HFMA briefing
February 2022

Financial reporting watching brief

2021/22 and beyond

For Pre accounts planning conference delegates – this briefing is usually available to HFMA members only and it is regularly updated. It includes references to the most recent NHS specific guidance for 2021/22.

We will also be updating our annual report and accounts checklist for 2021/22.

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Introduction

This paper is intended to update HFMA members on developments in financial reporting that may affect them as finance professionals working in the NHS. ***This paper is based on the version of the one published in December 2021. All major changes to that paper have been highlighted in bold italic***.

While every care had been taken in the preparation of this briefing, the HFMA cannot in any circumstances accept responsibility for errors or omissions and are not responsible for any loss occasioned to any person or organisation acting or refraining from action as a result of any material in it.

When producing their annual report and accounts NHS bodies are required to comply with a range of standards and guidance. This briefing paper identifies the key changes that are on the horizon in those standards and guidance.

Structure of the paper

The standards and guidance considered in this paper are:

- accounting standards issued by the International Accounting Standards Board (IASB) (see Appendix 1: Accounting standards)
- public sector guidance including HM Treasury Financial reporting manual (FReM) and papers issued by Financial Reporting Advisory Board (FRAB) and specific NHS guidance, the Department of Health and Social Care (DHSC) Group accounting manual (GAM) and NHS Improvement's Annual reporting manual (ARM) (see Appendix 2: Public sector specific guidance)
- corporate reporting requirements issued by the Financial Reporting Council (FRC) (see Appendix 3: Corporate reporting requirements issued by the FRC)
- auditing standards and guidance (see Appendix 4: Key developments in audit).

Key developments that are likely to affect the NHS

2021/22

- the on-going impact of changes to the NHS financial regime as a result of the Covid-19 pandemic

2022/23

- implementation of IFRS 16 *Leases* for entities which report under the requirements of the HM Treasury FReM

2023/24

- implementation of IFRS 17 *Insurance contracts*

Other developments

Covid-19

The Covid-19 pandemic has impacted on financial reporting.

Covid-19 will continue to affect assumptions, judgements and estimates.

Sustainability reporting

In November 2021, the IFRS foundation announced the formation of a new International Sustainability Standards Board (ISSB)[1] to develop a comprehensive global baseline of high-quality sustainability disclosure standards.

[1] IFRS, *International Sustainability Standards Board*, accessed 15 November 2021

This will not impact on NHS bodies immediately, but HM Treasury are reviewing the current sustainability reporting requirements for public sector bodies.

Managing public money

HM Treasury's *Managing public money*[2] has been updated:

- Annex 2.2 on delegated limits has been clarified in places and makes it clear that HM Treasury delegated limits need to be reviewed annually
- Annex 4.15 on asset management includes new guidance on asset sales and overage arrangements
- Annex 5.4 on contingent liabilities includes new guidance on indemnities, unlimited liabilities and notification of contingent liabilities.

None of these changes relate to accounting requirements. However, the changes may be reflected in guidance to NHS bodies.

[2] HM Treasury, *Managing public money*, updated May 2021

Appendix 1: Accounting standards

New and amended accounting standards that will be applicable from 2021/22

There are no new accounting standards applicable to NHS bodies (applying the FReM) in 2021/22.

Amendments to the following standards are applicable in 2021/22:

- IFRS 16, IFRS 9, IFRS 7, IFRS 4 and IAS 39 are amended to provide accounting relief when changes in the basis for determining contractual cash flows result directly from interest rate benchmark reforms – as these amendments relate to hedge accounting, they are unlikely to impact on NHS bodies
- IFRS 16 – the practical expedient relating to Covid-19 related rent concessions has been extended to 30 June 2022.

Accounting standards issued but not applicable until January 2022 or later

(These tables are based on the IASB's work plan[3] and the EU endorsement status report[4])

