Financial reporting – watching brief  
December 2015

This paper is intended to update HFMA members on developments in financial reporting which may affect them as finance professionals working in the NHS. This paper was presented to the HFMA’s Accounting and Standards Committee on 19 November 2015. All major changes since the September paper have been highlighted in bold italic.

While every care had been taken in the preparation of this briefing, 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.

Introduction

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 which 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)
- Corporate reporting requirements issued by the Financial Reporting Council (FRC) (see appendix 2)
- HM Treasury Financial Reporting Manual (FReM) and papers issued by Financial Reporting Advisory Board (FRAB) (see appendix 3)
- Specific manuals issued by NHS bodies (see appendix 4).

Key developments which are likely to affect the NHS

2015/16

- The implementation of HM Treasury’s ‘Streamlining the annual report and accounts’ project
- Implementation of IFRS 13 Fair Value Measurement
- For NHS charities, implementation of new Charities SORP (FRS 102) or Charities SORP (FRSSE)
2016/17 and beyond

- Amendment to IAS 16 *Property, plant and equipment* and IAS 36 *Intangible assets* – the amendment clarifies that revenue based depreciation methods are not allowed. This is unlikely to affect NHS bodies but the amendment to the standard is applicable from 1 January 2016.

- Amendment to IFRS 11 *Joint Arrangements* – the amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. This is unlikely to affect NHS bodies but the amendment to the standard is applicable from 1 January 2016.

- Implementation of IFRS 15 *Revenue from contracts with customers* (expected implementation date 1 January 2018).

- Implementation of IFRS 9 *Financial instruments* (expected implementation date 1 January 2018).

- A new lease accounting standard.
### Appendix 1: Accounting standards

New and amended accounting standards which will be applicable from 2015/16

- IFRS 13 Fair Value Measurement

Accounting standards issued but not applicable until January 2016 or later

(These tables are based on the IASB’s work plan dated 23 November 2015\(^1\) and the EU endorsement status report dated 20 October 2015\(^2\))

<table>
<thead>
<tr>
<th>Standard</th>
<th>Timeline</th>
<th>Assessed impact on NHS bodies</th>
<th>Accounting and Standards Committee action taken/required</th>
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| IFRS 9 Financial instruments | The standard was re-issued in final form in July 2014 with an implementation date of 1 January 2018. It has not yet been EU endorsed but that is expected to happen during the first half of 2016. The implementation date in the NHS will be determined by HM Treasury but it will be no earlier than 1 January 2018. | A full review has not been undertaken but as NHS bodies rarely hold complex financial instruments the impact is likely to be minimal. Under the new standard, there will be only three categories of financial asset:  
- Fair value through P&L  
- Fair value through other comprehensive income  
- Amortised cost.  
Most NHS bodies’ financial assets will be held at amortised cost. There is a change in approach to impairment. Currently, there has to be objective evidence of impairment. Once this standard is adopted, a forward looking view can be taken so that impairments can be made on the basis of what is expected to happen. This will move back towards the old bad debt provision. | HM Treasury are reviewing the impact of this standard on government bodies. At the moment there are no adaptations to the standard proposed for its implementation in the public sector. Keep on this watching brief |
| IFRS 15 Revenue from contracts with customers | IFRS 15 Revenue from Contracts with Customers was published in May 2014. Expected to be endorsed by the EU in 2016 for implementation from 1 January 2018. The implementation date in the NHS will be determined by HM Treasury but it will be | The impact will be on provider bodies who receive income as a result of entering into contracts for services. This will have a consequential impact on commissioner bodies that recognise expenditure with the provider bodies. The standard may not affect the income recognised by NHS bodies but applying the new standard will require a full review of all income streams so this standard could result in a lot of work to apply. | HM Treasury are reviewing the impact of this standard on government bodies and the DH is part of the working group that has been established\(^3\). This committee, and HFMA members, are likely to be consulted with as part of this work. |

