

**HFMA introductory guide to NHS finance**

# **Chapter 11: How NHS bodies demonstrate financial accountability**

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# Chapter 11: How NHS bodies demonstrate financial accountability



## Overview

This chapter looks at the key financial and performance reporting mechanisms that NHS bodies use to demonstrate accountability in financial terms. Its primary focus is on external reporting requirements but there is also a section on reports to budget holders and governing bodies.

## 11.1 External reporting

### Statutory requirements

All NHS bodies have a statutory duty to produce an annual report and accounts<sup>131</sup> with the form and content set out in accounts directions<sup>132</sup>. The accounts directions are made by different organisations depending on the NHS body, but they all require organisations to prepare true and fair accounts and to maintain appropriate accounting records. This is done by complying with the *Group accounting manual*<sup>133</sup> produced by the Department of Health and Social Care (DHSC) and, for NHS foundation trusts, the *FT annual reporting manual*<sup>134</sup>.

The production of the annual report and accounts is the principal means by which NHS bodies discharge their accountability to taxpayers and users of services for their stewardship of public money.

The annual report and accounts is a single document that is approved and signed by the governing body and includes an external audit opinion. All NHS bodies must publish their annual report and accounts and then present it at a public meeting. NHS foundation trusts must lay their annual report and accounts before Parliament prior to publication or presentation at a public meeting. It is considered best practice for the public meeting to be held before 30 September following the end of the relevant financial year.

### Annual report

The annual report is primarily a narrative document, it is based on the directors' report and the remuneration report required in the private sector by the *Companies Act 2006*<sup>135</sup>, but with additional information reflecting the NHS body's position as a public sector body. The report gives an account of the body's activities and performance over the last financial year.

The annual report and accounts must be fair, balanced and understandable. The annual report is an opportunity to set out their achievements in the year and highlight the challenges ahead.

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<sup>131</sup> For CCGs this duty is set out in the Health and Social Care Act 2012, part 1, section 26, sub section 14Z15 and schedule 2, paragraph 17 (2). For NHS trusts, the relevant legislation is section 232 and paragraph 3(1) of schedule 15 of the NHS Act 2006 as amended by part 4, section 154 of the 2012 Act; for NHS foundation trusts (FTs) the relevant legislation is section 30 and paragraph 25(1) of schedule 7 of the NHS Act 2006 as amended by part 4, section 154 of the 2012 Act.

<sup>132</sup> DHSC, *Group accounting manual (chapter 2 annex 3)*, updated February 2022

<sup>133</sup> DHSC, *Group accounting manual*, updated February 2022

<sup>134</sup> NHS, *NHS foundation trust annual reporting manual*, updated March 2022

<sup>135</sup> UK Government, *Companies Act 2006*, 2006

Although the overall layout of the annual report is at each NHS body's discretion, there are mandatory items that must be included - these are *Companies Act 2006* and HM Treasury requirements and NHS specific disclosures. The DHSC, NHS England and NHS Improvement provide specific guidance to NHS bodies in relation to these requirements.

All NHS annual reports will include a performance report, that is made up of a short overview of performance as well as more detailed analysis (in 2019/20 and 2020/21 the detailed analysis was optional due to the pressures of the Covid-19 pandemic). The overview sets out:

- information on the NHS body – how it is organised and managed
- the chief executive's summary of the NHS body's performance in the year
- the organisation's main objectives and strategies
- the main risks it faces.

The detailed analysis includes information on the NHS body's performance including trend analysis and key performance indicators as well as more detailed risk information and non-financial information on matters such as human rights, diversity and environmental issues.

The annual report will also include an accountability report that is intended to meet key accountability requirements to Parliament. This part of the report will include the directors' report, statement of accounting/ accountable officer's responsibilities and the annual governance report. It will also include a remuneration and staff report that discloses policies for senior managers' total rewards (salary and pension) and other staff information.