Standard	Timeline	Assessed impact on NHS bodies	Accounting and Standards Committee action taken/required
IFRS 16 *Leases*	The standard was published in January 2015. Companies Act reporters following EU adopted IFRS adopted this standard in 2019/20. HM Treasury has agreed that entities which prepare their accounts in accordance with the FReM will now adopt this standard in 2022/23. In May 2020, a practical expedient was published that allowed lessees to elect not to treat rent concessions as a lease modification where the concession is a direct result of the Covid-19 pandemic and other conditions are met. This	This is the standard which will bring all leases onto the statement of financial position. HM Treasury has been discussing this standard for some time - and have issued application guidance[6] and budgeting guidance[7] that was updated in December 2020. Detailed guidance for NHS bodies has been published – see appendix 3 of this briefing. The December 2020 guidance includes confirmation that irrecoverable VAT should not be included in the initial measurement of right of use assets and lease liabilities. It should be expensed at the tax point. Once IFRS 16 is implemented, accounting for PFI schemes will also change as lease liabilities will have to be remeasured when there is a change to future liabilities as a result of a change in the price index where the contract links payments to price indices.	Briefing presented to the Accounting and Standards Committee and published on the HFMA website[8] and a briefing to explain the standard to non-accountants has also been published[9] The standard was the topic of four webinars - 28 November 2018, 18 July 2019, 13 November 2019 and 17 December 2021.

[3] IFRS, *IASB work plan* (accessed 15 January 2022)
[4] UKEB, *UKEB work plan* (dated 28 October 2021)
[6] HM Treasury, *IFRS 16 leases – application guidance*, updated December 2020
[7] HM Treasury, *IFRS 16 supplementary budgeting guidance*, December 2020
[8] HFMA, *Accounting for leases - application of IFRS 16*, to be updated December 2021
[9] HFMA, *Accounting for leases: why it affects you*, to be updated December 2021

Standard	Timeline	Assessed impact on NHS bodies	Accounting and Standards Committee action taken/required
	amendment is applicable for annual reporting periods starting on or after 1 April 2021. In November 2020, the IASB issued a proposal to amend the standard by specifying how a company measures the lease liability that arises in a sale and leaseback transaction. In October 2021, the IASB decided[5] that the treatment of non-refundable VAT on lease payments does not have widespread effect or a material effect on those affected. This issue will not be added to the work plan.		
IFRS 3 *business combinations*	From 1 January 2022, the standard will be updated to reflect changes to the Conceptual framework	Most standards that contain references to the Conceptual framework have already been updated. The only exception was the requirement in IFRS 3 for an entity to refer to the framework to determine what constitutes an asset or a liability – that amendment will be effective from 2022/23	Keep this on the watching brief.
Onerous contracts (amendments to IAS 37)	The amendment was published in May 2020 and subject to UKEB and HM Treasury endorsement it will be applicable from 2022/23.	The costs of fulfilling a contract have been defined and the standard amended to state that before a provision for an onerous contract is established, any impairment loss on assets used in fulfilling the contract should be recognised.	NHS bodies rarely classify contracts as onerous, but this amendment should remain on the watching brief.
Property, plant, and equipment: proceeds before	The amendment was published in May 2020 and subject to UKEB and HM Treasury	The cost of testing an asset to check it is functioning properly as an example of directly attributable costs has been amended. The treatment and disclosure of the proceeds from selling	As NHS body's non-current assets are rarely used to produce goods,

[5] IFRS interpretations committee, Non-refundable value added tax on lease payments, October 2021

Standard	Timeline	Assessed impact on NHS bodies	Accounting and Standards Committee action taken/required
intended use (amendment to IAS 16)	endorsement it will be applicable from 2022/23.	items produced when testing the function of an asset has been clarified.	this is unlikely to be an issue.
Annual Improvements 2018-2020	The amendment was published in May 2020 and subject to UKEB and HM Treasury endorsement it will be applicable from 2022/23.	The following standards will be amended: • IFRS 1 First time adoption of IFRS – to simply the application of IFRS 1 by a subsidiary that becomes a first-time adopter of IFRS Standards after its parent company has already adopted them • IFRS 9 Financial instruments - clarifies the fees a company includes in assessing the terms of a new or modified financial liability to determine whether to derecognise a financial liability • IFRS 16 Leases – an amendment to the illustrative example relating to lease incentives • IAS 41 Agriculture – to align the fair value measurement requirements in this standard to those in other standards	Keep on the watching brief
IFRS 17 *Insurance contracts*	The new standard was issued in May 2017. Subject to UKEB and HM Treasury endorsement, it will be effective in 2023/24[10]. In June 2020, the IASB published amendments to the standard as well as deferring the application date to 2023. The amendments are intended to reduce the costs of application, to make the results earlier to	The scope of the standard is not different to IFRS 4, but it is expected that the implementation of the new standard will require a review of existing arrangements which may result in reclassification of contracts as insurance contracts. Insurance contracts combine features of both a financial instrument and a service contract. IFRS 17: • combines current measurement of the future cash flows with the recognition of profit over the period that services are provided under the contract • presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses	Keep on this watching brief

