (FTs) of who is part of those serving in the audit committee.

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

The research carried out by Lubna (2018) opined that the audit committee are responsible for carrying out crucial roles that could encourage growth of the business environment through the quality, effectiveness and efficiency of its services. Furthermore, it is also the obligation of the audit committees to nurture an environment that could widen the transparency of corporate organisations in terms of honesty and fairness between the auditors and the management. Additionally, the important purpose of the UK audit administrative body is to carry out effective and efficient supervision of the financial processes of public organisations regarding the preparation and reporting of all financial related matters. (Rustam et al, 2013). Since 1940, the UK Securities and Exchange Commission (SEC) has noted the significance of the audit committee which means that it can serve in a beneficial way and will eventually be relevant in their roles of guaranteeing public listed corporations in the financial sector. (Saunders et al, 2009).

The UK Corporate Governance Code

The United Kingdom Corporate Governance Code was initially called the Combined Code which actually set out sets the needed standards of good, efficient and effective practice for companies that are listed in the UK stock exchange, on board composition and development, shareholders relations, remuneration, audit and accountability. The UK Corporate Governance Code, published in July 2018 is helpful for the future growth of the Financial Reporting Council (FRC) and is applicable to accounting periods starting on or after January 1st 2019. The Code places greater emphasis on relationships that exist among stakeholders, shareholders and companies (Suchan, 2004). The Code also stresses and encourages the need of formulating a firm culture that aligns with the growing business activities and used strategies, promotes integrity, company purpose and values diversity (Christopher, 2012). To show how companies have applied the code, the List Rules requires institutions with a Premium Listing of asset shares in the UK to report in their yearly report. It is very important for the group with clear and meaningful explanation to choose for the growth of the company. With the help of these provisions, companies and their stakeholders are able to complete their approaches and make explanation for the growth of poor corporate governance. With the major impact and growth in the basic activities, effective changes are necessary for comprehensive plans to achieve good and effective corporate governance in UK. This is related to the Financial Reporting Council (FRC) which provides relevant information for promoting high quality financial activities which is a prerequisite for good and effective corporative governance.

The UK Corporate Governance Code reports corporate outcomes and carry out the application of the principles of the code. Companies are expected to disclose their level of compliance with these codes or provide explanations that are relevant to their individual company circumstances. Corporate governance practices and policies coupled with a high level of transparency can result to improved levels of trust on the part of the shareholders. Investors will be encouraged to take a more considered view of the governance of the company, especially where relevant explanations have been provided (Stewart, 2006). The explanations should be more explicit about the company that is fulfilling the necessary principle of the Code and to check if the statistics from its results are time bound. Normally, explanations should be adequately inundated to meet all the needs of the company's shareholders (Iriyadi, 2019). For instance, the FRC announced comprehensive plans, in February 2017, in the United Kingdom Corporate Governance Code, for the growth of public organisations and make systematic balance between the Provisions and Principles of all corporate administration frameworks. All of these provisions are relevant for generating effective growth and make collective changes for the long term success in the company. There are different sectors and growth in major sectors which these provisions and principles have aided in making rational decision and enhanced business performance. The supporting principles for the entrepreneurial changes and leadership have their own access and framework for prudent and effective control on the growth of company's aim and objectives.

Evolution of the UK Corporate Governance Code

The UK Corporate Governance Code was promulgated by the Financial Reporting Council (FRC) in 2008, previously known as the Concerted Code, contains the basic modular of good and ethical practice for listed companies on board composition and remuneration, development, accountability, stockholder audit and associates. The committee, from the financial aspect, encourages growth in corporative governance in 1991 and make a standard response for analysing major changes while providing suitable changes in financial and accountability report.

The FRC website published the altered version of the Concerted Code precisely on 27 June 2008 but was effective from 29 June 2008. The FRC publication titled 'Alteration to the Combined for the growth and make systematic Code' list the changes presents an earlier interpretation of the Joint Code. Further development was made to the Combined Code of June 2008 in 2009. Precisely, in December 2009, the FRC reviewed the Combined Code and published their final report. This final report was proclaimed in a press statement the aforesaid day. On March 5, 2010 a consultation on the revised UK corporate governance code was closed. A development report on the review of the effectiveness of the Joint Code that was issued by the FRC on July 28, 2009 which explicitly summarised the research was announced and it contains the results of the consultations. The report was published and proclaimed on a press statement the same year. In May 2009, the London Stock Exchange made propositions and idea for improving the business activity of the Combined Code after publishing a report from the FRC review in a way which is associated with the acknowledge present economic conditions. The London Stock Exchange aims to 'explain or comply and reinforce the success of the principles-based approach' and supports the FRC to consider this review in the context of the broader marketplace. The review of the Combined Code was launched in March 2009 and the complete textual matter of the audience paper was published while the consultation period closed on May 29, 2009. In May 28, 2010 the FRC published a revised version of the UK Firm Administration Codification that contained changes from the earlier version of the Combined Code, and this was announced in a press release and the Code was effective from June 29, 2010. Furthermore, in December 2011 there was a development

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in corporate governance which gave birth to 'The Impact and Execution of the UK Firm Governance and Stewardship Codes'. The FRC analysed the implementation of the Codes and published the report in December 2011. In October 2011, the FRC amended the UK corporate Administration Code with the aim of transforming the principles that were inherent in the Code in June 2010. 'The Feedback Argument: Gender Diverseness on Boards' contains a summary of the FRC determination, reasons for those determination and their responses. There were consultations on proposed changes to the Code which were incorporated in an updated version of the Code that was published in 2012. These changes applied to financial years starting from October 1, 2012. However, the FRC strongly encouraged companies to adopt its recommendations early. A further review on the Code made by the FRC in September, 2012 and on November 6 of the same year presents a collection of essays that was published by the FRC to mark the 20th anniversary of the Cadbury Code. The Code is expected to 'comply or explicate' for the growth to make an approach that was introduced to monitor best practices in public organisations and on November 6 of the same year a collection of essays was published by the FRC to mark the 20th anniversary of the Cadbury Code

