


Technical update

HFMA Pre-accounts Planning February 2024

Technical update

- Current context of financial reporting and auditing
- Current reporting areas of focus
- Accounting issues and developments
- Other things to note

The background features a dark grey, semi-transparent sphere on the left side, with several glowing green lines that resemble circuit traces or data paths extending from it across the dark background. The lines are thin and have small circular nodes at various points.

Current context of financial reporting and auditing

The Spring Report on enhancing audit quality

The Audit Committee Chairs' Independent Forum has set forth key learnings to support high quality audits, with action needed by management, those charged with governance, and by auditors

Key learnings

The importance of commonly understood risk assessments and audit plans

Risk assessments and audit plans should be dynamic and responsive

Dynamic plans require a formal escalation and change management process

A responsive and high-quality audit plan requires joint execution

The importance of professional skepticism and challenge by the auditor

A constructive feedback loop is important

Sharing audit quality information

Audit committee involvement in FRC Audit Quality Reviews

Performing a high-quality audit of a more challenging company requires action by the company as well as the auditor



[The] audited statutory accounts are the sole responsibility of the Board of Directors and are not, as some have suggested, the “auditor’s accounts”

So what do we expect?

Key questions we would ask audit committees about the quality of the financial reporting process

Are there clear and robust processes and governance around the production of financial information?

Does the CFO critically assess the skills, knowledge and effectiveness of the finance team and work to fill gaps?

How seriously does management take weaknesses in internal control?

Is there an open and constructive dialogue between management and the auditors?

Is management taking an aggressive/optimistic stance on an interpretation of IFRS?

Is management presenting a balanced view in areas requiring judgement?

So what do we expect?

Expectations on controls, particularly review controls

Clear distinction
between
processes and
controls over
them

Reviews by
individuals with
right skills,
knowledge, and
capacity

Clarity on the data
and reports used
in control and
assurances over
integrity

Clarity on what
the risks are the
control is
addressing and
how do so

Control design is
aligned to and
precise enough to
address the risk

Documentation of
the control activity
and the steps
performed

Documentation of
the execution of
the control,
including
challenges raised
in the review

Control processes
link to compliance
with IFRS
requirements

So what do we expect?

What goes into an accounting paper around an accounting estimate?

What are the key aspects of the relevant accounting standards?

Are specialised or expert skills or knowledge needed in making the accounting estimate?

What information sources and IT systems are used in the estimate?

What was the outcome of prior period estimates, and how has that been reflected?

What assumptions have been used in making the estimate?

How has estimation uncertainty been considered

What are the controls over the process for making the estimate?

What methods and models are used in making the accounting estimate?

So what do we expect?

Expectations on working papers

All figures within the accounts supported by appropriate working papers

Clear audit trail from accounts to ledger with appropriately evidenced reconciliations

Standard template with evidence of review and sign-off

Clear narrative explaining significant matters, assumptions or points to note

References to / copies of external evidence rather than ledger extracts or internal emails

Analysis showing make up of the year-end balances, rather than reversing journals or contras

Explanations and evidence for reconciling items and adjustments

Analytical reviews as sense check of figures

So what do we expect - common focus areas

Proper documentation can simplify the audit process in common areas of challenge.

Income recognition

Clear contemporaneous evidence on the nature and terms of income, including signed contracts

Accounting paper setting out:

- The Trust's assessment of this against IFRS 15 and any areas where judgement/complexity will apply.
- The evidence supporting the approach to income recognition.
- How any areas of judgement on income recognition/deferral will be treated.
- How the trust will be making any required estimates and accounting for them.
- The process and controls applied around the year-end accounting process.

Capital programmes

- Understanding of the overall capital programme for the Trust.
- The overall structure and timeline of individual major projects, and of the nature of the costs incurred over time.
- Consideration of whether each element of spend, at each phase of the project, meets the requirements of IAS 16/IAS 38 for recognition.
- Specific consideration of issues such as:
 - Business case costs (especially early stage business cases)
 - Demolition costs
 - "Vesting certificates"
- Controls over capitalisation process, with clear evidence of their operation.