[10] HM Treasury, *IFRS 17 insurance contracts - implementation update*, June 2020

Standard	Timeline	Assessed impact on NHS bodies	Accounting and Standards Committee action taken/required
	explain and to ease transition.	• requires an entity to make an accounting policy choice of whether to recognise all insurance finance income or expenses in profit or loss or to recognise some of that income or expenses in other comprehensive income. HM Treasury has put together a working group to assess the impact of IFRS 17, that reported to FRAB in March 2021[11]	
Classification of liabilities as current or non-current (amendments to IAS 1)	The amendment was published in January 2020 with an effective date of 1 January 2022. However, in July 2020, the IASB confirmed that this would be deferred to reporting periods beginning on or after 1 January 2023. Subject to UKEB[12] and HM Treasury endorsement, it will be applicable from 2023/24.	Currently, liabilities are classified as current unless there is an unconditional right to defer settlement of the liability for at least 12 months. This is a difficulty requirement to interpret which results in inconsistent classification between entities. The IASB is therefore proposing to amend IAS 1 to clarify the situation where an asset can be classified as non-current.	This is unlikely to affect NHS bodies but will remain on the watching brief.
Disclosure of accounting estimates (amendment to IAS 8)	The amendment was published in February 2021, and subject to UKEB and HM Treasury endorsement it will be applicable from 2023/24.	The amendment to the standard changes the definition of accounting estimates.	Keep this on the watching brief.
Disclosure of accounting policies (amendment to IAS 1 and practice statement 2)	The amendment was published in February 2021, and subject to UKEB and HM Treasury endorsement it will be applicable from 2023/24.	The amendment to the standard links the definition of accounting policy to the IAS 8 definition. The requirement to disclose 'significant' accounting policies is replaced by a requirement to disclose 'material' accounting policies. The standard sets out expectations of when policies are expected to be material.	Keep this on the watching brief.

[11] HM Treasury, *IFRS 17 update*, March 2021
[12] Note: the UKEB list the status/ effective date of this amendment as tbc

Standard	Timeline	Assessed impact on NHS bodies	Accounting and Standards Committee action taken/required
		Practice statement 2 includes a flowchart to help with this analysis. Immaterial accounting policy information must not obscure material accounting policy information.	

Major projects which may affect NHS bodies

Project	Timeline	Assessed impact on NHS bodies	Accounting and Standards Committee action taken/required
Primary financial statements	The exposure draft was published in December 2019.	The exposure draft aims to improve the structure and content of the primary financial statements with a focus on the statements of financial performance. The board continue to discuss this project.	Keep on watching brief
Sustainability reporting	A consultation paper[13] was published in September 2020 setting out the possible ways that the IFRS Foundation might contribute to the development of global sustainability standards. Feedback from the consultation was published in April 2021 along with another consultation on proposed changed to the IFRS Foundation's consultation to broaden its remit so that the new board	In November 2021, IFRS Foundation announced the formation of the International Sustainability Standards Board (ISSB)[14]. The ISSB have issued: • a summary of the Technical Readiness Working Group's (TRWG) programme of work[15] • a prototype climate-related disclosures requirements with technical supplement[16] • a prototype general requirements of disclosure of sustainability-related financial information[17]. The prototypes are early draft standards that will go through the ISSB's review process before being subject to public consultation. They have been published for information. NHS bodies are required to report on sustainability in accordance with the	Keep on the watching brief ***A webinar is planned for 4 February 2022***.

[13] IFRS Foundation, *Consultation paper on sustainability reporting*, September 2020
[14] IFRS Foundation, *IFRS Foundation announces International Sustainability Standards Board, consolidation with CDSB and VRF, and publication of prototype disclosure requirements*, November 2021
[15] ISSB TRWG, *Summary of the TRWG's programme of work*, November 2021
[16] ISSB TRWG, *Climate related disclosures prototype*, November 2021
[17] ISSB TRWG, *General requirements prototype*, November 2021

