



**HFMA briefing**  
November 2022



# Year-end survey 2021/22

## Survey report

The CPD Standards Office  
CPD PROVIDER: 50137  
2022-2024  
[www.cpdstandards.com](http://www.cpdstandards.com)



# Introduction

In August 2022, the HFMA surveyed its members about the year-end process to see whether there were any lessons that could be learned. The survey was circulated to auditors as well as those preparing the annual report and accounts.

We will use the results of the survey to inform its work programme in 2022/23.

## Summary feedback

In total, 29 (2020/21: 97) responses were received from:

- 2 CCGs (2020/21: 24)
- 15 NHS foundation trusts (2020/21: 34)
- 9 NHS trusts (2020/21: 25)
- 3 auditors (2020/21: 12)
- no others – the DHSC and Health Education England (2020/21: 2).

Not all individuals answered every question and the percentages referred to are percentages of respondents answering the specific question. (Some tables may not add up to 100% due to rounding.)

We also asked respondents whether they were responding on a personal basis or on behalf of an organisation:

- 7 personal responses (2020/21: 41)
- 4 responses on behalf of their organisation (2020/21: 12)
- 18 responses were a combination of both (2020/21: 44).

Our survey focused on the process of producing the annual report and accounts rather than the output. Therefore, the results of this survey do not provide any information on whether deadlines were met, the quality of the annual report and accounts produced or whether the auditor made any report or referral.

The survey revealed the following key points:

- there are tensions between NHS bodies and their auditors – some of that seems to be due to a lack of understanding of each other's requirements but the timetable, changes to the financial regime, workloads and staffing issues exacerbate problems
- everyone is keen to reduce the time taken to prepare and audit the accounts but there is a concern that return to the pre-recess laying of the consolidated accounts is not possible
- the application of international auditing standard (IAS) 315 is expected to impact on the time needed for the audit in 2022/23
- this year's accounts were made more difficult by the additional reporting requirements for ICS/ ICBs and the clash of deadlines for the annual plan and annual accounts return
- the financial regime, in particular late allocations, does not support the proper application of IFRS 15 in terms of income recognition
- NHS bodies experienced issues with their valuation this year which slowed the finalisation of the accounts
- the application of IFRS 16 *leases* is expected to be a key issue in 2022/23
- remuneration reporting remains difficult – particularly the new fair pay disclosures and arrangements where staff work across NHS bodies.

## Preparing the annual report and accounts

### Guidance and third party information

We asked whether respondents felt well prepared in terms of centrally produced guidance, templates, and other information.

The percentage of respondents who felt that there were unanswered questions at a late stage has been increasing year on year. In some instances, the guidance was available but not identified but in other cases, NHS bodies were waiting for feedback. One respondent commented that it is not the

timeliness of the guidance that is an issue but the volume which increases the likelihood of important information being missed. This is reflected in the comments from NHS bodies:

- *'Provider financial return (PFR) available late with new validations that hindered us.'*
- *'Main issue was changes to the group accounting manual (GAM) re the remuneration report which was not specifically highlighted until late in the process. Due to time constraints the changes (fair pay etc) were not immediately noticed and therefore missed.'*
- *'Generally, it seemed that information came out later than normal from NHS Improvement to clarify the processes etc. This included supplementary information in the GAM.'*

The NHS bodies' responses reflected on the impact of Covid-19 on the audit timetable. Many commented that there had been no interim audit which added pressure to the final accounts audit.

Difficulties with applying the income recognition requirements of IFRS 15 to NHS contracts and arrangements was highlighted by both auditors and NHS bodies:

*'Block contracts and CCGs/ NHS England paying what they feel like is incredibly challenging to justify the provider's accounting treatment to auditors. The sooner we can move away from this the better.'*

We asked whether information from third parties was available at the year end. Generally, the feedback was that the information was mostly available when needed. The process for ensuring that everyone is aware of information from the centre does not always work smoothly:

- *'External financial limit and capital resource limit changing late - notified by auditor before notification received.'*
- *'There needs to be a clear timetable for the year-end processes and assurance reports shared before year-end.'*
- *'NHS Business Services Authority processes need to be amended to ensure data is available for all bodies and individuals.'*

### **Issues arising during the preparation and audit of the accounts**

Seven respondents indicated that there were material issues relating to information from valuers that needed to be resolved during the closedown period. In two cases, this was despite ensuring that the valuer was engaged early. This was also reflected in the fact that ten respondents said that issues relating to the valuation report impacted on the preparation and audit of the annual report and accounts.

Remuneration reporting, particularly the revised fair pay disclosures also caused difficulties during the preparation and audit of the accounts. Reporting the remuneration of directors who work across more than one NHS organisation was reported as a problem by one organisation as the guidance was unclear.