Provisions and accruals

Accounting paper setting out:

- Clear consideration against the requirements and recognition criteria in the relevant standard (usually IAS 37)
- Evidence supporting the existence of a liability (or decision not to recognised).
- Evidence supporting the assumptions and judgements taken in making the estimate.
- Consideration of outturn of similar estimates in the past.
- Update for any subsequent evidence after the year-end.



Current reporting areas of focus

Audit Quality Review team recommendations for Major Local Audits

These areas may receive additional challenge this year

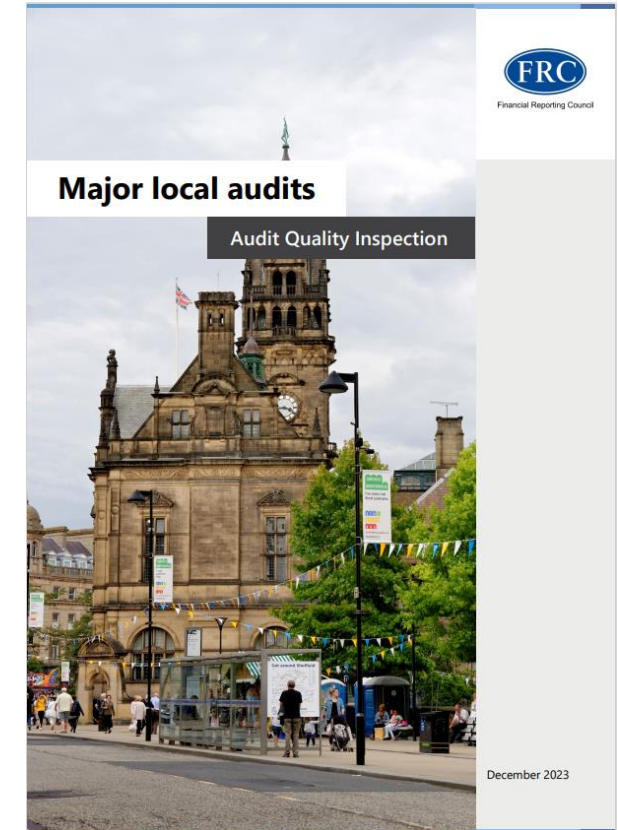
The 2023 AQR report mainly covered NHS audits this year

Topic

Audit procedures over expenditure (including period used for testing unrecorded liabilities and cut-off, and testing inputs to calculation of high value accruals)

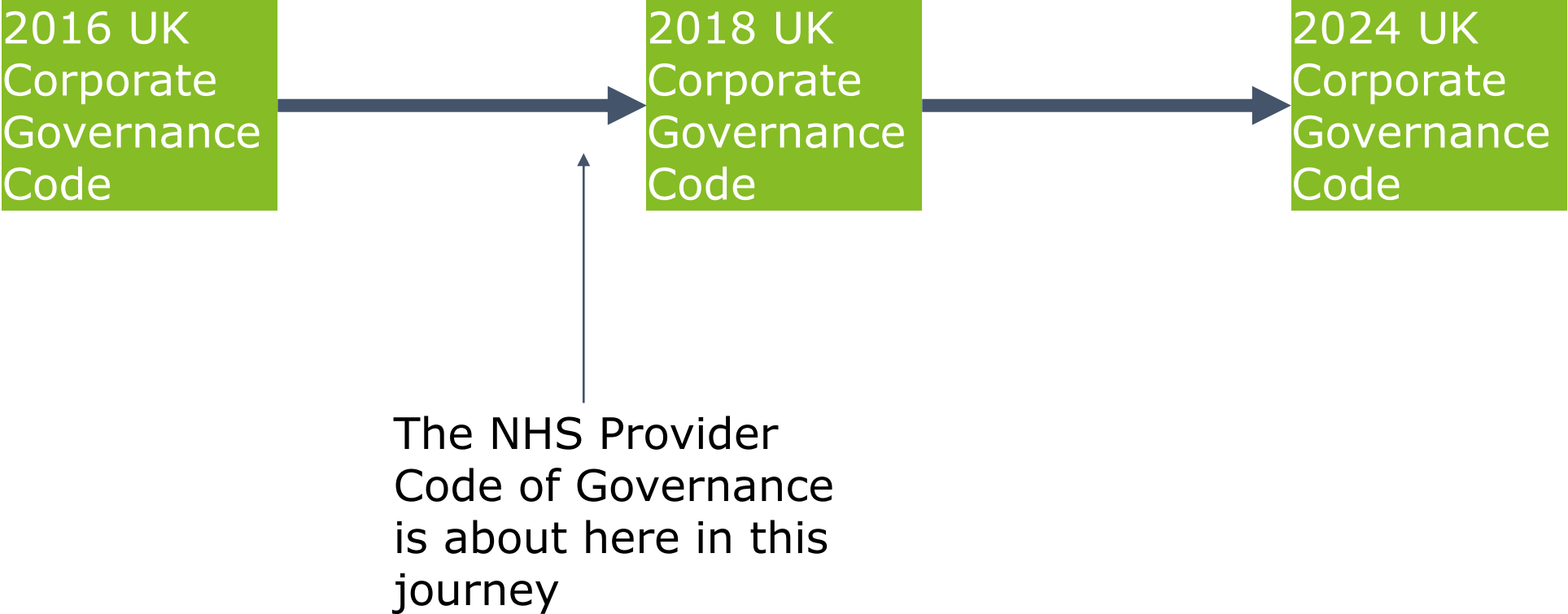
Property valuations (including consideration of extent of backlog maintenance on the adjustments made for physical deterioration and obsolescence)

