



Financial reporting manual 2020/21 consultation Response

Who are we

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff working in healthcare. For 70 years it has provided independent support and guidance to its members and the wider healthcare community.

It is a charitable organisation that promotes the highest professional standards and innovation in financial management and governance across the UK health economy through its local and national networks. The association analyses and responds to national policy and aims to exert influence in shaping the healthcare agenda. It also works with other organisations with shared aims in order to promote financial management and governance approaches that really are 'fit for purpose' and effective.

The HFMA is the biggest provider of healthcare finance and business education and training in the UK. It 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 association is also an accredited provider of continuing professional development, delivered through a range of events, e-learning and training. In 2019 the HFMA was approved as a main training provider on the Register of Apprenticeship Training Providers and will be offering and developing a range of apprenticeships aimed at healthcare staff from 2020.

- 1. Does the revised four part structure make the FReM more useable? Please include any suggestions for improvements or any general comments on the structure.**

The HFMA's members mainly work for NHS bodies that are required to use the Department of Health and Social Care's *Group accounting manual* or equivalent in the devolved nations. They will not therefore consult the FReM as a primary source of guidance. Nonetheless, the FReM is important because it provides the framework for those other manuals.

The revised structure does set out the purpose of the FReM and the overarching principals for financial reporting well. We do have some concerns which are reflected in our comments in this response.

2. Does the revised introduction give the right level of information to help understand the nature and purpose of the FReM? Please include any suggestions for improvements or any general comments on the introduction.

Overall, the introduction does set out the nature and purpose of the FReM.

It is not clear why Scotland is not mentioned in paragraph 1.4.3 (on page 1). The Scottish Government is listed in paragraph 1.1.3 and how all of the other relevant authorities use the FReM are discussed in paragraphs 1.4.2 and 1.4.3.

The paragraph numbering in section 1.2 needs to be updated – it skips from paragraph 1.2.1 to 1.4.2.

The first sentence of paragraph 1.4.1 refers to a principles-based framework but does not say what that is – IFRS and Companies Act reporting requirements or the FReM itself or something else?

Paragraph 1.5.4 refers to the FRAB meeting minutes and papers being published on gov.uk. Firstly, the reference, here and elsewhere, simply to gov.uk is unhelpful as it would require a search to find the FRAB papers and the search function on gov.uk is not always very user friendly – a direct link would be much more useful. Secondly, it would be very helpful if the FRAB papers and minutes were published on a timely, regular basis after the meetings.

3. Does chapter 2 effectively set out the principles and purposes of government financial reporting? Please include any suggestions for improvements or any general comments on the chapter.

Section 2.2 refers to financial reporting in its widest sense as does section 2.4. As currently drafted, it is not clear which parts of this chapter are applicable to financial reports and which are applicable to annual report and accounts or are possibly applicable to financial reports other than the annual report and accounts.

As most of chapter 2 deals with wider financial reporting, section 2.3 on the annual report and accounts should be moved to the end of the chapter or possibly to chapter 4.

For example, the guidance in section 2.6 on choosing what to publish and how to publish it does not mention materiality. When preparing the annual accounts, materiality is the basis on which those decisions are made rather than questions in the decision tree in figure 1. However, paragraph 2.6.2 explicitly refers to annual report and accounts rather than financial reports.

Throughout the FReM, financial statements and annual accounts seem to be used interchangeably. It would be helpful if that was made clear at the outset. It would also help if the phrase 'financial reports' was defined as anything other than the annual accounts/ financial statements.

4. Do you think the addition of chapter 3 regarding best practice in narrative reporting is useful? Please include any suggestions for improvements or any general comments on the chapter.

Yes, we think that it is useful. However, like chapter 2, we think that it needs to be clear whether it is applicable to wider financial reports and the annual report and accounts or financial reports but not the annual report and accounts.

For example, the financial statements would only have one prior year comparison in accordance with IAS 1.

Most public sector annual reports and accounts are published as pdf documents so the section on search engines and landing pages is probably not applicable. If it is acceptable for a government department to publish their annual report and accounts online as a series of webpages then this should be explicit but it is not clear whether this would meet the requirements of laying annual reports and accounts before Parliament.

5. Is the new chapter 4 regarding the annual reports and accounts effective in bringing together different sections of the FReM in a useful way? Please include any suggestions for improvements or any general comments on the chapter.

Yes, chapter 4 is a useful way of bringing together different sections of the FReM.

The chapter would be clearer with the addition of some examples:

- reportable activities are described in paragraph 4.1.3 – a simple example might make this clearer
- an example of when a charity could be exempt from the requirements of the Charities Acts (paragraph 4.4.15).

It is not explicit, and may not need to be, but charities preparing their accounts in accordance with the Charities SORP will be applying UK GAAP rather than IFRS.

