

# Monitor

Making the health sector  
work for patients

## Consultation on amendments to the 'NHS foundation trust annual reporting manual 2014/15'



## **About Monitor**

As the sector regulator for health services in England, our job is to make the health sector work better for patients. As well as making sure that independent NHS foundation trusts are well led so that they can deliver quality care on a sustainable basis, we make sure: essential services are maintained if a provider gets into serious difficulties; the NHS payment system promotes quality and efficiency; and patients do not lose out through restrictions on their rights to make choices, through poor purchasing on their behalf, or through inappropriate anti-competitive behaviour by providers or commissioners.

## Contents

1 Background .....	4
2 This consultation.....	4
3. Principal changes proposed in 2014/15.....	5
A. Enhanced audit reporting .....	5
B. Remuneration report .....	6
a) Format of remuneration report.....	6
b) Senior managers' remuneration policy .....	6
c) Off-payroll disclosures .....	7
C. Group accounting.....	8
D. Additional information relating to overseas visitors income.....	8
E. Other changes.....	9
F. Further expected amendments to FT ARM 2014/15 .....	11
Guidance for NHS foundation trusts in their final period of operation .....	11
Assurance over waiting time data.....	11
Quality Report requirements (annex 2 to chapter 7).....	11
4 Consultation questions .....	11
5 Responding to the consultation .....	12

## 1 Background

All NHS foundation trusts must publish annual reports and accounts. Clear and transparent reporting helps a trust – as well as its governors, members and patients – understand and scrutinise the year's operations and outcomes.

As the regulator we direct the form in which the annual report and account should be prepared, the information which should be included and the methods and principles that should be followed in their preparation. In determining the form and content of the accounts, we must, by statute, aim to ensure the accounts present a true and fair view.

In order to achieve this, we issue the 'NHS foundation trust annual reporting manual' (FT ARM) every year which contains the requirements NHS foundation trusts need to follow when preparing their annual reports and accounts.

The FT ARM requires NHS foundation trusts to follow the requirements of International Financial Reporting Standards (IFRS) as adopted by the European Union and the HM Treasury Financial Reporting Manual (HMT FReM). Therefore, the FT ARM only includes detailed accounting guidance where NHS foundation trusts are:

- required to depart from IFRS or the HMT FReM
- required to make specific disclosures which are in addition to IFRS and the HMT FReM or are
- faced with particular circumstances which IFRS or the HMT FReM do not address.

Updates to the FT ARM follow the same principle and, on that basis, are required where IFRS or the HMT FReM have changed or when NHS foundation trusts are required to make specific extra disclosures.

The submission deadlines for 2014/15 have not yet been set. These dates are highlighted in yellow in the draft FT ARM and will be revised when the FT ARM is republished.

## 2 This consultation

This consultation relates to the FT ARM for 2014/15. The proposed change explained in section 3A below would, if adopted, require a change to the 'Audit Code for NHS Foundation Trusts' which would not be subject to separate consultation.

The consultation period has been set for 6 weeks. The 2014/15 FT ARM will be republished once we have received and reviewed consultation responses. It is subject to approval by the Department of Health.

This document summarises the principal changes being made to the draft FT ARM 2014/15 which is available [here](#) on our website. All substantive changes are shown in bold italic font.

Please send in your responses by **5pm on Friday 29 August 2014**.

### **3. Principal changes proposed in 2014/15**

#### **A. Enhanced audit reporting**

Auditors issue an audit opinion for foundation trusts which is based on the Companies Act and International Standard on Auditing (ISA) 700. Recent changes to ISA 700 strengthen elements of the audit opinion report where the reporting entity has adopted the UK Governance Code 2012. The key changes require the auditor to (i) give a view on whether the annual report and accounts are fair, balanced and understandable, and (ii) describe the audit risks that had the biggest impact on the audit and how these were addressed.

The NHS Foundation Trust Code of Governance is based on principles of the UK Governance Code 2012 and requires directors of foundation trusts to confirm that the annual report and accounts, taken as a whole, are fair, balanced and understandable. We are proposing that in 2014/15 foundation trusts will be required to state that they have adopted the NHS Foundation Trust Code of Governance on a comply or explain basis. We expect inclusion of this statement to trigger the additional audit reporting by virtue of its link to the UK Corporate Governance Code 2012. We will couple this with amendment to the Audit Code for NHS Foundation Trusts, details of which are given below. The issue for consultation therefore is Monitor's proposal to amend the FT ARM and Audit Code so as to require foundation trust auditors to apply the expanded audit opinion reporting.