Good practice on professional skepticism and challenge of recording of transactions between NHS bodies



Corporate governance reporting

NHS Provider Code of Governance applicable from 1 April



Climate reporting

NHS implementation of the Taskforce on Climate-Related Financial Disclosures remains subject to consultation, with some key differences to wider government

Phase 1 – Governance

Describe the board's oversight of climate-related issues

3.237 In making this disclosure entities should consider;

- Processes and frequency by which the board are informed about climate-related issues.
- The extent to which the board consider climate-related issues when reviewing organisational plans and monitoring performance of the entity.
- How the board monitors progress against goals and targets for addressing climate-related issues.

Describe management's role in assessing and managing climate-related issues

3.238 In making this disclosure entities should consider;

- What climate-related responsibilities have been assigned to management structures (committees, management roles, specific programmes or reviews undertaken), below board level, a description of how these responsibilities are discharged by management structures and the extent to which they report to the board on climate-related issues.
- Processes by which the relevant management structures are informed about climate-related issues and how those structures monitor climate-related issues.

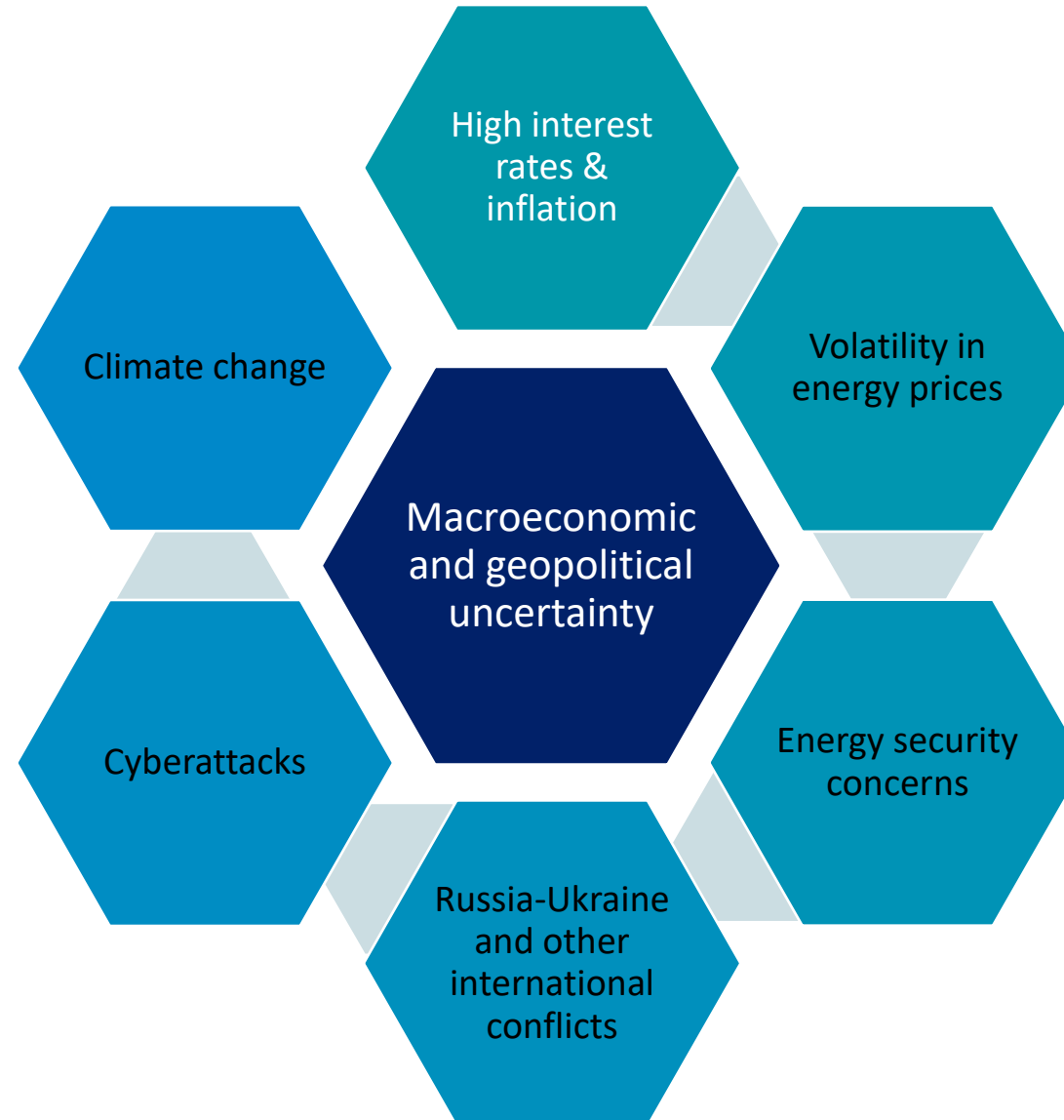
Phase 2 – Risk management and Metrics and Targets*

*NHS emissions metrics reported by NHS England, not individual bodies

Phase 3 – Strategy

Current areas of reporting focus

Continuing macroeconomic and geopolitical uncertainty



Current areas of reporting focus

Other corporate reporting considerations

Provisions

Discount rates

Inflationary
clauses in
contracts

Material
assumptions
and
sensitivities

Risks and
uncertainties

Pension
schemes

FRC hot topics

Top ten most frequently raised topics

FRC overall findings – Top 10 topics

Topic	2022/23	2021/22	2020/21
Impairment of assets	1	9=	4
Judgements and estimates	2	8	1
Cash flow statements	3	1	3
Strategic report and other legal matters	4	4	7
Financial instruments	5	2	6
Income taxes	6=	3	9=
Revenue	6=	5	2
Provisions and contingencies	8	6	8
Presentation of financial statements	9	9=	-
Fair value measurement	10	-	-
APMs	-	7	5
Leases	-	-	9=