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2. www.efrag.org/Front/c1_306/Endorsement-Status-Report_EN.aspx  
3. See item 6 in the minutes of the FRAM meeting in June 2015  
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| Amendments to IAS 1 Presentation of Financial Statements (Note: this is part of a larger project called the disclosure initiative. All other parts of the project are at the research stage and will be added to this paper when an exposure draft is issued.) | Amendments to IAS 1 issued in December 2014 effective from 1 January 2016. Not yet EU adopted | The key changes will impact on all NHS bodies:  
- There is an emphasis on considering whether required disclosures are material and whether the inclusion of immaterial information could be detrimental to the understanding of the accounts. There is also guidance on whether material items should be aggregated or disaggregated  
- Clarification that specific line items in the primary statements can be disaggregated if this improves understanding of the accounts  
- New guidance on the presentation of sub-totals in the primary statements  
- Clarification that the order of presentation of notes is flexible and emphasis on making the accounts as a whole more understandable  
- Guidance on what should be included in the accounting policy disclosures | Keep on watching brief alongside the HM Treasury streamlining the accounts project. |

**Major projects**

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<tr>
<td>Insurance contracts</td>
<td>New standard planned for issue after 2015 with an application date no sooner than three years after the publication date. IASB issued an updated project overview in October 2015.</td>
<td>Unlikely unless risk sharing arrangements fall under this standard.</td>
<td>Keep on this watching brief</td>
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<tr>
<td>Leases</td>
<td>Exposure drafts (EDs) were issued in 2010 and 2013.</td>
<td>All leases in the NHS will have to be reassessed. If current operating leases are brought onto the SOFP then financial metrics will need to be reviewed.</td>
<td>Summary of ED taken to A&amp;S meeting on 18</td>
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<td>The IASB now say that they plan to issue the new standard before the end of 2015. IASB issued a summary of the practical implications of the new standard in March 2015⁵. According to the IASB’s website they are currently drafting the IFRS and expect to issue it within 3 months. <strong>In its October board meeting the IASB tentatively decided that the effective date for the standard would be periods on or ending 1 January 2019.</strong></td>
<td>The ISAB have issued a summary of the tentative decisions they have made during 2014⁶ as well as the March summary: ‘In essence for all leases, the IASB model requires a lessee to: (a) recognise lease assets and liabilities on the balance sheet, initially measured at the present value of unavoidable lease payments; (b) recognise amortisation of lease assets and interest on lease liabilities over the lease term; and (c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within either operating or financing activities) The ISAB will discuss disclosures and transition requirements during the second half of 2014 with the expectation that the new standard will be issued in 2015. <strong>The IASB have also issued a project update ‘Definition of a lease’⁷ which provides examples illustrating how a contract should be assessed to determine whether it includes a lease.</strong></td>
<td>September 2013. No further action to be taken until the standard is published.</td>
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Amendments to IAS 7 Statement of Cash Flows  
(Note: this is part of a larger project called the disclosure initiative. All other parts of the project are at the research stage and will be added to this paper when An exposure draft of the amendments to IAS 7 was issued in December 2014. Deliberations for these amendments will begin in quarter 2 of 2015. | The Exposure Draft proposes two amendments to IAS 7 Statement of Cash Flows:  
1. An entity should disclose a reconciliation of the amounts in the opening and closing statements of financial position for each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows, excluding equity items.  
2. Extended disclosures about an entity’s liquidity and about the restrictions that affect the decisions of an entity to use cash and cash equivalent balances, including tax liabilities that would arise on the repatriation of foreign cash and cash equivalent balances. | Keep on the watching brief |

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<td>an exposure draft is issued.</td>
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<td>IFRS practice statement application of materiality to financial statements has been issued</td>
<td>An exposure draft was issued in October 2015 with a comment deadline of 26 February 2016.</td>
<td>The aim of the practice statement is to provide guidance to assist management in applying the concept of materiality to IFRS based financial statements.</td>
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<td>The guidance is split into three main areas:</td>
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<td>• Characteristics of materiality</td>
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<td>• How to apply the concept of materiality when making decisions about presenting and disclosing information in the financial statements</td>
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<td>• How to assess whether omissions and misstatements of information are material to the financial statements.</td>
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Appendix 2: Corporate reporting requirements issued by the FRC