We believe that requiring auditors to give their view on whether the annual report and accounts are fair, balanced and understandable will be beneficial. This goes beyond checking the consistency of numbers in the annual report with the accounts: it helps ensure that foundation trusts are 'telling the story' fairly to their local stakeholders and ultimately to patients.

Foundation trusts are also required to disclose the significant issues considered by the audit committee in approving the accounts. The second new part of the audit opinion provides the auditor's view on this. In the private sector these changes were intended to address concerns that auditors' reports contain largely standardised language and the changes would make the specific application of auditing standards more transparent and help users understand the audit. Our view is that the same accountability should apply to foundation trusts, with governors, members and patients able to understand the key issues affecting a foundation trust's accounts. Local authorities and other NHS bodies are issued with an annual audit letter by their auditor as a public document to report the results of the audit. Foundation trusts auditors are not required to issue these documents, and this change will help improve the public reporting of foundation trust audit in the audit report.

As well as and separate from the FT ARM, we issue the 'Audit Code for NHS Foundation Trusts' (the Audit Code) which sets out how auditors of foundation trusts should conduct their work. If the proposed changes to the FT ARM are adopted, the Audit Code will also be updated to reflect the expected form of a foundation trust audit opinion. We will not formally consult on changes to the Audit Code.

In responding to this consultation, NHS foundation trusts may wish to explore with their auditors any impact of the proposed changes on audit fees. We have not provided a template audit opinion as part of this consultation because the format of foundation trusts' audit opinions currently differ slightly between audit firms.

Refer to paragraph 7.79 of the draft ARM for details of the additional statement added to the annual report.

**Consultation question 1:**  
**Do you have any comment on our proposal for implementing enhanced audit reporting for NHS foundation trusts?**

## **B. Remuneration report**

In August 2013, the Department for Business, Innovation and Skills introduced changes to the Companies Act regulations which altered the requirements for the remuneration report. Many of these changes were adopted by the HMT FReM in early 2014, and we adopted those minimum requirements in the revised FT ARM in 2013/14.

To continue to align foundation trust annual reporting with best practice in the corporate sector where relevant, we propose to adopt a number of wider changes in the company regulations into the 2014/15 FT ARM in addition to those already adopted.

### *a) Format of remuneration report*

The 2013 Companies Act regulations introduced a three-section format for the remuneration report:

- an annual statement on remuneration policy and changes
- details of policy relating to the remuneration of senior managers and
- an annual report on remuneration (largely the current audited elements).

The draft 2014/15 FT ARM proposes to adopt this format to replace the existing division between audited content and unaudited content. Elements of the remuneration report that are subject to audit remain clearly identified in the FT ARM.

As this is the format adopted by changes in corporate reporting we propose that this structure is adopted for 2014/15 foundation trust remuneration reports.

Refer to paragraphs 7.34 to 7.40 of the draft FT ARM.

### *b) Senior managers' remuneration policy*

Most of the disclosures in this section are similar in scope to the previous 'not subject to audit' disclosures.

We propose to adopt some disclosures from the companies' regulations that are in addition to the requirements in the FReM. In summary these are:

- a description of each of the components of the remuneration package for directors (where these exist), how they contribute to the foundation trust's objectives and, where applicable, details on the performance measures that affect remuneration
- for any new components of a director's remuneration packages, information on why they have been introduced
- where performance measures are part of remuneration policy, details of the performance measures and targets for the next year and
- a description of any obligations in some or all senior managers' service contracts which could give rise to remuneration payments of payments for loss of office that are not disclosed elsewhere in the remuneration report.

These disclosures are intended to provide local stakeholders with transparency over non-standard elements of remuneration, where they exist. We would like to emphasise that a proportionate approach should be taken when applying these disclosures. They will not be relevant to all foundation trusts, but we believe that where foundation trusts do have these elements in their remuneration structures, these should be disclosed to local stakeholders.

Refer to paragraph 7.39 of the draft FT ARM.

**Consultation question 2:**  
**Do you have any comment on our proposals for changes to the structure or content of the remuneration report?**

*c) Off-payroll disclosures*

The FT ARM already requires foundation trusts to disclose details of off-payroll arrangements for highly paid people. To promote local governance and transparency in an increasingly high-profile area, we are proposing to expand this disclosure by requiring foundation trusts to make a statement on their policy for the use of off-payroll arrangements. We believe local scrutiny is an important element of reviewing a foundation trust's affairs.