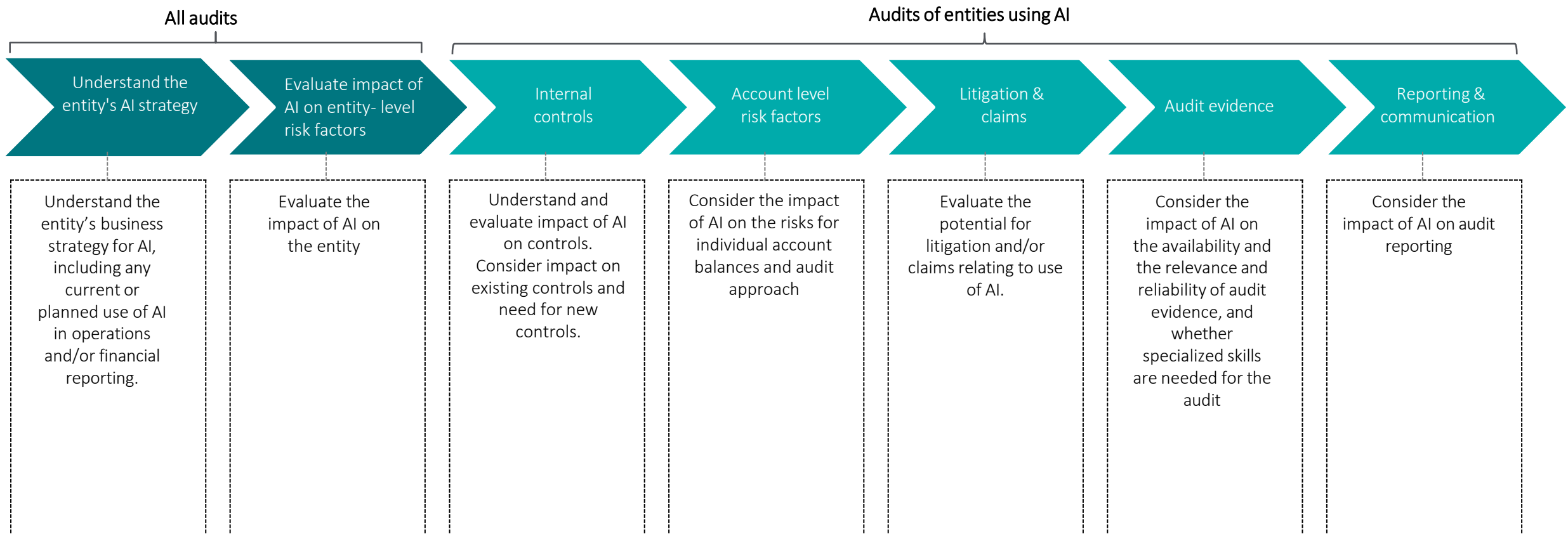
October 2023

Judgements and estimates: Key regulatory expectations

- Explain significant judgements in applying accounting policies – list not sufficient
- Provide quantified sensitivities where judgements involve significant source of estimation uncertainty
- Include judgements and estimates relating to sustainability and accounting for inflationary features
- Reassess sources of estimation uncertainty and related disclosures – do they remain relevant?
- Explain changes to assumptions – particularly where range of reasonably possible outcomes has widened
- Disclosures consistent with information elsewhere in Annual Report and Accounts
- Distinguish clearly between IAS 1:125 estimates and other estimates disclosed

One for the future?

Understanding the impact of AI on financial reporting and audit



Accounting issues and developments



IFRS 16 implementation – year 2

Trust generally “got there” for 2022/23, but some had issues to follow up on for on-going application

1 – Embedding of IFRS 16 in IT systems and processes

2 – Lease register does not track or document consideration of exempt leases (low value or short term leases)

3 - On-going process to identify and account for new leases

4 - Subsequent measurement of lease liabilities - identifying when lease payments need to be reassessed

5 - Subsequent measurement of Right of Use assets – process to assess and reassess when required for each property

IFRS 16 for PFIs

Likely expectations from auditors in looking at PFI implementation

Final implementation accounting paper with appropriate internal review and approval

Understanding of logic of the impact
(including if any issues not from IFRS 16 but identifying historic issues)

Controls over model
inputs

Model controls when
any variances from
standard DHSC model

Controls over posting
of accounting entries

Contracting and revenue

NHSE operational planning guidance set a clear expectation of a return to signed contracts. “System working” does not remove the need for proper accounting practices.

Bodies should have signed contracts, third party documentation for changes, and properly supported analysis of IFRS 15 revenue recognition and any judgements, estimates and assumptions. If this isn't present, this can raise both financial statement audit and VFM challenges.

There are significant accounting and auditing differences between:

- Block contracts; and
- Volume-related payments (including API terms)

Auditors need clarity on this to plan their work (including IT work on systems).

Five years into application of IFRS 15, we are still raising control points about bodies not having IFRS 15 embedded in processes and controls.