In September 2015, a new consultation that incorporates the feedbacks on ethical standards and auditing was officially opened by the FRC. The consultation contains projected changes to the UK corporate governance framework which closed on Dec 11, 2015 after which a feedback statement was issued in April 2016. A closing draft update to United Kingdom that is related to make a Corporate Governance Code was published on April 27, 2016 by the FRC and was announced in a press statement with a primary aim to follow with the new and updated European Union modulate. The new draft made a way for the growth and achievement and that came with the new altered ethical standard of 2016. The final draft was sent for the consent of audit committee that was formally issued on June 17, 2016. The reappraisal of the UK Governance Code and commencement of an audience on its proposal was proclaimed by the FRC in February 2017. This was based on the consequence of the reappraisal and the Greenish Paper consequence of the Government. On 2019, the FRC also published the UK stewardship code for the growth of 2020 which is helpful for considering effective changes and make adoption of the techniques and listed for the effective services providers and make effective spaces for more challenging approaches.

Principles of Good and Effective Corporate Governance

The study of Okpara (2011) suggested that an organisation must clearly spell out its roles and responsibilities if it aspires to achieve effectiveness and efficiency in its governance. This means that the organisation must explicitly portray its short and long term goals, including stakeholders' expectations, roles of the executives and other management staff and individual responsibilities. To maintain a sound structure and composition of the organisation the executive committee must work closely with the right group of people that are result oriented with a positive mind set and have a good background of each individual, experience and required skills, and the impact of employing an additional worker on the overall productivity of the organisation and the effective functioning of the committee (Dillard et al., 2004). The executive committee can help facilitate the likelihood that their organisations will deliver on their purpose (Dart, 2004). An effective and good governance of an organization will require the executive committee to effectively determine and assess the appropriate performance, indicators and categories for the organization. It is quite pertinent that the executive committee ensures a free and timely flow of relevant information to the executive board that helps in making useful decisions (Bravo et al, 2019). There must be accountability and transparency for external stakeholders to enable them realise that their resources are being utilized in more effective and efficient manner. Furthermore, the financial statement of the organization must reflect integrity and safeguard other relevant information. For an effective and good governance to be achieved the executive committee must ensure to sustain and enhance the capabilities and capacity of the organization in which they serve (Cohen et al, 2007).

The Importance of Good and Effective Corporate Governance

If effectively and efficiently carried out, corporate governance will create an open and honest business environment that encourages structure in terms of speed of execution, planning, and encourages the executive committees and board members to allocate more resources for the innovation and growth of the corporation. Sound judgment, good and ethical behaviour of those charged with running the affairs of an organisation are prerequisites of good and effective governance (Cohen, et al 2007).

A business firm without good governance can be likened to a train without a track. Strong and effective changes are relevant for generating effective process to make the corporate governance effective for the sustainable and overall changes of the organisation. Thus, an organisation's potentials in terms of human and material resources, cannot achieve its corporate goals without good and effective governance. Without having the good and effective governance which is make and work for the growth in used to be almost hopeless for an organisation to achieve the needed transmutation process needed to get to where it privation (Larcker, et al 2007). However, a number of reforms were issued by the Sarbanes-Oxley Act intended to prevent fraud and ultimately improve corporate responsibility. The widespread disruption created in markets was caused by the widespread fraud that led to the bankrupt of WorldCom and Enron but for the changes mandated by the Act. Investors were at the high risk of misplace their finances and be able to analyse their long term perspective to change the organisational changes if the organizations experienced a continuous misdirection of their funds and expenditure due to poor and ineffective corporate governance (CIPFA, 2007). However, good and effective corporate governance goes beyond investors' security in modern terms but the need for the corporations to survive in a competitive atmosphere. Poor and ineffective corporate governance will lead to higher failure in corporate strategies and project management which in turn scares investors away and make the existing ones withdraw or transfer their investments where possible (Turley and Zaman, 2004).

The study of Evans and Edward-Freeman (1996) opined that a comprehensive organizational framework is required as a tool for the prevention of risk in order to make effective and efficient decisions. Once an organisation establishes its modus operandi and rules of governance, steering executives, board members and managers should be able to define their roles and responsibilities and how they fit into the overall structure of the organization. Good and effective governance strengthens every stakeholder's position to enable them adhere to the vision and mission of the organisation (Christopher, 2012). Good and effective corporate governance structures points out the division of responsibilities and rights among shareholders in organization and states clearly all procedures and rules for taking rational decisions in corporate affairs.

There must be accountability and transparency for external stakeholders to enable them know that their resources are being utilized in a more efficient and effective manner and also to the employees in the entire industry. Furthermore, the financial statement of the organization must reflect integrity and safeguard other relevant information. For an effective and good governance to be achieved the executive committee must ensure to sustain and enhance the capabilities and capacity of the organization in which they serve (Cohen et al, 2007). Furthermore, good and effective corporate governance requires quality thought and time from committed and dedicated leaders who comprehends the advantages of aligning every level of an organization in order to achieve targeted goals. Furthermore, good and efficient corporate governance requires that the business environment is transparent and fair and that staff can be held responsible for their actions. Conversely, weak and ineffective corporate governance may result to mismanagement of investors' resources, waste and corruption. Regardless of the venture type, only good and effective corporate governance can produce solid and sustainable business performance (Larcker et al, 2007).