Project	Timeline	Assessed impact on NHS bodies	Accounting and Standards Committee action taken/required
	could be established.	GAM, but this is an area that is under review by HM Treasury.	
Management commentary	In May 2021, the IASB published an exposure draft on proposed changes to *Practice statement 1: Management commentary.*	The original practice statement was published in 2010 so this update is based on the ISAB's research on the management commentaries that accompany financial statements. The proposed changes are intended to ensure that the management commentaries include material information that is not obscured by immaterial information, is entity specific, discusses long-term as well as immediate issues, provides information about wider environmental, social and governance matters and reconcile with the financial information. As best practice, these revisions are likely to be reflected in the FReM and GAM where they are not already included.	Keep on watching brief
Disclosure initiative – *subsidiaries without public accountability: disclosures*	In July 2021, the IASB published an exposure draft[18]. Comments are due by the end of January 2022	The proposal is that a new IFRS standard would allow subsidiaries to apply reduced disclosure requirements in its financial statements as long as the subsidiary does not have public accountability and its ultimate parent produces consolidated statements that comply with IFRS standards.	Keep on the watching brief
Disclosure initiative – *targeted standards-level review of disclosures*	In March 2021, the IASB published an exposure draft. Comments are due by 13 January 2021	There are three main concerns about the usefulness of the information disclosed in financial statements: • too little relevant information • too much irrelevant information • ineffective disclosure of information. This proposal is for a new approach to developing disclosure requirements in standards that would give greater prominence to the objective of the disclosure requirements, minimise requirements to disclose particular information to focus on material items	Keep on the watching brief

[18] IFRS, *Webcasts on the proposed IFRS Standard for subsidiaries without public accountability*, November 2021

Project	Timeline	Assessed impact on NHS bodies	Accounting and Standards Committee action taken/required
		and to require entities to apply judgment to their disclosures to meet the readers' needs.	

Appendix 2: Public sector specific guidance

2021/22 manuals

HM Treasury FReM
The HM Treasury FReM 2021/22 was published on 30 December 2020 ***and updated in December 2021***[19]. The FReM includes an annex on IFRS 16 leases.

The updates in December 2021 relate to:

- ***expanded and specific requirements to report against delivery outcomes agreed at the latest spending review, particularly in relation to:***
  - ***workforce, skills and location***
  - ***innovation, technology and data***
  - ***delivery, evaluation and collaboration***
  - ***sustainability***
- ***changes to the fair pay disclosures***
- ***the exclusion of balances with the government banking service (GMS) from recognition of stage 1 and stage 2 impairments***
- ***new guidance on the measurement of financial guarantees that have been issued at below fair value and where no active market or observable equivalent exists***
- ***clarification of the timing of recognition of actuarial valuations of defined benefit pension scheme assets***
- ***clarification of the timing of revaluation of assets transferred between public sector bodies where the assets are revalued as part of the transfer process.***

DHSC GAM
The DHSC GAM 2021/22 was published for on 12 May 2021 ***and was updated in January 2022***[20]. The key changes relate to the annual report:

- fair play disclosures
- extended guidance on the applicability of Managing Public Money to DHSC group bodies
- the inclusion of national quality indicators in the performance report
- references to UK rather than EU adopted IFRS.

The January update includes the following FAQs:

- ***FAQ1: changes in discount rates at 31 March 2022***
- ***FAQ2: injury costs recovery expected credit loss rate***
- ***FAQ3: minor updates:***
  - ***removal of reference to Nightingale facilities***
  - ***removal of references to the sustainability development unit guidance on reporting on sustainability***
  - ***removal of references to the quality report***
  - ***update to the guidance on the fair pay disclosures to reflect the changes to the FReM***
  - ***update to the interpretation and adaptation of IFRS 9 and IAS 19 to reflect the changes to the FReM***
- ***FAQ4: confirmation that the reduced reporting requirements implemented as a result of Covid-19 have been revoked so full report is now required. In particular, trend analysis is required in the performance report***
- ***FAQ5: confirmation that NHS England will continue to fund the increase to the employer pension fund contribution and the accounting remains the same as it was in previous years***
- ***FAQ6: confirmation that partially completed spells are not expected to arise in 2021/22 as block contracts were in force. However, the guidance on accounting for the***

[19] HM Treasury, *FReM 2021/22*, December 2021
[20] DHSC, *GAM 2021/22*, May 2021

maternity pathway remains unchanged where that payment process has been in force during the year.

The DHSC implementation guidance has been updated to include an IFRS 16 supplement[21].