New standards effective for future periods

IFRS 17 is the main new accounting standard, with an assumption of limited public sector impact. There are also new standards for sustainability disclosures, which are not yet planned for the public sector

Title	Subject	Effective date (IASB dates)
IFRS 17 Insurance Contracts	Implementation and amendments	1 January 2023 for corporates 1 April 2025 for public sector
IAS 1 amendments re debt with covenants	Clarifies disclosure of debt with covenants as current or non-current	1 January 2024
IFRS 16 amendments re sale and leasebacks	Amendments for consistency in accounting for sale and leasebacks that include variable lease payments	1 January 2024
IAS 7 and IFRS 7 amendments re supplier finance arrangements	Amendments on treatment of supplier finance in financial disclosures	1 January 2024
IAS 1 classification of current/noncurrent liabilities	Amendments on determining current vs non current classification of liabilities	1 January 2024

Title	Subject	Effective date (IASB dates)
IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information	Implementation and amendments	1 January 2024 UK listed companies – TBC likely 1 January 2025
IFRS S2 Climate-related Disclosures	Requires disclosure of “material” policies rather than “significant” ones	1 January 2024 UK listed companies – TBC likely 1 January 2025

UK GAAP developments

New and forthcoming amendments

Effective for December 2023 year-ends:

- Amendments to FRS 102 and FRS 101 – International tax reform – Pillar Two model rules

Forthcoming developments:

- Periodic review of UK and Republic of Ireland accounting standards
- Supplier finance arrangements

The image shows two overlapping document covers from the Financial Reporting Council (FRC). The top cover is for 'FRS 101 Reduced Disclosure Framework' and the bottom cover is for 'FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Both covers feature the FRC logo and the text 'Standard Accounting and Reporting'. The top cover also includes a date 'January 2022' and a small disclaimer box.

FRS 101
Reduced Disclosure Framework
Disclosure exemptions from adopted IFRS for qualifying entities

FRS 102
The Financial Reporting Standard applicable in the UK and Republic of Ireland

Other UK climate reporting changes

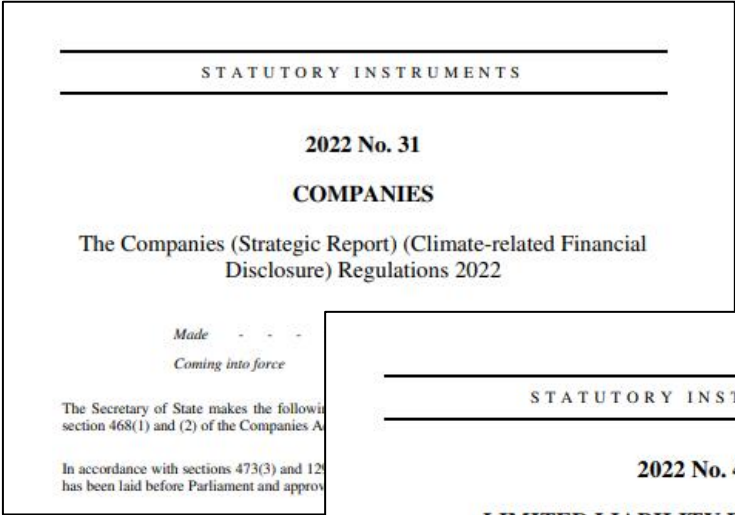
In addition to TCFD, some UK companies need to comply with CFD – Climate-related Financial Disclosures for large private companies and LLPs

What is CFD?

- Mandatory climate-related financial disclosures for certain UK companies and LLPs – a Companies Act requirement
- Apply for financial periods on or after 6 April 2022

Important considerations

- Scoping and exemptions are complex (though not likely to apply to NHS subsidiaries as requires turnover greater than £500m)
- Entities required to produce TCFD disclosures under the Listing Rules may be required to comply with CFD requirements, in addition to producing TCFD disclosures





Other things to note

National Audit Office Code of Audit Practice consultation

Implications for 2023/24 and future years for the NHS

Proposals

- The NAO is consulting on changes to the Code of Audit Practice, and will make related changes to their Auditor Guidance Notes.
- These are as part of proposals to address issues in local government accounting and audit.
- However, they will also impact the NHS from this year.

Impact on the financial statement audit

- Exception reporting of Value for Money significant weaknesses will be done **ONLY** in the audit report.
- No longer any **option to state that work on VFM is not complete** – the requirement to be satisfied as to whether arrangements are in place must be complete before the opinion is given.
- The certificate is therefore likely to be issued with the audit report.

