

**Framework Agreement  
between the Department of Health and Monitor**

**Annex B: Financial and accounting responsibilities**

2014

## **Annex B – Financial and accounting responsibilities**

- i. The Framework Agreement sets out the governance and accountability arrangements between the Department of Health and Monitor. This Annex provides further detail on financial and accounting responsibilities, and, delegated authorities.

### Annual Expenditure Limits

- i. As part of the Department's annual business planning cycle, Monitor will produce a business plan demonstrating how delivery of the overarching functions will be achieved. The plan will need to be costed and supporting guidance issued by the Department will provide the format and level of financial detail required. A target budget will be issued with the planning guidance, incorporating overall efficiencies relevant to the Department and its arm's length bodies.
- ii. The business plan will need to identify revenue, capital and cash forecasts for grant-in-aid 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.
- iii. The Chief Executive, as Accounting Officer, must ensure that, in any financial year, Monitor's spending in each of

the following categories does not exceed the limit set by the Secretary of State for that year:

- a. Revenue (non ring-fence);
  - b. Revenue (ring-fence);
  - c. capital;
  - d. annually managed expenditure; and
  - e. technical accounting/budgeting.
- iv. The Accounting Officer must also ensure that:
    - a. Monitor's total spending on administration in any financial year does not exceed its overall admin control limit, set by the Secretary of State as a subset of the revenue resource limit; and that
    - b. In any given year the cash usage of Monitor does not exceed the cash limit (allotment) for Monitor plus any payments received which are used to offset expenditure that would have otherwise scored against that limit.
  - v. In addition to the specific controls referred to in paragraphs iii and iv, Monitor has a duty to promote the provision of health care services which is economic, efficient and effective. Effective partnerships developed with other regulatory bodies, such as NHS England and the NTDA, will be key to this.

### Grant in aid funding and any ring-fenced grants

- vi. Any grant-in-aid provided by the department for the year in question will be voted in the department's Supply Estimate and be subject to Parliamentary control.
- vii. The grant-in-aid will normally be paid in monthly instalments on the basis of written applications showing evidence of need. Monitor will comply with the general principle, that there is no payment in advance of need. Cash balances accumulated during the course of the year from grant-in-aid or other Exchequer funds shall be kept to a minimum level consistent with the efficient operation of Monitor. Grant-in-aid not drawn down by the end of the financial year shall lapse. Subject to approval by parliament of the relevant Estimates provision, where grant-in-aid is delayed to avoid excess cash balances at the year-end, the department will make available in the next financial year any such grant-in-aid that is required to meet any liabilities at the year end, such as creditors.
- viii. In the event that the department provides Monitor with separate grants for specific (ring-fenced) purposes, it would issue the grant as and when Monitor needed it on the basis of a written request. Monitor would provide evidence that the grant was used for the purposes authorised by the department. Monitor shall not have uncommitted grant funds in

hand, nor carry grant funds over to another financial year.

### Accounts

- i. 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, in a timely manner. Monitor is required to comply with Departmental plans and schedules which enable the Department to meet HMT deadlines, and the Department's overall financial planning to meet HM Treasury spending controls through the Shared Financial Planning Agreement.
- ii. Any additional in-year financial support and challenge will be identified through the accountability arrangements, and support and challenge will be determined by the levels and nature of financial risk identified.
- iii. Monitor must prepare annual accounts for each financial year ending 31 March, and interim accounts for shorter periods if required. In relation to these accounts, Monitor must:
  - a. ensure that accounts are prepared to the form, content, methods and principles prescribed by the Secretary of State in his annual group accounting instructions;
  - b. submit these accounts (both unaudited and

- audited) to the Department by a date to be specified by the Secretary of State; and
- c. 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).
- iv. Monitor must publish an annual report of its activities together with its audited accounts after the end of each financial year. 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 Monitor's Accounting Officer and laid before Parliament by Monitor and made available on Monitor'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.
  - v. The Accounting Officer must also ensure that Monitor 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.
  - vi. In doing so, Monitor should seek to agree all outstanding balances but in any case should keep within any level of materiality set by the Department. *[To be agreed with Monitor]*
- Audit
- vii. Section 9 of the Framework Agreement sets out the high level requirements for audit.
  - viii. To meet the requirements for internal audit, Monitor will also:
    - a. establish and maintain arrangements for internal audit in accordance with the Public Sector Internal Audit Standards, and have in place a Head of Internal Audit who is suitably competent and qualified;
    - b. prepare an audit strategy, taking into account the Department's priorities, and forward the audit strategy, periodic audit plans and annual audit report, including Monitor's Head of Internal Audit's opinion on risk management, control and governance as soon as possible to the Department; and
    - c. keep records of, and prepare and forward to the Department an annual report on fraud

and theft suffered by Monitor and notify the Department of any unusual or major incidents as soon as possible.

accounts. Monitor shall discuss with the Department the procedures for appointing the C&AG as auditor of the companies.

- ix. The Department is committed to the development of a group assurance model for DH and its Arm Length Bodies. It has been agreed that as soon as possible, Monitor's internal audit provision will be delivered as part of the shared service. Monitor will be expected to actively engage with the Department in the development of the group assurance model. During transition to the new group assurance model, any exceptions to the group arrangements will only be by explicit agreement of the Director General, Finance and NHS Directorate and the DH Head of Internal Audit.
- x. Monitor's Internal Audit function is provided by the Health Group IA service. This is regulated through the agreed service level agreement.
- xi. For external audit, the C&AG audits Monitor's annual accounts and lays them before Parliament, together with his report. In the event that Monitor has set up and controls subsidiary companies, Monitor 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 its own

- xii. The C&AG:
  - d. will consult the Department and Monitor on whom – the NAO or a commercial auditor – shall undertake the audit(s) on his behalf, though the final decision rests with the C&AG;
  - e. has a statutory right of access to relevant documents including, by virtue of section 25(8) of the Government Resources and Accounts Act 2000, those held by another party in receipt of payments or grants from Monitor;
  - f. 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 Monitor;
  - g. 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.

- xiii. The C&AG may carry out examinations into the economy, efficiency and effectiveness with which Monitor 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 Monitor 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 shall 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

- xiv. Monitor's delegated authorities are issued to it by the Department separately.
- xv. Monitor, as with all public bodies and government departments, must also operate within the existing set of efficiency controls. The full operational guidance will be provided to Monitor by the Department.
- xvi. Once the budget has been approved by the Department and subject to the Secretary of State's instruction and any other

processes set out in this document, Monitor has authority to incur expenditure approved in the budget without further reference to the Department, on the following conditions:

- h. Monitor will comply with its delegated authorities and relevant efficiency controls, which cannot be altered without the prior agreement of the Department or Cabinet Office, whilst also noting that authority to approve novel, contentious or repercussive proposals cannot be delegated from HM Treasury; and
- i. 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.

- xvii. Monitor 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:
- j. incurring expenditure for any purpose that is or might be considered novel or contentious, or which has or could have significant future cost implications;

- k. making any significant change in the scale of operation or funding of any initiative or particular scheme previously approved by the Department;
  - l. 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
  - m. carrying out policies that go against the principles, rules, guidance and advice in *Managing Public Money*.
- xviii. For major projects, Monitor will participate in the Department's common assurance and approval process.