The DHSC has published the year-end timetable[22] and the agreement of balances timetable for quarter 3[23].

The NHS Business Services Authority has issued the Greenbury guidance for 2021/22[24]. The portal opened on 4 January 2022 and will close on 28 February[25].

IFRS 16

The NHS England and NHS Improvement IFRS 16 implementation webpage[26] has been updated with the following guidance:

- cross reference to the DHSC GAM IFRS 16 supplement
- an implementation guide that sets out the milestones NHS bodies need to meet
- ***guidance on the IFRS 16 impact forecast exercise[27]***
- frequently asked questions, ***updated in January***
- a training presentation
- an example lease register
- ***an updated version of the DHSC's lease accounting tool***
- worked examples setting out NHS specific scenarios – ***a new worked example was added in December***.

2022/23 manuals

The HM Treasury FReM 2022/23[28] was published on 16 December 2021. Key changes are:

- ***the adoption of IFRS 16***
- ***removal of references to the 2020 spending review and replacement with a requirement to refer to the most recent spending review***
- ***the inclusion of guidance on spending on consultancy and temporary staff and off-payroll requirements – this guidance was previously included in PES papers***
- ***a new requirement for government departments to provide a reconciliation, with explanations, between contingent liabilities included in the supply estimate to the outturn in the annual report and accounts***

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[21] DHSC, *IFRS 16 implementation guidance*, updated November 2021
[22] DHSC, *Annual report and accounts timetable 2021/22,* December 2021
[23] DHSC, *DHSC agreement of balances,* December 2021
[24] NHS BSA, *Disclosure of senior managers remuneration (Greenbury) 2021/22*, accessed January 2022
[25] NHS BSA, *Greenbury 2022 reminder*, accessed January 2022
[26] NHS, *IFRS 16 leases implementation*, regularly updated
[27] NHS, *IFRS 16 impact forecast guidance*, December 2021
[28] HM Treasury, *FReM 2022/23*, December 2021

Appendix 3: Corporate reporting requirements issued by the FRC

The Financial Reporting Council (FRC) is responsible for setting UK accounting standards, UK auditing standards and the corporate governance code of practice. The UK accounting standards only affect the preparation of NHS charity accounts and are not covered by this paper. NHS bodies are usually required to follow best practice reporting in relation to corporate governance and annual reports so this paper will consider any developments in this area.

UK corporate governance code

The FRC has published advice[29] for companies on how to report transparently and effectively against the comply or explain requirements of the UK corporate governance code. Where bodies do not comply with the code's requirements they should:

- make it easy for the reader to find which parts of the code, if any, they have not complied with
- ensure that all departures from the code are reported
- provide clear, meaningful and persuasive reasons for the departure from the code.

In May 2021, the FRC published a review of workforce engagement and involvement with corporate governance. The Corporate Governance Code 2018 specifically refers to the role of the workforce and promotes their involvement in corporate governance. The research found that there are some good examples of productive engagement but there are some improvements to be made.

While NHS bodies are not required to comply with this code, the FReM, GAM and the FT ARM all include comply or explain reporting requirements and this advice applies to those requirements.

In July 2021, the FRC published research on board diversity and effectiveness in FT350 companies[30]. The research concluded that:

- it is the responsibility of the Chair of a board to drive inclusion.
- regulators and companies must focus on collecting more data on the types of diversity, board dynamics and social inclusion
- the Nomination Committee itself should be diverse and have a clear mandate to work with search firms that access talent from wide and diverse pools
- the greater representation of women in the boardroom is reshaping culture and dynamics and benefiting businesses from a social justice as well as a performance perspective.

In December 2021, the FRC published a report[31] on the importance of creating a positive culture, the reported noted that:

- ***the tone is set from the top, but the workforce must feel engaged and able to contribute***
- ***the board should ensure that the organisation's culture is aligned with purpose, values and strategy***
- ***the chief executive is responsible for embedding culture throughout the organisation and properly empowered and supported managers are critical to achieving cultural change***
- ***assessment and monitoring of culture is important.***

Reporting in a time of uncertainty

The FRC has published:

- ***a review of IAS 37 Provisions, contingent liabilities and contingent assets[32]. The review identifies areas for improvement in explaining how estimates have been***

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[29] FRC, *Improving the quality of 'comply or explain' reporting*, February 2021
[30] FRC, *FRC board diversity and effectiveness in FTSE 350 companies*, July 2021
[31] FRC, *Creating a positive culture - opportunities and challenges*, December 2021
[32] FRC, *Thematic review: IAS 37 provisions, contingent liabilities and contingent assets*, October 2021

calculated with key assumptions and uncertainties documented and describing the underlying costs for which entities make provisions.

