



Framework Agreement between DHSC and NHS Improvement Annex B: Finance and Accounting

Published October 2018

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Context

1. The Framework Agreement sets out the governance and accountability arrangements between the Department of Health (the Department) and NHS Improvement (NHSI). This annex provides additional detail on the finance and accounting arrangements which complements the Framework Agreement itself.
2. This Annex is drafted as per section 2 of the Framework Agreement therefore references to NHSI should be read in accordance with that section.
3. Monitor and NHS TDA are required to cooperate and collaborate to deliver the joint objectives of NHSI. Each organisation has a statutory duty to cooperate with the other and joint working towards delivery of NHSI objectives will be within this duty of cooperation.
4. NHSI's objectives as defined in the remit letter should be delivered through working collaboratively with the Department, NHS England, HEE and other national NHS bodies where appropriate.
5. Where other guidance or legislation is summarised in the document below, any changes in the underlying guidance or amendments to legislation will take precedence over this Framework Agreement.

NHS Foundation Trust Accounts

6. Paragraph 17 of Schedule 8 to the Health and Social Care 2012 Act requires Monitor to prepare consolidated NHS foundation trust accounts for each financial year ending 31 March, and interim accounts for shorter periods if required. In relation to these accounts, NHSI must;

- ensure that accounts are prepared according to the form, content, methods and principles prescribed by the Secretary of State in his annual group accounting instructions;
- submit these accounts (both unaudited and audited) to the Department by a date to be specified by the Secretary of State; and
- submit these accounts to the Comptroller and Auditor General (C&AG) for audit as soon as reasonably practicable after the year end, or, in the case of any interim account, as soon as reasonably practicable after the end of the interim period to which that interim account relates.

NHS Trust Accounts

7. From 2017/18, NHSI is requested to collect individual NHS trust results (both accounting and management information) for each financial year ending 31 March, and interim accounts for shorter periods if required. In relation to these NHS trust results, NHSI will;

- ensure the results are prepared according to the form, content, methods and principles prescribed by the Secretary of State in his annual group accounting instructions;
- prepare a consolidation of the results of the provider sector using the information in paragraphs 5 and 6 of this document (based on both unaudited and audited underlying data) and submit this consolidated position to the Department by a date to be specified by the Secretary of State and in the format prescribed by the Department (consolidation schedule format).
- support the work of the Comptroller and Auditor General (C&AG) in gaining assurance over the provider sub-consolidation process as an integral part of his audit of the Department's Annual Report and Accounts.

Annual Expenditure Limits

8. The Secretary of State will issue Monitor and TDA with operating budgets in line with the prevailing business planning process and for the purposes of this Annex, the sum total of both budgets represents the budget of NHSI. As Accounting Officer of both organisations, the Chief Executive must ensure that, in any financial year, NHSI's spending in each of the following categories does not exceed the limit set by the Secretary of State for that year:

- revenue (non ring-fenced);
- revenue (ring-fenced);
- capital;
- annually managed expenditure; and
- technical accounting/budgeting.

9. As Monitor and NHS TDA remain separate legal entities the NHSI limits will be split between the two organisations. Monitor and NHS TDA are able to vire budget between the organisations in the same currency (for example Admin budget can be moved between Monitor and NHS TDA). This will be agreed and actioned through the quarterly consolidation process.

The Accounting Officer must also ensure that:

- the NHSI's total spending on administration in any financial year does not exceed the admin control limit set by the Secretary of State as a subset of the total revenue resource limit; and
- in any given year the cash usage of NHSI does not exceed the cash limit (allotment) for NHSI plus any payments received which are used to offset expenditure that would have otherwise scored against this limit.
- Each of the controls referred to in paragraphs 5 and 6 above must be met individually.

Business Planning

10. In accordance with the Framework Agreement NHSI has agreed to produce a business plan each year (see paragraph 4.3 of the Framework Agreement). The plan will be required to be costed: supporting guidance issued by the Department will provide the format and level of financial detail required. Indicative budgets for both administration and programme funded activity will be issued with planning guidance, incorporating any guidance on overall efficiencies relevant to the Department and its arm's length bodies.
11. The business plan will need to identify detailed revenue, capital and cash forecasts for parliamentary funded activity, and equivalent expenditure associated with any other income sources. It will need to clearly identify the distinction between costs and income falling inside and outside the administration budget regime.

Accounts

12. Paragraph 7.2 of the Framework Agreement sets out the expectation, arising from Secretary of State's powers under the NHS Act 2006 (as amended), that the Department will routinely have full access to the NHSI's information and files. In relation to financial reporting, the Department is required by HM Treasury to report in-year financial performance and forecasts for all its arm's length bodies, by Estimate Line, and in a specified format, to a strict timetable. NHSI is required to comply with Departmental plans and schedules which enable the Department to meet HM Treasury deadlines, and the Department's overall financial planning to meet HM Treasury spending controls through the Shared Financial Planning Agreement.
13. NHSI must prepare annual accounts for Monitor and NHS TDA, for each financial year ending 31 March, and interim accounts for shorter periods if required. In relation to these accounts, NHSI must:
 - ensure that accounts are prepared according to the form, content, methods and principles prescribed by the Secretary of State in his annual group accounting instructions;
 - submit these accounts (both unaudited and audited) to the Department by a date to be specified by the Secretary of State; and
 - submit these accounts to the Comptroller and Auditor General (C&AG) for audit as soon as reasonably practicable after the year end, or, in the case of any interim account, as soon as reasonably practicable after the end of the interim period to which that interim account relates.
14. NHSI must publish an annual report of its activities together with the sets of audited accounts after the end of each financial year. The annual report must include appropriate disclosures for both Monitor and NHS TDA.
15. Information on performance against key financial targets is within the scope of the audit and should be included in the notes to the accounts. The report and accounts are to be signed by NHSI's Accounting Officer and laid before Parliament by NHSI and made available on NHSI's website, in accordance with the guidance in the Government Financial Reporting Manual (FRoM). A draft of the report should be submitted to the Department in line with the published timetable.
16. The Accounting Officer must also ensure that NHSI participates fully in all agreement of balances exercises initiated by the Department, and in the form specified by the Department, and that it agrees income and expenditure and payables and receivables