There are some disclosures which are required by statute for different NHS bodies. For example, section 14Z15 of the *National Health Service Act 2006*<sup>136</sup> (as amended by the *NHS and Social Care Act 2012*) specifically requires that CCGs' annual reports explain:

- how the CCG has contributed to the relevant health and wellbeing strategy
- how it has discharged its duties in relation to:
  - securing continuous improvement in the quality of services
  - reducing health inequalities between patients with respect to their ability to access health services and the outcomes achieved for them
  - involving and consulting with the public.

Another example is the requirement in paragraph 26(2) of Schedule 7 of the *National Health Service Act 2006* (as amended) for NHS foundation trusts to publish information on directors' remuneration and the expenses of governors and directors. While NHS trusts are required to make disclosures relating to directors' remuneration in accordance with the GAM, these precise disclosures are not required.

## Annual accounts

The format of the annual accounts is specified in each accounts direction and is slightly different depending upon the type of NHS body concerned. However, the main elements are shown below:

### The contents of the annual accounts

#### The four primary statements:

- statement of comprehensive income (for providers) or statement of comprehensive net expenditure (for all other NHS bodies)

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<sup>136</sup> UK Government, *National Health Service Act 2006*, 2006

- statement of financial position
- statement of changes in taxpayers' equity
- statement of cash flows.

## Notes to the accounts

### Statements and certificates:

- directors' statement of responsibilities
- the accounting (or accountable) officer's statement of responsibilities
- the governance statement (see below)
- the auditors' report.

## Accounting framework

In preparing their accounts, NHS bodies must follow international financial reporting standards (IFRS) as issued by the IFRS Foundation<sup>137</sup>. These standards are intended to provide a framework for good practice, the common disclosure of information and a benchmark against which an NHS body's audited accounts are judged.

Although NHS bodies must adhere to IFRSs, the Government has the final say on how these standards are applied to the public sector (including NHS bodies) with details set out in HM Treasury's *Financial reporting manual* (FReM)<sup>138</sup>. This is because IFRSs are written with profit making organisations in mind and therefore some interpretation is required to allow them to be applied consistently to public sector bodies where there is no profit motive.

The DHSC *Group accounting manual* (GAM)<sup>3</sup> is consistent with the requirements of the FReM. The GAM sets out the particular reporting requirements for all NHS bodies.

The parts of the GAM which relate to the annual report apply to all NHS bodies apart from NHS foundation trusts. The requirements for NHS foundation trusts' annual reports are set out in the *Foundation trust annual reporting manual* (FT ARM)<sup>4</sup> which is published by NHS England and NHS Improvement each year.

These manuals are updated each year and include a summary of the relevant accounting standards. However, if an NHS body needs a more detailed understanding of a particular aspect, it should refer to the relevant accounting standard in full.

## Governance statement

NHS bodies produce a governance statement<sup>139</sup> each year that is included in the annual report and accounts. This statement focuses on the stewardship of the body, it sets out how the board has managed and controlled its resources and reports on the NHS body's risk management and control system over the year<sup>140</sup>. Although there is no prescribed format the statement must cover a number of areas including:

- information about the NHS body's governance framework (including its board committee structure)
- responsibilities for risk management, internal control systems and for reviewing their effectiveness, this includes the board's performance

<sup>137</sup> The IFRS Foundation, *International financial reporting standards, 2022*

<sup>138</sup> HM Treasury, *Financial reporting manual*, updated December 2021

<sup>139</sup> Also known as an annual governance statement

<sup>140</sup> HM Treasury, *Managing public money (annex 3.1)*, updated March 2022

- the processes and structures used to identify, evaluate and manage the principal and emerging risks faced
- the main features that support regular review, monitoring and assurance
- the process applied to review the effectiveness of risk management and internal control, and the associated systems that have been in place for the year up to the date of approval of the annual report and accounts
- any significant control issues that have emerged during the year and how they are being, or have been, addressed.

## Quality accounts

Since April 2010, all providers of acute care (including all NHS provider bodies as well as commercial providers of NHS services) have been required to produce an annual quality account in line with the statutory requirement set out in the *Health Act 2009*<sup>141</sup> and the associated regulations. The aim is to 'enhance accountability to the public and engage the leaders of an NHS body in their quality improvement agenda' by reporting the continuous improvement in the quality of the services provided.