- *going concern, risk, and viability*[33] that focuses on the context that going concern disclosures provide in uncertain times and disclosures around viability that consider a period beyond the going concern period.

Reporting the impact of climate change

The FRC has published a *Thematic review: streamlined energy and carbon reporting*[34] (SECR) that looks at the application of the SECR rules that came into effect on 1 April 2019. The findings are that the reports reviewed largely complied with the minimum stator disclosure requirements but more needs to be done to make the disclosures understandable and relevant for users.

The FRC has published a factsheet[35] that is intended to inform preparers of annual reports under FRS 102 of climate related matters that they may need to consider.

33 FRC, *Thematic review: viability and going concern*, September 2021
34 FRC, *Streamlined energy and carbon reporting: thematic report 2021*, September 2021
35 FRC, *FRS 102 factsheet 8 - climate-related matters*, November 2021

Appendix 4: Audit developments

Audit of NHS bodies

The *Code of audit practice 2020*[36,37] applies to audits of financial years from 2020/21 onwards. The key changes to the Code include:

- clarification of the key principles of effective public reporting
- the option to introduce enhanced audit reporting at some, or all, public bodies
- a revised approach to assessing, and in particular, reporting on local bodies' arrangements to secure value for money. This revision is intended to maximise the impact of the work that auditors do in this area[38]
- the introduction of an annual auditor's report that will bring together all of the auditors' reports for the year. For NHS audits, this must be issued at the same time as the opinion on the financial statements (paragraph 4.6 of the Code of Audit Practice).

In April 2021, the NAO published guidance to assist auditors in meeting their responsibilities as the statutory auditor of local public bodies, under the Code of Audit Practice.

In September 2021, the NAO published guidance for auditors on their responsibilities in relation to going concern[39].

Changes to the audit regime

In July 2019, the Ministry of Housing, Communities and Local Government launched the Redmond review[40] of the *Local Audit and Accountability Act 2014* in relation to the audit of local authorities. The outcome of the Redmond Review was published on 8 September[41]. The recommendations relate only to local authority audits, as the audit of NHS bodies was outside of the scope of the review, but many of the findings are equally applicable to the NHS in relation to appointing auditors, audit fees and the focus of the audit[42].

The government has published two responses to the Redmond review[43]. The second response, proposed that the new regulator the Audit, Reporting and Governance Authority (ARGA) will take on responsibility for regulation of local audit, monitoring and review of local audit performance, developing the Code of Audit Practice and reporting on the state of local audit.

This means that ARGA, once established, could have that role for NHS audits as well as local authority audits. ARGA is being established as part of the changes to the audit regime – its role is set out in the BEIS consultation on reforms to the audit and corporate governance arrangements in the UK[44].

In July 2021, the MHCLG published a technical consultation on the local audit framework[45]that sets out the detail of how the proposals will be implemented. The consultation includes specific questions about the NHS audit market as it is proposed that ARGA will take on the same responsibilities for health audits as for local government.

Audit Quality

The FRC has published several documents relating to audit quality:

[36] NAO, *Code of audit practice*, April 2020
[37] NAO, *Auditor guidance notes (AGN/03): Auditors' work on value for money arrangements*, updated April 2021
[38] HFMA webinar, *Auditors' work on VFM arrangements under the new Code of Audit Practice*, October 2020
[39] NAO, *Supplementary guidance note 01: going concern - auditors' responsibilities for local public bodies*, September 2021
[40] MHCLG, *Review of local authority financial reporting and external audit*, July 2019
[41] MHCLG, *Results of independent review into quality of council audits published*, September 2020
[42] HFMA, *The NHS external audit market: current issues and possible solutions*, February 2021
[43] MHCLG, *Local authority financial reporting and external audit: spring update*, May 2021
[44] BEIS, *Restoring trust in audit and corporate governance: proposals on reforms*, March 2021
[45] MHCLG, *Local audit framework: technical consultation*, July 2021