Composition of the UK Audit Committee

According to the UK corporate governance code, the audit committee comprises a minimum of two independent non-executive board of directors for organisation outside the FTSE 350 or three independent non-executive board of directors for companies within the FTSE 350 The committee may also include the chairman of a smaller company only if he was independent as at when recruited chairman but he is not qualified to head board committee. The Code further stated that committee must 'satisfy itself' by constituting at least 1 member who possesses relevant and recent financial experience which according to Sir Robert Smith refers to a professional degree or qualification from any recognized bodies of accountancy. Failure to meet these requirements needs to be disclosed in company reports when stating their compliance to Code (Abbott et al, 2004). Often, the 'expert' is expected to be a retired finance director from a former partner of an accountancy firm or another company. To operate within the jurisdiction of the Code's recommendations for independence, the committee must bar its own former auditors and finance directors and this must be justified in the firm's annual report (Suchan, 2004). It is paramount that the committee members undergo proper training and induction due to the complex nature of issues common to the audit committee.

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The UK Audit committee

A major role of the committee is to closely monitor the financial statements and integrity of the company's announcement. In simple words, UK's committee of audit is responsible for the integrity of a company’s financial performance and statements (Buallay and Al-Ajmi, 2019). The committee must be contented with the reliable and accurate financial report presented to shareholders and the outside world. This committee must understand the financial report and how they are made up, given the complicated nature of accounting standards. The committee must also monitor activities of external directors and finance director during preparation of draft accounts. The committee must be persistent and ask the appropriate questions if an intelligible and satisfactory answer is not presented (Buallay, 2018).

The committee is responsible for reviewing the Risk Management System (RMS), if a different risk committee exist and internal financial controls also exist. The audit committee has an important role in reviewing their operations and checking the company’s internal financial control and also ensuring that relevant risk management systems are carried out (Bedard and Gendron, 2010). The audit committee must extend its monitoring roles to the internal auditors, where it has an internal audit function. The risk committee may perform some of these roles in line with the recommendations in Walker Report – two committees complementing each other.

Furthermore, it is the responsibility of the monitoring system to make changes for growing internal and external audit to work with the financial function and make systematic changes. Annually, the audit committee organizes a meeting with both the external and internal auditors actually without management, in order to easily spot any issue arising from their work (Beasley et al, 2009). Good and effective communication should be maintained between meetings, especially by committee chairman. In the absence of no internal auditors, the committee must carry out a review to ascertain if there is a need for such a service but if there is not, it should be stated and explained in the organisation's annual report (Buallay and Al-Ajmi, 2019).

This committee is responsible for recommending the recruitment or replacement of external auditors. They are also responsible for reviewing quality of their services. The committee of audit is responsible for some specific duties and responsibilities in relation to external auditors. Audit committee approves and recommend appointment of auditors in front of board, their fees and other terms on which they are retained (Ghafran and O’Sullivan, 2013). On the event of any dis-satisfactory performance, the committee may recommend their replacement. If the board is not satisfied with the committee, the annual report and Annual General Meeting papers must adequately capture the arguments on both sides for the shareholders’ consumption (Klein, 2002b). Sir Robert Smith further stated clearly that the audit committee has the mandate to approve the recruitment and replacement of internal audit head. The auditors’ independence may grow weak if they act as both consultants and advisers of the company. For example, under the US Sarbanes–Oxley legislation, non-audit services that include advisory and consultancy work are less and limited, but in United Kingdom, the issue is resolved by audit committee as they decide what other services should render to auditors (Buallay, 2018). A specific policy on the matter must be developed by the committee. For example, counter services causing so much potential conflicts (such as, remuneration policy advice), permit others, such as require a case-by-case decision and tax advice on every other thing else. They also require non-audit work in a particular financial limit which accepted by committee (Abbott et al, 2004). Disclosures are required in the annual report where non-audit services are carried out, while the committee should explain how auditor independence & objectivity are kept intact, hence audit committee must come up with policy that regulates employment of previous auditor employees.

However, the liability limitation agreement aims to restrict the amount of liability that is accruing to organisation by their auditor in terms of breach of trust, default and negligence that may occur in audit's account, the auditor may be found guilty in terms of corporation. The effects of the liability limitation agreement cannot be overemphasized if corporations are to be effective and efficient in discharging their duties. The limitation agreement of liability is usually ineffective to reduce the auditor's liability as it is less than an amount as it is reasonable & fair in circumstance of their operation (UK Company Act, 2006).

Objectives of the UK Audit Committee

One of the major objectives of the committee includes the assessment of the board to discharge their responsibilities efficiently and effectively. To exercise the care that is due, required skills and diligence are expected to be as it relates to the internal control system, financial management and accounting policies. The applications and reporting of the information related to the finance to the users that are associated with the financial reports and risks related management systems. Business practices and policies must correspond with the applicable regulations and laws. The best practices of the guidelines, protection of the entity and their assists facilitate conversation between directors of board and internal and external auditors. The committee also gives a structured line for reporting in terms of the internal audit and the facilitation of the independence of the auditor that is found to be internal. Lastly, the UK audit committee provides the recommendation to the board in regard to whether there is a need to extend to the rotation of the audit engagement partner (Buallay and Al-Ajmi, 2019).

Context and Background to the UK Public Sector Audit Committee

A major impact on implementation of public sector audit committee has been based on the strategies of privatisation, economic liberalization and limited government intervention under Neo-liberalist Reform of the public sector (Pollitt and Bouckaert, 2011; Smyth, 2012). The New Public Management refers to the government policies which, for a long period, aim to revitalise the public sector. They are required to eradicate bureaucracy, transform public sector and the need to "re-invent government" became sacrosanct. It was identified that some relevant elements of New Public Management including formal measurable standards, a hands-on top management, performance measurement and the use of management styles in private sector, was directed towards lifting state of managerialism which is away from traditional public administration (Ghobadian et al., 2009). The move to economize the notion of financial management, efficiency, and accountability increase much more relevance and ascendancy. (Aristovnik, 2009). This study deliberately examines why and how the audit committees have developed in terms of good and effective corporate governance in Foundation Trusts (FTs).