balances both with other organisations within the Department's resource accounting boundary and, for the purposes of the WGA, with other government bodies outside that boundary. In doing so, NHSI should seek to agree all outstanding balances but in any case should keep within any level of materiality set by the Department.

17. Engagement in the agreement of balances exercise will need to be at legal organisation level, all transactions with other organisations will need to clearly identify whether Monitor or NHS TDA are the transacting organisation.

Audit

18. Section 9 of the Framework Agreement sets out the high level requirements for audit.

To meet the requirements for internal audit, NHSI must:

- ensure the Department is satisfied with the competence and qualifications of the Head of Internal Audit and the requirements for approving appointments in accordance with Public Sector Internal Audit Standards;
- prepare an audit strategy, taking into account the Department's priorities, and forward the audit strategy, periodic audit plans and annual audit report, including NHSI's Head of Internal Audit's opinion on risk management, control and governance as soon as possible to the Department; and
- keep records of fraud and theft suffered by NHSI and notify the Department of any unusual or major incidents as soon as possible.

19. The Department is committed to a group assurance model for itself, and its arm's length bodies. NHSI's internal audit function is delivered through Cabinet Office shared service arrangements. Should NHSI wish to consider alternative internal audit provision it must consult with the Department.

20. The Department's group internal audit service has a right of access to all documents prepared by NHSI's internal auditor, including where the service is contracted out (until such time when the contract expires, after which Group Internal Audit will provide the audit service – including having access to all previous audit documentation).

21. For external audit, the C&AG audits both NHS TDA and Monitor annual accounts. NHSI will lay both sets of accounts before Parliament, together with C&AG's reports. In the event that NHSI has set up and controls subsidiary companies under either Monitor or NHS TDA, NHSI will, in the light of the provisions in the Companies Act 2006, ensure that the C&AG is appointed auditor of those company subsidiaries that it controls and/or whose accounts are consolidated within the respective accounts. NHSI shall discuss with the Department the procedures for appointing the C&AG as auditor of the companies.

22. The C&AG:

- will consult the Department and NHSI on whether the National Audit Office or a commercial auditor will undertake the audit(s) on his behalf, though the final decision rests with the C&AG;
- has a statutory right of access to relevant documents including, by virtue of an Order made under section 25(8) of the Government Resources and Accounts Act 2000 , those held by another party in receipt of payments or grants from NHSI;
- will share with the Department information identified during the audit process and the audit report (together with any other outputs) at the end of the audit, in particular on issues impacting on the Department's responsibilities in relation to financial systems within NHSI; and
- will, where asked, provide the Department and other relevant bodies with regulatory compliance reports and other similar reports which the Department may request at the commencement of the audit and which are compatible with the independent auditor's role.

23. The C&AG may carry out examinations into the economy, efficiency and effectiveness with which NHSI has used its resources in discharging its functions. For the purpose of these examinations the C&AG has statutory access to documents as provided for under section 8 of the National Audit Act 1983. In addition, NHSI is to provide, in conditions to grants and contracts, for the C&AG to exercise such access to documents held by grant recipients and contractors and sub-contractors as may be required for these examinations; and is to use its best endeavours to secure access for the C&AG to any other documents required by the C&AG which are held by other bodies

Delegated Authorities

24. Paragraph 10.5 of the Framework Agreement requires NHSI to abide by any relevant cross-Government efficiency controls.

25. Once the business plan has been approved by the Department, and subject to the Secretary of State's instructions and any other processes set out in this document, NHSI has authority to incur expenditure approved in the budget without further reference to the Department, on condition that:

- NHSI will comply with its delegated authorities (as currently issued to Monitor and NHS TDA), which cannot be altered without the prior agreement of the Department, noting that authority to approve novel, contentious or repercussive proposals cannot be delegated from HM Treasury; and
- inclusion of any planned and approved expenditure in the budget will not remove the need to seek formal departmental approval where any proposed expenditure is outside the delegated limits or is for new schemes not previously agreed.

26. NHSI must obtain the Department's prior written approval before entering into any undertaking to incur expenditure outside its delegations or not provided for in its business plan as approved by the Department. In addition, the Department's prior written approval is required when:

- incurring expenditure for any purpose that is or might be considered novel or contentious, or which has or could have significant future cost implications;
- making any significant change in the scale of operation or funding of any initiative or particular scheme previously approved by the Department;
- making any change of policy or practice which has wider financial implications that might prove repercussive or which might significantly affect the future level of resources required; or
- carrying out policies that go against the principles, rules, guidance and advice in Managing Public Money.

27. For major projects, the NHSI will participate in the Department's common assurance and approval process.

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