Impact on the Auditor's Annual Report

- If the financial statement audit has been delayed beyond the national NHS timetable, **option to issue the Auditor's Annual Report even the financial statement audit is not complete**, if in public interest to do so.

Implications

- Your audit report may be delayed if your auditor has not been able to satisfy themselves on VfM arrangements in place
- Make sure you engage with your auditor to provide evidence in relation to VFM work on a timely basis
- Consider any upcoming issues you might be aware of around the time of the audit report signing and communicate with your auditor

Other things on our minds...



Brought forward error levels, control issues, and reduced performance materiality



Agreement of balances



Delegated "POD" commissioning



Remuneration report, especially fair pay disclosures



Annual reports – quality and timing of drafts



Annual reports – telling a fair and balanced story on performance



Service auditor reports



Special payments

An ask on audit procurements

Reminder on NHS guidance

NHS England guidance on audit procurements:

- Allow enough time for bidders to receive and respond to the request for proposals. This period should be **at least** six weeks in all cases. If your entity has complexities and specific risks this should be longer. Any procurements for multiple entities should have a window of at least eight weeks.
- Avoid issuing invitations to tender during periods when firms will obviously struggle to respond, such as the peak final audit season in the NHS or over the Christmas and new year period.
- Ensure the procurement is run in good time in advance of the period where the work is required, so audit firms have an opportunity to plan resource: this should be at least a year before the first relevant audit visit. We recommend audit appointment exercises for the 2025/26 financial year be run in Autumn 2024.
- Ensure appropriate evaluation criteria: if the price percentage is too high it may dissuade potential bidders.
- Ensure you show good understanding of external audit and its value.



Resources

2023/24 : useful links

HM Treasury FReM - <https://www.gov.uk/government/collections/government-financial-reporting-manual-frem>

DHSC Group Accounting Manual - <https://www.gov.uk/government/publications/dhsc-group-accounting-manual-2023-to-2024>

DHSC GAM consultation including TCFD [Changes to DHSC group accounting manual 2024 to 2025](#)

FT Annual Reporting Manual - <https://www.england.nhs.uk/financial-accounting-and-reporting/nhs-foundation-trust-annual-reporting-manual/>

HMT TCFD guidance <https://www.gov.uk/government/publications/tcfd-aligned-disclosure-application-guidance>

NHS England Financial accounting and reporting updates - <https://www.england.nhs.uk/financial-accounting-and-reporting/financial-reporting/>

NAO Code of Audit Practice - <https://www.nao.org.uk/code-audit-practice/about-code/>

HFMA work papers guidance - <https://www.hfma.org.uk/publications/details/year-end-working-papers-a-good-practice-guide>

HFMA working with auditors guidance - <https://www.hfma.org.uk/publications/details/the-external-audit-best-practice-in-working-well-together>

Charities SORP <http://www.charitycorp.org/>

IFRS guidance - <https://www.iasplus.com/>

- Effective dates - <https://www.iasplus.com/en/standards/effective-dates/effective-ifs>

- IFRS 16 resources - <https://www.iasplus.com/en-gb/collections/ifrs-16-resources-1>

 - IFRS 16 guide - <https://www.iasplus.com/en-gb/publications/global/guides/ifrs-16>

 - NHSI and DHSC IFRS 16 guidance - <https://www.england.nhs.uk/financial-accounting-and-reporting/ifrs-16/>

 - HFMA webinar - <https://www.hfma.org.uk/education-events/hfma-event/ifrs-16-leases-2021>

 - E-learning modules

 - <https://www.iasplus.com/en-gb/publications/e-learning/ifrs-16-basic>

 - <https://www.iasplus.com/en-gb/publications/e-learning/ifrs-16-advanced>

- IFRS 9 resources - <https://www.iasplus.com/en-gb/collections/ifrs-9-resources-1>

- IFRS 15 resources - <https://www.iasplus.com/en-gb/collections/revenue>

Climate change - Deloitte and the ICAEW have launched a site to support considering what climate change means for finance professionals - www.deloitte.co.uk/climatechange



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