The required contents of the quality account are set out in the statutory instruments<sup>142</sup> supporting the 2009 Act and guidance issued by the NHS<sup>143</sup>.

Quality accounts must be shared for comment with the main commissioner for the provider (whether that is NHS England and NHS Improvement or a lead CCG), local HealthWatch and local overview and scrutiny committee. The final agreed quality account must be sent to the Secretary of State and made publicly available by 30 June following the financial year end.

Until 2019/20, alongside this statutory requirement, NHS foundation trusts were required to produce a quality report. The quality report was the quality account with additional mandated disclosures determined by NHS England and NHS Improvement. The quality report had to be included in the NHS foundation trust's annual report and accounts and therefore had to be produced and finalised within the deadlines for the annual report and accounts.

However, as a result of Covid-19, quality reports were not required in 2019/20 and 2020/21 and NHS England and NHS Improvement announced that the quality report would no longer be required.

From 2021/22, NHS trusts and NHS foundation trusts are required to report on their performance against quality priorities and indicators in the overview and performance analysis parts of their annual report. The quality priorities and indicators to be reported should be the most pertinent ones for that NHS body set out in the *NHS system oversight framework*<sup>144</sup> and should link to the disclosures on quality governance and data quality in the accountability report.

It is for NHS bodies to determine whether they want to ask their auditors to provide assurance over any of the quality metrics that they report.

## What quality accounts include

- an overall statement by the chief executive on the quality of health services provided or sub-contracted during the year
- a review of performance against the quality indicators, out of a prescribed set of 15, that are relevant to the services the NHS body provides. For each indicator, performance is reported

<sup>141</sup> UK Government, *Health Act 2009, 2009*

<sup>142</sup> UK Government, *National Health Service (Quality Accounts) Regulations 2010 (SI 2010/279)* as amended by SI 2011/269, SI 2012/3081, SI 2017/744, SI 2018/59 and SI 2020/466, 2010

<sup>143</sup> NHS, *About Quality Accounts*, updated 2019

<sup>144</sup> NHS, *NHS System Oversight Framework 2021/22*, June 2021

using specified data sources so there is comparability between providers. For each indicator, the actions taken or to be taken to improve performance are also reported.

- at least three areas for improvement including why those areas have been selected and how progress will be reported to patients and the public
- progress on areas of improvement identified in the previous report
- the national, local and clinical audits the NHS body has taken part in
- statements of assurance from the board as required by the regulations
- what others say about the provider, these include commissioners, local HealthWatch organisations and overview and scrutiny committees
- any other information that the provider body might want to include (for NHS foundation trusts, this section includes other disclosures mandated by NHS Improvement).

## External audit

As mentioned above, the NHS body's annual report and accounts are subject to scrutiny from the external auditor and must be signed off by them prior to their publication. To be able to carry out their audit, auditors must be given a copy of the annual report and accounts and complete working papers that fully support the figures and disclosures made by management in the draft annual report and accounts, before the start of the audit so that they have sufficient time to carry out the required work to meet the accounts completion deadline.

The auditors are required to comply with the *Code of audit practice*<sup>145</sup> (the Code) published by the National Audit Office which sets out the additional requirements for an audit of an NHS body. The Code requires auditors to follow *International standards on auditing for the UK (ISAs)*<sup>146</sup> when undertaking their work on the annual report and accounts.

The Code sets out the various elements that make up the auditor's report on the annual report and accounts, this includes:

- an audit opinion on the annual accounts which says whether the financial statements give a 'true and fair' view and whether the financial statements have been properly prepared
- a statement on whether the information published with the annual accounts (usually, the annual report) is consistent with the annual accounts
- a statement that parts of the remuneration report that are subject to audit have been properly prepared
- (for CCGs) an opinion on whether in all material respects the expenditure and income recorded in the financial statements has been applied to the purposes intended by Parliament (known as the regularity)
- where the auditor is not satisfied with the arrangements to secure value for money, by exception, a statement in relation to the NHS body's use of resources
- a certificate that closes the audit.