- ***a report that sets out what makes a good audit[46]. This report sets out the key attributes of both a good audit and a high-quality audit practice – these include a quality mindset and culture as well as performance and quality monitoring and resources. The paper is relevant to audit in all sectors, including the public sector and is expected to be used by the audit firms as they develop their plans to improve audit quality***
- ***developments in audit[47] that sets out the FRC's annual assessment of UK audit and its expectations for how audit firms should deliver quality improvements. The key areas for improvement are professional scepticism and challenge of management's assumptions, particularly in relation to judgements and estimates***
- their audit inspection results[48] for the seven largest audit firms. Of the 103 audits reviews, 71% were of a good standard or required limited improvement – an improvement on the year before. Quality across audit firms was more mixed than in 2018/19
- ***a report on their audit quality inspection of major local audits[49] of the 2019/20 annual reports and accounts that included the audit of four health bodies. The report also includes the findings of the inspection of local audits that do not meet the definition of major audits. The report concludes that the quality of value for money conclusion work remains high, however, six of the 20 audits reviewed require improvement in the audit of the financial statements. This is an improvement on the previous review where nine out of 14 audits reviewed required improvements (two of which required significant improvement). The areas for improvement include testing of expenditure, assumptions in the valuation of investment property and property, plant and equipment and the reasoning to support a modified audit opinion.***

The quality management standards and ISA(UK)220 on quality control have been updated for audits of financial statements beginning on or after 15 December 2022 with early adoption strongly encouraged[50].

The majority of the work that the FRC is undertaking in relation to improving audit quality is focussed on commercial audits. However, it is likely to affect NHS audits – particularly the FRC's conclusions in relation to the importance of the culture of challenge in audit firms – that may result in changes to the 'feel' of the audit. There may also be an impact on audit fees.

The FRC's areas of focus for audit quality inspections for 2022/23[51] will be:

- ***climate related risks***
- ***fraud risks***
- ***cash and cash flow statements***
- ***provisions and contingent liabilities***
- ***impairment of assets***
- ***revenue***
- ***group audits.***

The FRC have published a thematic briefing on the audit of cash flow statements[52]. The review identified errors in cash flow statements – mostly relating to misclassification between operating, investing, and financing activities.

Changes to auditing standards

ISA(UK)240 *The auditor's responsibilities relating to fraud in an audit of financial statements* has been revised for audits of periods beginning on or after 15 December 2021, early adoption is permitted. The changes to the standard will affect the risk assessment that the auditor undertakes in relation to fraud, audit evidence in relation to related parties, discussions with management and those charged with governance and the audit report.

[46] FRC, *What makes a good audit?*, November 2021
[47] FRC, *Developments in audit 2021*, November 2021
[48] FRC, *FRC annual audit quality inspection results 2020/21*, July 2021
[49] FRC, *Major local audit : audit quality inspection*, October 2021
[50] FRC, *FRC revises UK quality management standards*, July 2021
[51] FRC, *FRC announces areas of supervisory focus for 2022/23*, December 2021
[52] FRC, *The audit of cash flow statements*, May 2021

ISA(UK)315 *Identifying and assessing the risks of material misstatement* was revised for audits of periods beginning on or after 15 December 2021. The changes to the standard introduce new concepts and definitions that are intended to enhance and clarify auditors' assessment of risk and use of professional scepticism.

About the HFMA

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff in healthcare. For over 70 years, it has provided independent and objective advice to its members and the wider healthcare community. It is a charitable organisation that promotes best practice and innovation in financial management and governance across the UK health economy through its local and national networks.

The association also analyses and responds to national policy and aims to exert influence in shaping the wider healthcare agenda. It has particular interest in promoting the highest professional standards in financial management and governance and is keen to work with other organisations to promote approaches that really are 'fit for purpose' and effective.

The HFMA offers a range of qualifications in healthcare business and finance at undergraduate and postgraduate level and can provide a route to an MBA in healthcare finance. The qualifications are delivered through HFMA's Academy which was launched in 2017 and has already established strong learner and alumni networks.

HFMA

HFMA House, 4 Broad Plain, Bristol, BS2 0JP

T 0117 929 4789

E info@hfma.org.uk

Healthcare Financial Management Association (HFMA) is a registered charity in England and Wales, no 1114463 and Scotland, no SCO41994.

HFMA is also a limited company registered in England and Wales, no 5787972. Registered office: 110 Rochester Row, Victoria, London SW1P 1JP

www.hfma.org.uk