6. Is the drafting of mandatory requirements and comply or explain requirements in respect of performance reporting in chapter 5 clear? Please include any suggestions for improvements or any general comments on the chapter.

Paragraph 5.4.3 is clear but there are other parts of the chapter that are not so clear.

Paragraph 5.3.2 sets out the minimum requirements that the performance overview must include. This seems to be a mandatory requirement but the guidance in chapter 1 states that requirements introduced with 'shall' or that are audited are mandatory. For the avoidance of doubt, it should be clear that those introduced with 'must' are also mandatory. Either that or paragraph 5.3.2 should be rephrased to use the word shall.

There is a typo in paragraph 5.4.3c – recommendations.

Paragraph 5.2.4 states that the performance reporting requirements are based, in part, on the Companies Act 2006 requirements in relation to the strategic report. It would be helpful if it was clearly stated whether this means that the users of the FReM also have to refer to the Companies Act or whether following the FReM will mean that all of the Companies Act requirements are met.

It would be helpful if a link to the Public Value Framework or the appropriate metrics could be added.

It is not clear, against the framework set out in chapter 1, whether the sections on sustainability reporting (paragraphs 5.4.7 to 5.4.17) are mandatory or comply or explain. The reference to sustainability reporting guidance on gov.uk is not clear enough. As we set out in our briefing, [Reporting on environmental sustainability 2017/18 update](#), there seem to be multiple sources of guidance on sustainability reporting.

The **Companies (Directors' Report) and Limited liability Partnerships (Energy and Carbon Report) Regulations 2018** come into force for companies from 1 April 2019. It is not clear whether they have been incorporated into the FReM yet or not. The reference to Schedule 7 of SI 2013/1970 is incorrect, SI 2013/1970 amended Schedule 7 of SI 2008/410.

There is no reference to the **Companies (Miscellaneous Reporting) Regulations 2018** which apply to financial years beginning on or after 1 January 2019. The regulations require companies to make additional disclosures in their directors' report about how they promote the success of the company for the benefit of its members, their governance arrangements and executive pay. These disclosures may not be directly applicable to the public sector, but it would be helpful to know how, or if, they will be interpreted in the FReM.

7. Are the requirements in chapter 6 for reporting risk disclosures, staff turnover and staff engagement scores clear? Please include any suggested improvements plus any general comments on the chapter.

The FReM simply refers to Cabinet Office guidance in relation to staff turnover – that guidance has not yet been published. It is therefore clear that it needs to be reported but it is not clear what needs to be reported and how easy it will be to collect the appropriate information.

It would be helpful if links could be provided to the guidance listed in paragraph 6.4.7. It is not clear which bodies '*the annual governance statement*' might be applicable to.

8. Is chapter 7 in respect of the format and content of the financial statements clear and useful? Please include any suggested improvements plus any general comments on the chapter.

Yes, generally this chapter is clear and useful.

It is not clear whether paragraph 7.6.3 is an adaptation or interpretation of IAS 1 or whether it is intended to be guidance.

9. Do the proposed changes to the FReM improve the guidance overall? What parts are most helpful and why? Are any parts unclear or unhelpful or is anything missing from the guidance? Please provide any suggested improvements plus any general comments on the overall draft 2020-21 FReM.

Overall, the FReM is improved by the proposed changes. There are areas where it is unclear as highlighted in our response to earlier questions. The main issue is consistency of language and terminology.

It would be useful if new requirements, such as the reporting of staff turnover, could be highlighted as it is sometimes difficult to identify changes in a document of this size.

Some minor comments:

- the heading *Intangible assets* for section 10.3 should be reviewed as the section only covers the CRC scheme rather than all intangibles
- there is a typo in paragraph 11.1.5 – contracts.

10. Will the changes to the FReM require your organisation to collect any new data or information or have any unintentional

consequences? Please provide details of any likely instances and state how practical this will be for the organisation.

Most NHS bodies do not have to refer to the FReM as their primary source of guidance. However, we expect that the requirements in relation to staff turnover and staff surveys will be included in the NHS specific guidance. At this stage, it is not possible to tell whether new data or information will be required to meet these new requirements. We would welcome the opportunity to comment on any guidance in these areas when it is published.

11. What further changes should HM Treasury consider making to the FReM in future reviews? Please provide the reasons for any suggestions.

We are supportive of the continual review of the FReM and welcome the opportunity to comment on future reviews. Currently, we do not have a view on further changes.

Questions 10 to 16

We have not answered these questions as NHS bodies are not required to prepare a Statement of Parliamentary Supply.

Contact

If you would like to discuss any of our comments in more detail please contact Debbie Paterson, policy and technical manager, debbie.paterson@hfma.org.uk