All auditors issue a report<sup>147</sup> to the audit committee which summarises their findings at the end of the audit. From 2020/21 onwards, auditors will also issue an auditor's annual report that will bring together all of the auditors work over the year including their findings and any recommendations. A core element of this report will be the auditor's commentary on the body's value for money (VFM) arrangements. The annual audit report is required to be a clear and understandable commentary of

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<sup>145</sup> NAO, *Code of audit practice 2020*, April 2020

<sup>146</sup> Financial Reporting Council, *International standard on auditing (UK)*, updated January 2020

<sup>147</sup> This report is called the ISA260 report or report to those charged with governance.

the results of the auditors work for the general public. NHS bodies are required to publish it alongside their annual report and accounts.

After the accounts have been audited and any necessary amendments made, the governing body is required to formally adopt the accounts and the certificates are signed to demonstrate that approval. The auditor then signs their audit report.

## Timetable

The Department of Health and Social Care, in conjunction with NHS England and NHS Improvement, determines the overall timetable for the production of the annual report and accounts. The timetable is set so that the various national consolidated reports and accounts can be produced and laid before Parliament prior to the summer recess.

Normally, this means that the draft annual report and accounts are submitted for audit in the third week of April and the audits are finished in the last week of May. The exact submission dates vary by a matter of days each year to take account of weekends and bank holidays.

The Covid-19 pandemic meant that the timetable has been extended since 2019/20. For NHS bodies, this was by a matter of weeks but the national consolidated accounts for 2019/20 and 2020/21 were not laid before Parliament until the January after the financial year-end.

It is expected that it will take several years for the timetable to return to the pre-pandemic deadlines.

## Monitoring reports

As well as preparing the statutory annual report and accounts, NHS provider bodies are required to submit provider finance returns (PFR) to NHS England and NHS Improvement throughout the year. PFR forms are consistent with the annual accounts but alongside the primary financial statements include additional management information that is used by NHS England and NHS Improvement to monitor financial performance throughout the year.

At the year end, providers are required to prepare the trust accounts consolidation (TAC) schedules that are consistent with their annual accounts. These are submitted to NHS England and NHS Improvement and are used to prepare the consolidated annual report and accounts for the DHSC, as well as consolidated provider accounts and consolidated NHS foundation trust accounts. The DHSC's annual report and accounts shows how the money voted by Parliament for health has been spent.

All CCGs and NHS England and NHS Improvement use the same financial ledger, the integrated single financial environment (ISFE). NHS England and NHS Improvement therefore has access to CCGs' financial information through ISFE, so CCGs do not need to complete consolidation schedules. However, at the end of quarter 3 and at the year-end, CCGs and NHS England and NHS Improvement regional offices are required to provide additional financial information, which is not available from ISFE to NHS England and NHS Improvement, to allow them to produce their own consolidated report and accounts. The NHS England annual report and accounts consolidates the performance of NHS England with CCGs and shows how the financial requirements of the *NHS mandate*<sup>148</sup> have been achieved in the year.

Financial information submitted during the year is used to prepare financial reports for the NHS England and NHS Improvement board meetings.

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<sup>148</sup> DHSC, *NHS mandate 2021 to 2022*, March 2021

## 11.2 Financial performance targets

As well as the statutory requirement to produce annual reports and accounts, NHS bodies are subject to a range of statutory and departmental financial targets. The targets and their nature vary according to the type of NHS body.

### NHS England and NHS Improvement

NHS England and NHS Improvement is made up of three statutory bodies, each with different financial duties:

- NHS England (statutorily called the NHS Commissioning Board)
- NHS Trust Development Authority (NHS TDA)
- NHS Improvement (statutorily called Monitor).

NHS England's key statutory financial duty is to ensure that in each financial year total spending on health does not exceed the funding available. NHS England must also ensure that:

- the total capital resource used in a financial year does not exceed the amount specified by the Secretary of State (known as the capital resource limit or CRL)
- the total revenue resource used in a financial year does not exceed the amount specified by the Secretary of State (known as the revenue resource limit or RRL).