Foundation Trusts (FTs)

Foundation Trusts came into existence in April, 2004 as new public organisation under the National Health Service (NHS). Through Health and Social Care Act, 2003 the UK Parliament created Foundation Trusts (FTs) as independent legal entities and is provided with the power of independence from the central government with a primary aim of having a patient- NHS and delegate the process of decision making from centralized NHS to local communities in order to be more effective and efficient in satisfying patient needs. Operating as autonomous companies, Foundation Trusts are autonomous in formulating their own decisions and strategies with its governors and members on how their services are executed. Figure 1 illustrates the Foundation Trusts (FTs) funding and accountability structure.

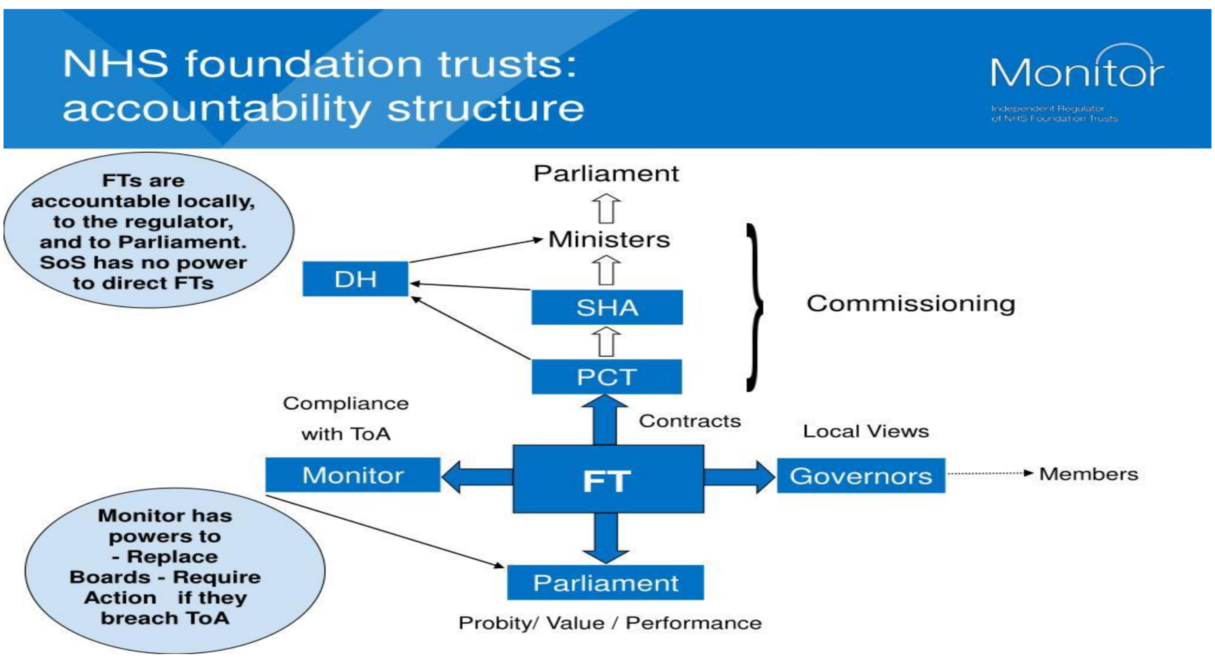

Figure 1: Foundation Trusts Accountability Structure

Source: Monitor

Theoretical Framework

The Institutional Theory (IT) approach, a common approach adopted in accounting research in different public organisation, was adopted in this research (Jacobs, 2012; Dillard et al., 2004). The Institutional theory proposed that there is structural uniformity in most organisations, in modern societies, imposed by institutional environments (Meyer and Rowan, 1977). The work of Cohen et al, (2007) stated that the Institutional Theory (IT) basically considers the various changes in organisational processes over time and also explains why organizations exhibit similar forms and characteristics. The study of Dart (2004) revealed that researchers opined that public sector is transited into being competitive, corporate & has a more professional mode in operations, since the NPM reforms was implemented into the public sector, and this has caused the embedding and adoption of those practices that are institutionally acceptable at different organizational level. Some relevant questions are raised when adopting the Institutional Theory (IT) to study the Audit Committee as a mechanism of NPM-driven reform about how and why organisations in the public sector are implementing audit committees whether for business efficiency or legitimation (Broadbent and Guthrie, 1992; Lapsley, 1999). Besides, Institutional Theory (IT) exhibit political core which suggests public sector companies that triggers and drives institutionalization resulting from isomorphic mechanisms leading to the increasing homogeneity inherent within the provided domains and which conform with expectations of broader institutional surroundings. Organisations are seen to operate within a social set up of values and norms which conform in order to reward for survival capabilities, increased resources, and legitimacy (Hawley, 1968).

RESEARCH METHODOLOGY

According to the study of Daniel et al (2018) research methodology involves the scientific study of methods, devices and tools which speed up the accumulation of relevant data for a given study. In the study of Burrell and Morgan (1979) a deep and careful consideration must be made by social scientist to methodological, ontological and epistemological assumptions which cover their research such as those of physical and natural science. However, scientific approach requires the selection of either an objective or subjective approach. The study of Goles and Hirschheim (2000) suggests that the study of how people know the things they know (ontology) and how they gain the knowledge we have (epistemology) remain the core issues in the field of the social sciences. Both are relevant to modern research because they affect the researcher’s assumptions which in turn influence the methodology they employ, (Ryan et al., 2002).