One comment reflected that there are many reasons that the preparation and audit of the accounts is more difficult

*'Over the past few years a lot of complexity has been added into the system which has made preparing annual accounts more complicated e.g. protective personal equipment stock, clinical pension provision, high cost devices, the additional pension rate, the key data return and signing off the income and expenditure/ capital position with the ICS and the introduction of the value for money audit. The overall effect is making the accounts harder to prepare.'*

### **Agreement of balances**

Each year we ask whether the agreement of balances exercise was better, worse or about the same as last year. Most respondents (65%) said that it was about the same, only two reported that it was worse.

Many respondents commented that they had improved their own processes and were therefore better prepared. The comments reflected the usual issues that arise with this process:

- Agreement between provider bodies (rather than commissioner and providers)
- The impact of deferred income
- Slow responses from NHS England.

Comments included:

- *'No major issues, but I still question the process. At what point do the NHS or NAO answer the 'so what' for this exercise. It doesn't impact published accounts and if organisations make changes to PFR submissions as a result of a mismatch, it rarely impacts financial statements., prime or otherwise'*
- *'I find the main issue on AoB is whether or not we take in to account transactions in the year being reported if they relate to a previous year but we inadvertently did NOT accrue. I include these but if the counter party knew and accrued we will always have a mismatch '*

## The audit of the accounts

We asked NHS bodies whether the audit was better, worse or about the same as last year (**table 1**).

**Table 1: was the audit process better, about the same or worse than last year**

	CCGs	Provider bodies	2021/22 Total	2020/21 Total	2019/20 Total	2018/19 Total
Better than last year		4	4 (20%)	22 (27%)	12 (17%)	13 (19%)
About the same as last year which is fine	1	4	5 (25%)	20 (25%)	26 (38%)	26 (39%)
About the same as last year but that is an issue		1	1 (5%)	6 (7%)	5 (7%)	7 (10%)
Worse than last year		10	10 (50%)	33 (41%)	26 (38%)	21 (31%)

Comments included:

- *'New auditors did not know how to audit and had a different approach which caused significant delays in the process.'*
- *'Don't trust audit to deliver on time - we need to micro manage them.'*
- *'Avoid conflicting deadlines between the accounts / audit and the financial planning process as it largely requires the same staff. Auditors need more capacity to allow more pro-active work through the year.'*
- *'There was a noticeable increase in the robustness of the audit and the level of detail and audit evidence asked for a lot of which was asked for very late on in the audit.'*
- *'Our audit firm introduced the new auditing standard IAS 315 plus they queried the assumptions made by the valuer and based on their calculations we had potentially reduced our asset base by too much. They spent a lot of time looking at Income recognition and wanting reasons behind why we had or had not recognised the income. Auditors didn't appear to understand the concept of system working and the associated NHS finance.'*
- *'Sample sizes increased; IFRS15 was far for closely scrutinised than previously both of which extended the audit process. Audit staff sickness delayed the finalisation of audit reporting and led to final audit committee and board approval of the report and accounts.'*
- *'More questions asked of other members of the department. Less understanding of the difference of pay accruals and actual amounts.'*
- *'Senior auditor more experienced but still junior inexperience team.'*
- *'Last minute questions and challenges taking the audit to the deadline. Submitted at 9.00am after the deadline the day before. Significant focus placed on the property, plant and equipment asset valuation and challenge of the experts and their calculations.'*
- *'Better planning in terms of trust staff time, particularly whilst we adopt hybrid working. Allow some space from submission to auditors starting on site, to allow time to take stock of working papers and completeness.'*

We asked auditors about the quality of the draft annual report and accounts – one reported that the audit was about the same which was fine, one that about the same was an issue and one that it was worse than last year. Auditors comments were:

- *‘My own experience was with CCGs who have relatively simple financial statements but were of a decent quality. Anecdotal comments from colleagues suggests a general deterioration in quality for provider accounts, however.’*
- *‘NHS bodies were under too much pressure from other sources. We faced issues with long-term sickness of audited body staff at multiple sites, and teams had not in many cases had chance to give the accounts and quality control process proper attention (similar with responses to audit queries).’*
- *‘With increased expectations, trusts are not in line with expectations with respect to the design or evidence of the implementation of financial controls and processes, in particular around the accounts process and key estimates. For many trusts there are significant weaknesses in the quality of review over the accounts and supporting working papers. Trusts have been slower to prepare accounts or supporting working papers and responsiveness to audit queries has generally been slower and of lower quality. The amount of audit work, and expectations of auditors, increases every year and therefore so does our resource requirement but client resources do not increase to meet that rising expectation.’*

The timetable for the preparation and the audit of the accounts is a concern both in terms of capacity of NHS finance teams and auditors but also in the knock-on effect it has elsewhere:

- *(NHS foundation trust) ‘There is definitely an issue with capacity amongst audit firms. There were delays to our audit due to this and the lack of relevant experience of the majority of the audit team. Auditors were also more demanding in requirement for supporting information which is good but does mean that the audit process requires more time and Trusts will require more time to close down if the standard required is harder.’*
- *(auditor) ‘The overall timetable of just under 3 months has worked well, in contrast to other public sector ‘sectors’, however neither audited bodies nor auditors are well placed to seek to revert to the c.2-month deadlines which applied pre-Covid.’*
- *(NHS foundation trust) ‘We only get a month to do the accounts and yet the audit firms who struggle to do local authority audits insist on applying private sector rules to public sector. As government bodies where we are informed by the centre we have to do it this way but the centre don’t then have to deal with the outfall from the auditors and not every audit firm applies the rules the same way. The pension note being a classic example. We were told the first part of the note is not applicable yet when I spoke to colleagues in other trusts, their auditors were fine with it.’*
- *(auditor) ‘The overall timetable is no longer realistic to plan for the first half of June (let along May), and realistic planning is needed. We would support trusts having additional time to prepare to support higher quality deliverables. The impact of ISA 315 revised is likely to focus attention on new areas of process in entities and identify additional control matters.’*

We know that appointing auditors is an issue, so we asked whether NHS bodies have auditors appointed for 2022/23. Most respondents were in the middle of an audit contract, but individual NHS bodies were also seeking to extend their contract, were in the process of tendering or were planning to tender.

Two respondents were considering going out to tender despite the fact that they were in the middle of a contract but that they were aware of the current challenges in the audit market.

## Looking ahead

Each year we ask respondents which issues they would like guidance on in the following year. The top area of concern remains IFRS 16.

Rank 2021/22		Rank in 2020/21	Rank in 2019/20	Rank in 2018/19	Rank in 2017/18
1	New accounting standard on leases (IFRS 16)	1	1	1	1
2	Asset valuation best practice	8	8	7	10
3	Judgements, estimates and prudence	3	4	4	9
4	Capital accounting	5	11	10	
5	Remuneration report disclosures	9	2	2	4
6	Agreement of balances	8	6	3	5
7	Going concern	7	3	5	7
8	The establishment of integrated care boards and integrated care partnerships	4			
9	Governance statement	11	7	6	6
10	Inventory	12	13		
11	IFRS 17 Insurance contracts				
12	Accounting for joint ventures	13	14	12	13
13	Accounting for subsidiaries	14	12	11	12

Comments reflected that IFRS 15 and the impact of the financial regime also need to be included on this list:

- (auditor) *'Emphasis is needed on the general requirement for accounts to be free of bias as there has been a noticeable increase in questionable accounting practices and judgements over the past couple years, which anecdotally seem to be a result of either a direct instruction or indirect pressure from central NHS bodies.'*
- (auditor) *'IFRS 15 and performance obligations across systems'*
- (NHS foundation trust) *'Audit firms that didn't introduce IAS 315 will be putting more emphasis on risk and NHS bodies are likely to see increased focus on revenue recognition.'*
- (NHS foundation trust) *'IFRS15, the treatment of NHS funding as income for a specific year that cannot be deferred.'*

## IFRS 16

We specifically asked a question about IFRS 16 as it will be implemented in 2022/23.

In terms of managing leases:

- six NHS bodies are confident and a further 13 think that they have identified all leases entered into before 31 March 2022
- ten NHS bodies have a process in place to identify contracts that may contain leases going forward but another six are concerned that leases will be missed
- most respondents are using a spreadsheet to manage their lease register
- worryingly, ten respondents are struggling to get engagement outside of the finance department and a further seven say that IFRS 16 is considered to be a finance issue so there is little engagement outside of the department. On a positive note, four NHS bodies report that staff are fully briefed and engaged
- within finance, most organisations that responded (15) are relying on one or two members of staff to understand IFRS 16. Only six reported that all staff in finance are aware of the standard.

The impact of the standard on the capital departmental expenditure limit (CDEL) is a concern for 15 respondents with seven of those also concerned about the revenue consequences. Two respondents reported that they are concerned only about the revenue consequences.

Other comments included:

- *'Unclear on implications where we are lessor rather than lessee from AoB perspective.'*
- *'If IFRS 16 counts against the CDEL limit in the current accounting framework this will be a big issue operationally for the NHS as operational leases were often used where capital was unavailable.'*
- *'Could be a struggle to control pool car leases and this type of lease really feel should be excluded as the leases are only for 3 years in length and adds an extra financial burden to the finance which is already small.'*

One auditor commented:

*'We identified a number of issues in 31 March 2022 disclosures and expect increased practical issues in live implementation and application to new contracts for 2022/23.'*

*'We would expect all bodies to bring proper accounting papers on transition to audit committee, including details of the controls that have been operated over the transition and postings, and details of any judgements or uncertainties.'*

## 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.

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