NHS England is also enabled by the 2012 Act to use some of the funding it receives to establish a contingency fund that can be used to help discharge its functions or to help CCGs discharge their functions.

In relation to revenue and capital resource limits, NHS England's chief executive (the accounting officer) is held to account by the Department of Health and Social Care. NHS England is also required to prepare a consolidated annual report and accounts for itself and all CCGs, which is a key element in the Department's overall resource account.

The NHS TDA is a special health authority. It is required to keep its expenditure within the funding allocated to it by Parliament.

Monitor is an executive non-departmental public body (ENDP), that is also required to keep its expenditure within its funding allocation.

NHS England and NHS Improvement also prepare consolidated provider accounts and consolidated NHS foundation trust accounts that show how the provider bodies meet their financial duties.

### Clinical commissioning groups

CCGs' key financial duty as set out in section 27 of the 2012 Act, is that each CCG must not spend more in a year than it receives. In addition, in relation to both revenue and capital resources, each CCG must not spend more than an amount specified by direction of NHS England. In other words, each CCG must not exceed its revenue and capital resource limits.

CCG budgets include a maximum allowance to cover administration or running costs. Although they can choose to undertake some or all of these roles themselves, they have the flexibility to use the money to buy in the services needed from commissioning support units (CSUs). The running cost allowances were originally based on a price per head of population, in 2016 the published allocation

was £22.07 per head of population. The running cost allowance for 2020/21 was set in line with the expectation that CCGs would deliver a real terms reduction of 20% from their 2017/18 running cost allowance.

## NHS trusts and NHS foundation trusts

NHS trusts have a statutory financial duty to achieve a break-even position on revenue and expenditure taking one year with another. Trusts must also remain within a borrowing limit set by the Secretary of State<sup>149</sup>.

The requirement to break-even is set out in paragraph 2 of Schedule 5 of the *National Health Service Act 2006* and means that a trust must ensure that its revenue is not less than sufficient, taking one financial year with another, to meet outgoings properly charged to the statement of comprehensive income (SOCi).

'Taking one financial year with another' has been interpreted to mean that over a three- or five-year period, trusts are required to achieve a break-even position on their SOCi<sup>150</sup>. This is to allow some flexibility where exceptional costs are incurred and when managing the financial recovery of a trust with serious financial difficulties.

NHS trusts also have non-statutory duties to meet, known as administrative duties, to:

- pay a public dividend capital (PDC)<sup>151</sup> dividend to the DHSC each year
- manage within a pre-set external financing limit (EFL)
- meet the capital resource limit (CRL)
- comply with the better payment practice code<sup>152</sup> for the payment of invoices.

Chapter 15 contains further information on the first three of these duties.

In contrast NHS foundation trusts have no statutory financial duties. They are required to pay a PDC dividend and, as public bodies, comply with the better payment practice code but do not have an EFL or CRL.

NHS foundation trusts were intended to operate on a similar basis to commercial organisations, so they must operate effectively, efficiently and economically and remain a going concern.

In practice, between 2016/17 and 2019/20, all providers, whether they are NHS trusts or NHS foundation trusts, have been required to meet a control total agreed with NHS England and NHS Improvement. The control total for each organisation could be a surplus or a deficit depending on the financial position of the organisation, but the sum of the control totals allowed NHS England and NHS Improvement to monitor and manage the financial position of the whole provider sector.

Equally, the requirement that, at the national level, the DHSC must ensure that capital expenditure does not exceed the funds allocated to it for capital projects by Parliament (the capital departmental expenditure limit (CDL)) means that capital expenditure has been constrained for all NHS providers (see chapter 15 on capital).

In 2020/21, the financial regime for the NHS was revised and simplified to meet the challenge of the Covid-19 pandemic. This regime was rolled over into 2021/22 with the expectation that a new regime will be in force for 2022/23. The simplified regime removed control totals as fixed levels of funding

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<sup>149</sup> See paragraph 1(6) of Schedule 5 of the *NHS Act 2006*.