Refer to paragraph 7.44 of the draft FT ARM.

**Consultation question 3:**  
**Do you have any comment on our proposals for foundation trusts to disclose their policy on the use of off-payroll arrangements?**

## **C. Group accounting**

From 2014/15, the HMT FReM has adopted the new group accounting standards (IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities) in full. These requirements have been incorporated into the 2014/15 FT ARM.

The key changes include the removal of the option to apply proportionate consolidation when accounting for interests in joint ventures and important changes to the definitions of control and the two types of joint arrangements (joint ventures or joint operations).

IFRS 12 also introduces new disclosure requirements, including summarised financial information, for interests in subsidiaries, joint arrangements, associates and non-consolidated structured entities. These disclosures will not apply to the majority of foundation trusts who have a single entity structure, and foundation trusts to whom they apply should take a proportionate approach when applying the standard. The disclosures relating to subsidiaries will apply to NHS foundation trusts consolidating NHS charitable funds.

In addition to implementing these standards, we are proposing that where a foundation trust has an interest in a subsidiary, joint arrangement or associate which has not been accounted for under IFRS 10 or IFRS 11, the name of the entity, nature of the relationship and the basis for non-consolidation should be disclosed in the foundation trust's accounting policies.

Refer to the following sections of the draft FT ARM:

- paragraphs 3.24 to 3.42
- annex 1 to chapter 3, template accounting policy 1.

### **Consultation question 4:**

**Do you have any comment on our proposals for adopting the new group accounting standards?**

## **D. Additional information relating to overseas visitors income**

In 2013/14 we began to collect additional information about income relating to overseas patients in foundation trust consolidated schedules (FTC) forms. This information quantifies the foundation trust's exposure to credit risk in relation to such income. From 2014/15 we are proposing that foundation trusts would also be required to disclose this information in the notes to the accounts. We believe this will ensure this information is available to local stakeholders, as well as bringing it within the scope of external audit.

Refer to paragraph 4.22 of the draft FT ARM.

### **Consultation question 5:**

**Do you have any comment on our proposals for updating the FT ARM to require disclosure of information relating to overseas patient income as set out above?**



## E. Other changes

Some other, more minor, changes have been made to the FT ARM in 2014/15. These include minor changes coming from accounting standards in 2014/15. These other changes are listed below:

- Paragraph 1.16 – amended to clarify that the format of the certificate on the FTCs provided in the ARM is the required wording, not proposed wording.
- Annex 2 to chapter 1 – added emphasis that there must not be a plastic cover on the copy of the annual report and accounts submitted for laying before Parliament. A number of foundation trusts made this error in 2013/14.
- Paragraphs 2.7 to 2.12 – the list of applicable accounting standards has been updated. Changes not already mentioned above include the December 2011 amendment to IAS 32 Financial Instruments: Presentation in respect of offsetting which applies from 2014/15 and the June 2013 amendment to IAS 39 Financial Instruments: Recognition and Measurement in respect of the novation of derivatives and hedging which also applies from 2014/15.
- Paragraph 2.10 – clarification has been added to the table that the section of the Companies Act which requires auditors to report on the parts of the directors' remuneration report in their audit opinion is applicable. There is no change to what auditors are being asked to do but this amendment to the FT ARM is intended to bring consistency in how audit firms deal with this in foundation trust audit opinions.
- Annex 1 to Chapter 2 (FReM divergences) – the first row of the second table has been expanded to provide greater clarity on the different elements of remuneration disclosures.
- Paragraphs 3.20, 7.18 and 7.20 – the HMT FReM adaptation of IAS 1 for defining going concern in a public sector context has been made clearer. This is not a change to how going concern is defined for NHS foundation trusts and is based upon the clarification for 2013/14 issued by Monitor in May 2014.
- Paragraph 3.32 – expanded to incorporate the guidance on materiality when presenting 'group' and 'foundation trust' columns that was issued by Monitor as an FAQ point in 2013/14.
- Paragraph 3.48– references to modified absorption accounting have been updated as this only applied to certain transactions in 2013/14 and no new transactions will be accounted for using modified absorption principles in 2014/15.
- Annex 1 to Chapter 3 – the template accounting policies have been updated commensurate with updates elsewhere in the document.