Research Design

Research design is the framework in which a researcher decides which research techniques and methods that are suitable to the subject matter in question. The result depends, to a greater extent, by the research design chosen by the researcher. This study adopts quantitative method of gathering secondary data. Secondary data sources are quite cost effective, easy to access, or time saving, free, and allow the researcher to create new insights from previous report analysis.

DATA AND DISCUSSION

The data for this study was collected from secondary sources which include the annual reports and relevant journal articles that provide an in-depth description of the roles and the responsibilities of the UK audit committee. The SEC filings contain information about the earnings and the rating agencies (Buallay and Al-Ajmi., 2019). The audit committee is required to execute its work with

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great responsibility so that the creditors, borrowers, shareholders, and investors have a clear idea of the finances of the company along with the share price, the earnings, and the expenses (Lapsley, 1988). This will help them to make informed and rational decisions regarding their investments. The transparency can be maintained by consistent and reliable data that is communicated across the financial channels.

The audit committee is also required to review the legal terms that have been mentioned by the government and the financial controlling body so that the companies' policies are also not violated. This will ensure that the company is preventing the earnings management which otherwise would lead to a lawsuit (Bedard and Gendron, 2010). The listing standards require that the audit committee should discuss the financial statement of the company yearly and quarterly with the management of the company so that the independent auditor. Moreover, it is required that the audit committee must discuss the earnings press releases and the supporting financial documents. This information provides financial information to the analysts who are involved in rating and listing the companies according to their revenue and growth streams (Ryan et al, 2002).

According to Iriyadi, (2019) earnings management can be avoided if the audit committee is vigilant and takes several measures to ensure the reliability of the reports. Moreover, human errors also can occur, but they need to be removed for the betterment of the company's financial position and condition. Therefore, for ensuring effective audit the audit committee should comprise of professionals that are mostly external auditors that may not have biased views (Buallay,2018).

Presentation and Analysis of Data

UK Audit Committee and Foundation Trusts Financial Performance

Income and Expenditure

The effects of good and effective corporate governance in Foundation Trusts financial performance by the UK audit committee cannot be overemphasized. Data on the financial performance of Foundation Trusts (FTs) by the Monitor (2020) clearly revealed that the first three months of the 2019/2020 financial year of the Foundation Trusts was £445m net deficit. Although, the 2019/2020 financial year recorded a £354m deficit but £90m worsened than that planned and larger than full year. In 2020, operating revenue was near same as designed but the extra pay costs was £59m and non- pay costs stood at £8m above plan. This caused a reduction of EBITDA. The 'other non-operating items' was another huge variance that led to the overall deficit and this was due to different planned donations and a single property worth £12.7m at South Tyneside NHSFT being postponed.

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Table 4.1a: Foundation Trusts Income and Expenditure Analysis

	Q1 2019/2020		Variance to plan		Q1 2018/2019
3 months ended 30 June 2015	**Actual £m**	**Plan £m**	**£**	**%**	**Actual £m**
Operating Revenue for EBITDA	11,246.0	11,247.0	(1.0)	0.0%	10,468
Pay Costs	(7,411.0)	(7,352.0)	(59.0)	0.8%	(6,776.0)
Other operating expenses	(3,729.0)	(3,720.0)	(8.0)	0.2%	(3,34.0)
EBITGA	106.0	174.0	(68.0)	-39.1%	353.0
Depreciation	(325.0)	(331.0)	6.0	-1.7%	(305.0)
Finance Cost	(94.0)	(96.0)	2.0	-1.8%	90.0
PDC Dividends	(142.0)	(144.0)	1.0	-0.9%	(128.0)
Other non-Operating Items	19.0	57.0	(38.0)	-66.1%	9.0
Restructuring Costs	(9.0)	(15.0)	(7.0)	-43.3%	(6.0)
Net Surplus/(deficits)	(445.0)	(354.0)	(90)	25.5%	(167.0)
Gains/(losses) on transfers	0.0	0.0	0.0	0.0%	0.0
Impairments/Reversals	(5.0)	(8.0)	3.0	-36.5%	(2.0)
Net surplus/(deficit) after impairments & transfers	(450.0).	(363.0)	(87.0)	24.1%	(170.0)
EBITGA %	0.9%.	1.5%			3.4%
Net Surplus %	-3.9%.	-3.1%			-1.6%

Source: Author's Compilation (Monitor, 2020)

Although Foundation Trusts (FTs) hired about 752 additional staff (representing 0.1%) above plan during the quarter, some 7,200 agency staff was also hired above plan to cushion the adverse effects in the shortfall of the permanent workforce. Premium costs of agency staff have huge consequences on the performance of financials of Foundation Trusts', especially acute FTs. A total of 118 Foundation Trusts reported a year-to-date deficit in 2019 of which 75% were Specialist or Acute Trust. Specifically, 34 of the deficit trusts were able to report a year-to-date deficit value of about £5m, with King recording the single largest individual deficit of £33m. The group to record a small bottom line surplus was Mental Health Foundation Trusts. The Foundation Trusts face a tough and sustained financial pressure on the sector as reflected by the current financial performance. Foundation Trusts' hold more realistic plans for the 2019/20 financial year than in previous years, but a more recent forecast is that the Foundation Trusts sector will end the year with a value deficit worth £1bn.