<sup>150</sup> NHS Improvement, *Statutory breakeven duty: a guide for NHS trusts*, April 2018

<sup>151</sup> PDC is a form of long-term government finance. The basis for calculation for the annual dividend payable is set out in chapter 15.

<sup>152</sup> Cabinet Office, *Prompt payment policy*, November 2018

was provided to meet most of the cost of treating Covid-19 but the statutory duties, as described, remained in place.

### Better payment practice code

All NHS bodies must comply with the better payment practice code. The target is that 95% of invoices, by both value and volume, must be paid within 30 days of receipt. During the Covid-19 pandemic, all public sector bodies were encouraged to pay invoices within seven days.

## 11.3 Financial performance management

### Planning

HM Treasury, the DHSC and NHS England and NHS Improvement require that the financial performance of NHS bodies is monitored throughout the financial year. The primary basis of financial performance management process is the annual financial plan. All NHS bodies are required to undertake medium term financial planning and, as part of this process, the organisation must plan to achieve its financial duties. The plan must cover all expected sources of revenue and expenditure and the full range of responsibilities under the management of the NHS body. Organisational financial plans must be consistent (in aggregate) with system wide plans, and both are submitted to NHS England and NHS Improvement.

The formal national planning process has been in place since 2016/17 – NHS England and NHS Improvement publish national assumptions along with technical guidance and a submission timetable each year. Plans are produced on an organisation and system wide basis and are for the short-term (one year) and medium term (five-years). In 2019/20 and the first part of 2020/21, the formal planning process was suspended due to the Covid-19 pandemic, but was partly reinstated during 2021/22, with a full process in place for 2022/23. These plans cover both financial and non-financial performance.

CCGs have a statutory duty to prepare an annual commissioning plan<sup>153</sup>. The plan should set out how a CCG proposes to 'exercise its functions' – this includes how it plans to spend the funding received on buying healthcare for its constituent practices' patients. These requirements are met by the national planning requirements.

### Reporting financial performance

To ensure effective management of financial resources NHS bodies must report regularly on their financial performance against the plan submitted at the start of the financial year to NHS England and NHS Improvement. Financial monitoring returns submitted to regulatory bodies during the year underpin this framework. NHS England and NHS Improvement use the monitoring returns to take risk-based approach to determine what oversight and intervention to apply to organisations, and, latterly, systems.

Chief finance officers are expected to inform the appropriate regulator if there are any significant variances against plans and to ensure that appropriate recovery plans are put into place.

### Non-financial performance standards and targets

As well as financial duties, there are a number of other targets that NHS bodies are required to meet. The *Health and Social Care (Community Health and Standards) Act 2003*<sup>154</sup> established the power for the Secretary of State for Health and Social Care to set standards which are published by the

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<sup>153</sup> Section 14Z11 of the *NHS Act 2006* as inserted by s26 of the *Health and Social Care Act 2012*.

<sup>154</sup> [UK Government, \*Health and Social Care \(Community Health and Standards\) Act 2003, 2003\*](#)

Department of Health and Social Care. Guidance issued by the National Institute for Health and Care Excellence (NICE) is also an important element of the standards system.

## 11.4 Internal assessment

### Internal audit

Internal audit is defined in the *UK public sector internal audit standards*<sup>155</sup> as ‘an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’. These standards have applied to all NHS bodies since April 2013.

All NHS bodies are required to have an internal audit function and the head of internal audit’s opinion is used by the accountable officer to inform the governance statement.

As the definition above indicates, the internal audit service fulfils two functions – assurance and consultancy. The first involves providing an independent and objective opinion to the accountable officer, governing body/ board and audit committee on the extent to which risk management, control and governance arrangements support the aims of the NHS body. In this context, risk management, control and governance mean the policies, procedures and operations established to ensure:

- the achievement of objectives
- the appropriate assessment of risk
- the reliability of internal and external reporting and accountability processes
- compliance with applicable laws and regulations
- compliance with the behavioural and ethical standards set for the NHS body.

The second role involves providing an independent and objective consultancy service specifically to help line management improve the NHS body’s risk management, control and governance. When performing consultancy services, the internal auditor must maintain objectivity and not take on management responsibility.