- Paragraph 4.11 – added a link to the accounting guidance for payments under the maternity pathway which was issued separately in 2013/14.
- Paragraph 4.35 – removed the 2013/14 adjustment for assets/liabilities transferred from legacy bodies from the calculation example for Public Dividend Capital (PDC) dividends.
- Paragraph 4.55 – amended the requirement for the staff exit packages to have comparatives to give more freedom in how these comparatives are presented (previously it required the comparatives to be presented alongside in brackets).
- Paragraphs 4.60 to 4.62 non-compulsory exit packages – adding a point of clarity on payments in lieu of notice, a requirement for prior year comparatives, and adding a reference to regularity.
- Paragraph 4.65 – updated the links in this paragraph to NHS pension scheme information.
- Paragraphs 5.25 and 5.27 – updated the public sector interpretations of value in use for non-cash generating assets and impairments arising from clear consumption of economic benefit or service potential in line with updates to the FReM.
- Paragraph 6.6 – the threshold for enhanced reporting of losses and special payment cases has been increased from £250,000 to £300,000 in line with HM Treasury guidance.
- Paragraph 7.29 – added reference to the strategic report in the context of quality performance disclosures.
- Paragraph 7.36 – added detail from the Companies Act Regulations which provides clarity on qualifying services for senior manager remuneration disclosures for foundation trusts with subsidiaries. This is not a change in reporting requirements.
- Paragraph 7.67 – added clarity to the calculation for column E of the single figure total table to include extra information issued by Monitor in FAQ points in March and April 2014.
- Paragraph 7.68 – added clarity that the Companies Act Regulations requirement to disclose total pension entitlement is covered by inclusion of the table required by paragraph 7.69.
- Paragraph 7.81 – updates to the Code of Governance in July 2014 have been reflected in the ARM. These affect the rows for ‘2: Disclose B.6.2’, ‘6: Comply or explain B.6.6’ and ‘6: Comply or explain C.1.4’.
- Paragraph 7.91, Annual Governance Statement – added clarity that we do not prescribe for foundation trusts which issues should be considered to be significant

control issues. Foundation trusts should ensure that a consistent definition of what constitutes significance is applied from year to year.

- Paragraph 7.93 and annex 6 to chapter 7 – in the 2013/14 FT ARM paragraph 7.88 required foundation trusts to disclose details of any serious incidents involving data loss or confidentiality breach. This has been moved to 7.93 to specify that the disclosure should be included in the annual governance statement (rather than elsewhere in the annual report) and it is now stated that as a minimum this disclosure should include details of any incidents classified as Level 2 in the Information Governance Incident Reporting Tool.

**Consultation question 6:**

**Do you have any comments on the other changes listed or any other amendments?**

## **F. Further expected amendments to FT ARM 2014/15**

### *Guidance for NHS foundation trusts in their final period of operation*

The post-consultation version of the 2014/15 FT ARM will also include guidance for foundation trusts in their final period of operation. This will set out the reporting requirements for such trusts and will be added following this consultation.

### *Assurance over waiting time data*

Later in the year, the FT ARM may be revised to require additional disclosure in the annual governance statement on how the foundation trust assures data quality over waiting time data and any risks to the quality of this data.

### *Quality Report requirements (annex 2 to chapter 7)*

NHS England and Monitor are due to undertake a review of the contents of quality accounts and quality reports. This section of the FT ARM will therefore be updated later in the financial year.

## **4 Consultation questions**

Question 1: Do you have any comment on our proposal for implementing enhanced audit reporting for NHS foundation trusts?

Question 2: Do you have any comment on our proposals for changes to the structure or content of the remuneration report?

Question 3: Do you have any comment on our proposals for foundation trusts to disclose their policy on the use of off-payroll arrangements?

Question 4: Do you have any comment on our proposals for adopting the new group accounting standards?

Question 5: Do you have any comment on our proposals for updating the FT ARM to require disclosure of information relating to overseas patient income?

Question 6: Do you have any comments on the other changes listed or any other amendments?

## **5 Responding to the consultation**

We are keen to hear your views on the details of the proposals. You can find the draft 'NHS foundation trust annual reporting manual 2014/15' [here](#) on our website. Changes are shown in bold italics.

Please complete the consultation response form on our website and return it to [consultation@monitor.gov.uk](mailto:consultation@monitor.gov.uk) by the deadline date below. We will consider the responses in finalising the FT Annual Reporting Manual for 2014/15. If you do not have web or email access, then please write to us at:

FT ARM consultation 2014/15

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The consultation closes at 5pm on Friday 29 August 2014.



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