The Financial Reporting Council 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. Changes to auditing standards will not impact on NHS bodies so will not be 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

An updated version of the code was issued in September 2014 and applies to reporting periods beginning on or after 1 October 2014. The 2012 code has been incorporated into Monitor’s corporate governance code for NHS foundation trusts. It is not expected that the 2014 will result in any major changes to Monitor’s corporate governance code.

Guidance on the strategic report

In June 2014, the FRC issued its guidance on the strategic report. This guidance replaces the reporting standard on the operating and financial review. The guidance is intended to be principles based; one of its objectives is to set out high-level principles that enable entities to ‘tell their story’. In particular, the guidance provides ‘linkage examples’ which are intended to illustrate how parts of the annual report can be linked to provide a cohesive narrative.

This guidance is best practice so NHS bodies should refer to it.

Consultation draft on new guidance to enhance reporting on risks and the going concern basis of accounting

This guidance will be applicable to all entities that do not apply the UK Corporate Governance Code. The purpose of this guidance is to provide proportionate advice to those entities whilst reflecting the FRC’s thinking as a consequence of the Sharman Inquiry. The UK Corporate Governance Code was updated to reflect the Inquiry’s recommendations.

The guidance is intended to serve as a practical guide that includes:

- Factors for boards to consider when determining whether the going concern basis of accounting is appropriate and making assessments of risk relevant to an entity’s future viability;
- Guidance on the assessment periods for the going concern basis of accounting and risks
- A summary of the reporting requirements in relation to going concern.

The consultation ends on 15 January 2016.

Financial reporting lab

The FRC launched the financial reporting lab in 2011 to provide an environment for companies and investors can come together ‘to develop pragmatic solutions to today’s reporting needs’. As NHS bodies do not have investors, some of the output of the lab is not applicable. However, the Lab Reminders for 2014 includes some useful guidance on integrating accounting policies with financial reports and on clear and concise reporting.

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Appendix 3: HM Treasury

The 2015/16\textsuperscript{11} HM Treasury FReM was published on 18 December 2014. The key changes\textsuperscript{12} from 2014/15 are:

- The application of IFRS 13 fair value for the first time
- The amendment of the annual report and accounts as a result of the Simplification and Streamlining Project.

Appendix 4: NHS specific manuals for accounts

The following was included in Monitor’s response to their consultation on their annual reporting manual (ARM):’

‘Monitor and the Department of Health are currently working on converging the FT ARM and the Department of Health group manual for accounts into one joint manual in 2016/17. As a result we anticipate DH’s manual will be revised and apply to all bodies’ accounts, including NHS foundation trusts’. Monitor will continue to set the requirements for NHS foundation trusts’ annual reports as part of a revised FT ARM. ’

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<th>Draft</th>
<th>Final</th>
<th>FAQs/updates</th>
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| 2015/16 DH manual for accounts (MfA) | Published on 6 August 2015 | The main changes are:  
• The adoption of IFRS 13  
• The adoption of HM Treasury’s simplification and streamlining project (this has resulted in Chapter 2 being substantially re-written)  
• New detailed guidance on accounting for the better care fund.  

The timetable for the preparation and submission of the 2015/16 annual reports and accounts has been issued.

Revised guidance on the NHS injury cost recovery scheme has been issued.

| 2015/16 Monitor annual reporting manual | Published on 30 November 2015 | The main changes are:  
• The adoption of IFRS 13  
• The adoption of HM Treasury’s simplification and streamlining project (this has resulted in Chapter 7 being substantially re-written)  
• New disclosures in relation to PFI and LIFT Disclosures in relation to the steps taken to assess the reasonableness of salaries paid to senior managers which are more than £142,500.  

There are also other minor changes. |

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