## 11.5 Internal reporting

For NHS bodies to run effectively, the governing body and managers at all levels need to receive up to date financial and non-financial performance information on a timely basis. This information needs to be derived from the same financial system that is used for external reporting purposes – this ensures consistency in reports and that decisions throughout the NHS body are made on the same basis.

### Reporting to NHS governing bodies

NHS governing bodies or boards are responsible for ensuring that there are high standards of financial stewardship through effective financial planning, financial control and ensuring value for money. To achieve this, NHS governing bodies require an effective system of financial and performance reporting that is accurate and timely so that it can take early and corrective action where necessary. It is for the governing body to decide the form and content of the reports required and it should review its information needs regularly. Many governing bodies receive an integrated report that includes performance against both financial and operational key performance indicators. The governing body should also make use of assessments carried out by external bodies.

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<sup>155</sup> HM Treasury and Internal Audit Profession, *Public sector internal auditing standards*, 2017

## Examples of financial information that is reported each month

- performance against the achievement of statutory and departmental duties and targets
- in-year revenue and expenditure position and year-end forecasts, including an analysis of performance against budgets
- financial risks, the likelihood of them arising and how they will be managed
- activity levels linked to financial data
- progress on the achievement of any cost improvement programmes and financial recovery plans
- statement of financial position
- cash flow forecast
- aged receivable and payable balances including actions taken and progress made
- losses
- performance of outsourced services
- progress against internal and external audit recommendations
- progress on major capital schemes
- staffing and establishment reports.

As well as considering monthly reports, there is some financial information that the governing body needs to consider every year, including:

- the annual report and accounts
- financial plans
- from 2020/21, the auditors annual report.

The governing body should also be updated and advised regularly on the nature and development of new systems and initiatives in the NHS so that it is better able to understand the implications and prepared to manage the impact when implementation takes place.

## Reporting to budget holders

Financial management requires corrective action to be taken where financial plans are not expected to be met. This means that reporting of performance against the plan at a level in the organisation where action can be taken is essential. Reporting to budget holders must therefore be sufficiently detailed to ensure that all significant movements are identified and issues that need to be corrected are highlighted, to support the budget holder to meet their responsibilities around financial accountability.

Budget monitoring information is produced at a range of levels, allowing managers to see not only summary performance, but also the performance of individual departments and teams. The exact nature of this reporting depends on the NHS body's management structure but in each case, it is essential that the information is timely, accurate, and fit for purpose. To ensure accuracy, financial commitments should be recognised as soon as possible and reflected in the monthly financial reports. Without accurate financial performance reporting at budget holder level, costs cannot be controlled properly. These reports are often referred to as the management accounts. Chapter 14 looks in more detail at revenue planning and budgeting.



## Key learning points

- All NHS bodies have a statutory duty to prepare an annual report and accounts that are audited.
- The annual report is a review of the past year and performance against targets.
- The annual accounts must be prepared in accordance with international financial reporting standards and additional guidance is provided by the Department of Health and Social Care and NHS England and NHS Improvement.
- The governance statement forms part of the annual report and accounts and reflects on the arrangements that the NHS body has in place to manage and control risk.
- Quality accounts must be prepared by bodies providing healthcare and focus on the quality of the care provided and areas for improvement in the future.
- All regulatory bodies undertake financial monitoring throughout the year and require financial information on a regular basis.
- All NHS bodies have financial targets which they must meet. Some are statutory and others are administrative.
- All NHS bodies must have an internal audit service that fulfils two key functions – assurance and consultancy.
- Assurance over the annual report and accounts as well as the NHS body's arrangements for value for money is provided by the external auditor.
- NHS bodies are responsible for monitoring their own financial performance from the overall corporate level through to budget holders.
- Governing bodies should think carefully about their information needs to ensure that they can properly direct the NHS body.

## Additional HFMA resources

The HFMA maintains a directory of resources which provides links to other HFMA outputs such as briefings and webinars across a range of subjects, including dedicated sections on financial reporting and accounting, and audit. It also highlights e-learning courses that are available. [The directory of resources can be found here.](#)