Table 4.1b: Foundation Trusts Income and Expenditure Analysis

	Acute 83 FTs	Mental Health 43 FTs	Speciali st	Commu nity	Ambulance
3 months ended 30 June 2019	Actual £m	Plan £m	£	%	Actual £m
Operating Revenue for EBITDA	7,919.0	2,210.0	744.0	139.0	234.0
Pay Costs	(5,072.0)	(1,641.0)	(436.0)	(98.0)	(164.0)
Other operating expenses	(2,875.0)	(466.0)	(288.0)	(37.0)	(62.0)
EBITGA	(27.0)	102.0	19.0	3.0	8.0
Net Surplus/(deficits)	(437.0)	7.0	(11.0)	(0.0)	(4.0)
Net Surplus/(deficits) after impairments and transfers	(441.0)	6.0	(11.0)	(0.0)	(4.0)
EBITDA %	-0.3%	4.6%	2.6%	2.4%	3.3%
Net Surplus %	-5.5%	0.3%	-1.4%	-0.0%	-1.7%

Source: Author's Compilation (Monitor, 2020)

Table 4.2 shows that the operating revenue of Foundation Trusts' 2019/2020 financial year for EBITDA was £778m greater than Q1 of 2018/19 financial year, an indicator of good and effective governance. Foundation Trusts' operating revenue grew by 2.1% to only £216m. This shows that the total operating revenue of Foundation Trusts were right on plan, an indicator of good and effective governance. The clinical revenues fell by 0.1% and this was due to growth that fell short of plan. Foundation Trusts had planned to trigger activity growth (i.e. 0.8% year-on-year growth, directly based on activity of cost-weighted) for the first quarter. Rather, the sector recorded a 5.3% cost weighted activity growth, together with a 3.2% growth that excludes the effects of mergers and acquisitions (Do Carmo, 2021). Specifically, the first quarter recorded 11% elective inpatient activity, behind plan regardless of a 2.7% year-on-year growth resulting to 6% elective inpatient revenue which is below plan. The sector recorded a 0.8% behind plan non-elective inpatient activity. An increase of the marginal rate tariff by 30% to 70% and increased acuity has caused the non-elective inpatient revenue to grow at 1% above plan and 2.1% greater than the previous year.

Table 4.2: Foundation Trusts Revenue Analysis

3 months ended 30 June 2019	Q1 2019/20		Variance to plan		Q1 2018/19
	Actual £m	Plan £m	£m	%	Actual £m
Ambulance	223.0	227.0	(3.0)	-2%	214.0
Community	908.0	891.0	17.0	2%	747.0
Mental Health	1,483.0	1,490.0	(7.0)	0%	1,390.0
Elective in-patients	716.0	759.0	(43.0)	-6%	721.0
Elective Day Cases	632.0	630.0	1.0	0%	603.0
Outpatients	1,172.0	1,185.0	(13.0)	-1%	1,089.0
Non- Elective in-patients	1,692.0	1,672.0	20.0	1%	1,597.0
A & E	265.0	265.0	(0.0)	0%	235.0
Maternity	204.0	212.0	(7.0)	-3%	191.0
Diagnostic tests & Imaging	97.0	95.0	2.0	2%	99.0
Critical care: Adult, Neonate, Paediatric	361.0	363.0	(2.0)	0%	327.0
Other drugs revenue (incl. Chemotherapy)	70.0	72.0	(2.0)	-3%	112.0
Direct access & Op, all services	100.0	95.0	5.0	5%	82.0
Unbundled chemotherapy delivery	43.0	45.0	(2.0)	-4%	39.0
Unbundled external beam radiotherapy	45.0	46.0	(0.0)	-1%	47.0
CQUIN Revenue	114.0	114.0	0.0	0%	125.0
Other NHS clinical revenues	1,711.0	1,673.0	38.0	2%	1,515.0
NHS contract penalties or adjustments	(26.0)	(14.0)	(12.0)	82%	(17.0)
Non-NHS clinical revenues	246.0	250.0	(4.0)	-2%	193.0
Total clinical revenue	10,057.0	10,069.0	(12.0)	-0.1%	9,309.0
Research and Development	156.0	161.0	(4.0)	-3%	150.0
Education and Training	390.0	387.0	3.0	1%	373.0
Other non-clinical revenue	662.0	679.0	(17.0)	-3%	655.0
Total non-clinical revenue	1,208.0	1,226.0	(18.0)	-1.5%	1,177.0
Total operating revenue	11,265.0	11,296.0	(31.0)	-0.3%	10,486.0
Less: Donations & Grants of PPE	(19.0)	(49.0)	30.0	-62%	(17.0)
Total operating revenue for EBITDA	11,246.0	11,247.0	(1.0)	0.0%	10,468.0

Source: Author's Compilation (Monitor, 2020)

Two major tariff options were introduced in 2020. The Default Tariff Rollover (DTR) option and the Enhanced Tariff Option (ETO). Twenty two (22) Foundation Trusts choose the Default Tariff Rollover (DTR) option. The DTR trusts option managed a 4.6% revenue growth in 2019 whilst the growth rate for other Foundation Trusts, was just 2.4% on Enhanced Tariff Option. However, those Default Tariff Rollover trusts, specialist and teaching trusts, have recorded a declining revenue growth quite faster than that of Enhanced Tariff Option (ETO). The first quarter of 2020 recorded a revenue growth of 7.2% of Default Tariff Rollover trusts while Enhanced Tariff Option trusts recorded a 4.1% growth.

Foundation Trusts' revenue position was enhanced by a £30m planned donations which several other trusts did not receive. This was cushioned by positive unplanned rise in the clinical revenue of other NHS, another indicator of good and effective governance.

DISCUSSION OF RESULTS

The financial analysis of Foundation Trusts (FTs) clearly show an improvement in performance from the 2018/2019 financial year to 2019/2020 financial year, which can be traceable to the good and effective governance of Foundation Trusts in terms of its optimal composition of the appointment, size and membership. The improvement in financial performance also reflects the quality of the development of the roles and works of the audit committee in Foundation Trusts (FTs) as it relates to good and effective governance. The following discussion is based on the relationship between the research questions and financial information provided.

Research Question One: The Audit Committee Composition Including Size, Determination and Membership

The CIPFA Guidelines on audit committee membership (2013) and Monitor Code of Governance (2014) have some similarities but only the latter requires its members to be independent NEDs, hence the UK Code of Corporate Governance was able to demonstrate a very close derivation (2014). The case of Foundation Trusts (FTs) complies with that of Monitor's requirements of at matter three independent Non-Executive Directors (NEDs). This is because it gives a clear picture to the organization on where they can invest in order to get good return on investment. All such examinations are related to the budgeting and financial modelling of the organization in a more better and strategic manner (Bennett, Charman and Fairfield, 2021). In a nutshell, the Foundation Trusts (FTs) audit committees are stable and small, comprising of members with experience that are complementary and extensive.

A brief and concise study revealed how the composition and size of the audit committee and the development of their roles had positively translated to good and effective governance of Foundation Trusts. For example, Airedale NHS Foundation Trust, due to its optimal composition and size, provides high quality, elective, acute, specialist and community care services for over two hundred thousand people from a large area covering about 705 square miles within Lancashire and Yorkshire. The Trusts' targeted market share goes beyond the National Park and Yorkshire Dales in North Yorkshire, and beyond. As an evidence of good and effective services their local customers are very supportive, and their level of social responsibilities is second to none. The local communities and their location are one of the main pillars of the Trust. In terms of appointment, Airedale NHS Foundation Trust has employed over three thousand (3,000) staff with over three hundred and fifty (350) volunteers that are committed. The Trusts treats over thirty-two thousand (32,000) inpatients on an annual basis, one hundred and fifty-five thousand (155,000) out-patients. Airedale NHS Foundation Trust cater for about seventy thousand (70,000) patients in their Emergency Department while an average value of about two thousand (2,000) babies are born at

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the hospital annually. (Trust Strategy 2020–2025). In terms of its composition and size, Airedale NHS Foundation Trust operates a unitary Board of Directors, meaning that both the Executive and non-Executive Directors make unanimous decisions as one group and share similar liability and responsibility. During Board meetings the directors are responsible for risk mitigation, standards, values, strategy and developing proposals. Airedale NHS Foundation Trust Board of Directors operates a local accountability framework through its Members and Council of Governors who are responsible collectively and individually for the unitary board's performance. The board is responsible for formulating business strategies, ensures accountability and maintaining a sound and positive organizational culture.

The board of Barking, Havering and Redbridge University Hospitals NHS Trust consists of non-executive directors and executive directors who are responsible for placing and aligning the strategic directions of the Trust, oversee financial stewardship of the Trusts and provide high quality care in the hospital which are measured by patient safety, patient experience and effectiveness of services. Established in June 2000, the Trust has a total staff of seven thousand three hundred and seventy-four (3,374) as at 2020 (BHRUH Annual report, 2020).

The audit and risk committee of Barts Health NHS Trust is authorized to gather relevant information when necessary from any staff of the Trust as it deem fit to aid the smooth execution of its operations. The audit committee can also gather legal professional advice and secure the attendance of authorities and individuals outside the Trust. Furthermore, the audit and risk committee monitor and review risks and other financial related controls, financial assurance, and corporate governance. The good and effective governance of Barts Health NHS Trust is closely related to the size and composition of its board committee which comprises of the Nomination and Remuneration Committee (NRC), Quality Assurance Committee (QAC), Audit and Risk Committee (ARC) and Finance and Investment Committee (FIC).The 2020/21 annual review of the Quality Account of the Trust revealed a huge success in Barts health major anchor framework which include employment and careers, procurement, service delivery, civic health, sustainable development and capital investment. For example, in terms of service delivery the Trust received the lowest number of complaints in the last 7 years, from 1,868 in 2019/2020 to 1,296 in 2020/2021(Barts Health, Annual Report 2021).

Research Question Two: How the Roles and Works of the Audit Committee Have Developed

Empirical findings show much ground that the UK audit committee roles and obligation in Foundation Trusts (FTs) grew with a better understanding. One of the most striking improvements has been the shift over time from the audit committee operating as a functional committee that do business manually to a more automated system agenda. The development of the roles and works of the audit committee is a true reflection of the financial growth recorded from the 2018/19 to 2019/20 financial year. Furthermore, it has helps the foundation to strategically review the cash flow within organization so that the unnecessary expenses and savings along with the investment can be determined and financial records could be maintained in a more accurate manner without any complications. It also helps in the review of liability so that any loan or borrowing along with

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the debt or any bad debts can easily be recognised so that any outstanding amount can be reviewed and cleared out as soon as possible without any complexities. It also assist in review of inventory and its movement because stock or inventory management are highly essential for the foundation for the bulk materials so that the proper records can be maintained of what is used and what is left or what to be ordered as per the needs and requirements of the foundation. It also aids in the identification of trends which helps in drawing out the solutions which benefits the organization's image and reputation. It supports the preparation of the budget in order to review the extra expenses so that it can be controlled by analysing the financial information of the foundation (Ageed and et.al., 2021).

The audit committee structure of University Hospitals Birmingham constitutes the Board of Director who is responsible for the provision of independent and objective review of the internal control system which may include financial information, financial systems, risk management approach, governance arrangements and compliance with statutory laws and other related requirements. The Director also monitors the integrity of the Trusts' financial statements. Furthermore, the Director of the audit committee reviews the probity of the Trusts' communication and informs the Board of Directors of any irregularities. The membership of the audit committee shall be inaugurated by non-executive directors of the Trust with at least 3 members, of whom 1 member will be appointed chairman of the audit committee by the board but the chairman of the board must be exempted from the audit committee. In terms of the internal control system, integrated and good governance and effective risk management, the audit committee reviews their maintenance and establishment in both clinical and non-clinical activities. In general, the audit committee reviewed all statements related to control related disclosures and risk, Standards for Good Health, declarations that are in cognizance with the code of the NHIS with opinion of the external audit, statement from the internal audit head or any other as endorsed by the board. The audit committee also reviews the assurance process that shows the extent of the Trusts' achievements and management effectiveness. The committee is responsible for reviewing the processes, responsibilities and structures for the identification and management of risks the organization is facing. The audit committee reviews the systems and policies that ensure compliance with regulatory, code of conduct and legal requirements. The committee will also review the financial statements and annual reports before an onward submission to the board (UHB Annual Report, 2017).

Comparison between the Corporate Governance and CIPFA Audit Committee Standards

The corporate governance and the CIPFA audit committee standards have similar professional standard requirements as set out by the PSIAS in the following ways: The head of internal audit both establishes risk-based plans to establish the main thrust of activities of the internal audit which must be consistent with the goals of the organisation (PSIAS 2010). These plans must consider the basic requirements in the production of the annual assurance framework and internal audit opinion. Furthermore, both standards are linked to statements on how the audit service that are internal can be developed and delivered in line with the charter of the internal audit as it relates to organisational aims and objectives. Both risk-based plans explain how the resources requirements

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of the internal audit have been assessed over time. Both plans must also be based on documented annual risk assessment that are undertaken annually, at least, which include the input of a senior manager and the board (PSIAS 2010)

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary of the Findings

The findings of this study are in consonance with Board Source (2010) which suggested that the audit committee in a public sector organization has a better working mechanism and diverse structures as compared to the corporate audit committees. However, unlike the study of Hillman and Dalziel (2003) and Miller (2002) this study does not affirm that audit committees' functions are quite weak in the non-profit sector. Although audit committees are still in the development process, and they are not usually seen. This study is partly in line with Magrane and Mathus (2010), Davies (2009) and Van der Nest (2008) that there is lack of proper application and understanding of some audit committee responsibilities and functions and that audit committee members who are inactive need to gain more expertise and become more conversant with operational processes which relate to the public sector, but many improvements have been recorded since then. These training programs are usually designed for audit committee associate for an improved perception of their function and responsibilities and for them to vantage insight and understanding of the wide range of strategic processes, institutional needs, and issues in Foundation Trusts (FTs). This has also resulted to the enhancements in the operations of audit committee and remit in challenging and monitoring responsibilities especially noticeable by focusing on more important goals and targets. This study is exploratory and provides relevant findings about the UK public sector audit committees that challenge clear explanations of mimetic isomorphism. Evidence exists concerning the level of regulatory coercion which has led to different approach in terms of roles, responsibilities, and composition. However, it is very clear that the case study is developing with different public sector approaches applied to their work in holding their management responsible for accountability. With more public sector reforms further longitudinal study of such UK audit committees is necessary, across the full spectrum of the UK public sector, so that the examination of this noticeable audit committee development can continue. Moreover, analysis of membership and experience are performed by the organization by adopting various method such as by considering the member's point of view so that proper engagement can be performed and by staying up to date on technology trends for improvement in functions of the organization along with the personalizing the member's experiences for better satisfaction of the people who are involved in the association and committee and by getting the feedback by each and every member by establishing the feedback systems so that reviews and the areas of improvements can be identified which is followed by remembering the work culture so that an appropriate ethics and corporate social responsibility can be maintained within organization.

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CONCLUSION

It can be concluded that the data that were gathered and collected from secondary sources on the roles and responsibilities of the audit commission were not only restricted to the evaluation of the financial statements but also ensure that the risk management, ethical issues, environmental concerns were addressed and worked upon. This was able to clarify that the business can only be sustainable in the long run if it follows the legal and ethical compliances. There is huge responsibility of the external and internal auditors that the transparency is maintained (Mohammed et al, 2015). It is also important for the management and the board to have active communication so that the stakeholders are informed which will ease the growth. The management of the organisation which includes the finance professionals directly impacts the value creation and return of investment and ultimately the revenue stream of the company (Glaum et al, 2004).

Previous research on audit committees has emphasized more on the structural functions of the audit committee's meeting frequency, financial expertise and independence or on whether audit committees comply with related rules (Ghafran and O'Sollivan, 2013), This study attempted to address the lacunae on how audit committees actually operate and perform in practice. This study goes further than just checking for correlations and relationships between other measures of performance and audit committee's elements. It goes further to get more insights from an institutional theory perspective by analysing audit committees in Foundation Trusts (FTs). This study examined different audit committee elements such as the audit committee's roles, composition, and development to get deeper insights on the audit committee operations in Foundation Trusts (FTs) as it relates to good and effective governance. It is concluded that Foundation Trusts records an improvement, through its financial growth, of the roles and responsibilities of the UK audit committee which arises as a result of effective and good governance.

Recommendations

The audit committee, therefore, will need to have significant interaction with the management since they are dependent on the finance function. The insights from these can be used to develop reliable and quality financial accounting reports (Suchan, 2004), and maintain cordial relationships with the management so that it fosters open communication between them for better results. Moreover, operations can be improved in such a way by adopting the strategies of enhancements that is by utilizing a sequential flow pattern in the process and minimizing backtracking of work in the process. The implementation of a predictable process and reducing material movement can be followed by emphasizing bottleneck management and minimizing inventory and also creating an open environment and by maintaining flexibility as well (Daniel et al, 2018). All such recommendations can be used by the organization so that they can have better financial as well as operational management at different levels in order to fulfil the assorted expectation of the stakeholder associated with the foundation.

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