Year-end survey 2022/23

05 October 2023

Summary

The length of time taken to prepare and finalise the accounts is the main concern identified by respondents.

For providers, the audit of the accounts has slightly improved, but it was worse for commissioners this year which is not unexpected given that they prepared two sets of part-year accounts.

Auditors are concerned about the quality of draft accounts and the pressure on NHS bodies to report a particular financial position.

Introduction

In July and August 2023, 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.

This year, we also surveyed our members ahead of the year-end. This report includes those responses as well.

We will use the results of the survey to inform our work programme in 2023/24 as well as to provide feedback to the Department of Health and Social Care (DHSC), NHS England and the National Audit Office (NAO).

Summary of feedback

The pre-year-end survey received 40 responses and the year-end survey received 101 (2021/22: 29) responses from NHS bodies and auditors (table 1).

	Pre-year-end survey 2022/23	Year end survey 2022/23	Year end survey 2021/22
Clinical commissioning group (CCG) and then integrated care board (ICB)	8	8	2
ICB only	0	4	n/a
NHS foundation trusts	17	47	15
NHS trusts	15	33	9
Auditors	0	7	3
Others	2	3	0
TOTAL	40	102	29

Table 1: number of respondents by type of organisation

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.

As part of the year-end survey, we asked respondents whether they were responding on a personal basis or on behalf of an organisation:

- 51 personal responses (2021/22: 7)
- 11 responses on behalf of their organisation (2021/22: 4)
- 37 responses were a combination of both (2021/22: 18).

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:

- The length of time taken to prepare and finalise the accounts is the main concern identified in the survey. This was particularly an issue for commissioning organisations preparing two sets of part-year accounts but was also made worse by the timing of the planning submissions. For finance staff, this means that there are four to five months that they are unable or unwilling to take holiday – which means that roles in financial reporting are difficult to fill.
- For providers, the audit of the accounts has slightly improved, but it was worse for commissioners this year which is not unexpected.
- Auditors are concerned about the quality of draft accounts and the pressure on NHS bodies to report a particular financial position
- Further guidance would be welcomed in relation to:
  - capital accounting issues, including IFRS 16 and valuation
  - provisions and accruals, in particular, the impact on the financial position of the NHS body
  - the remuneration report including the fair pay disclosures and senior managers' pensions
  - IFRS 16 implementation was worse than expected for many respondents – valuation of right of use assets was an unexpected issue at audit but also simply keeping the data up to date and embedding leases as business as usual is a concern.

Preparing the annual report and accounts

Guidance and third-party information

Most respondents were satisfied that all, or pretty much all, of the guidance and templates they needed from third parties was available when they needed it. A small number were waiting for information:

- from the DHSC – eight (9%) had unanswered questions at a late stage and a further four (5%) were waiting for a single item
- from NHS England for commissioners – six (13%) had unanswered questions at a late stage and a further two (4%) were waiting for one piece of information or response
- from NHS England for providers – eight (10%) were waiting for information, split evenly between lots of unanswered questions and those with only one question
- from auditors – 12 (14%) NHS bodies had unanswered questions at a late stage and a further four (5%) were waiting for one issue to be resolved.

One common theme was the timing of accounts templates which preparers would like earlier – this was particularly the case for part year accounts templates for CCGs.

‘The situation around the CCG accounts for the first three months of 2022/23 was, especially given the difficulties producing two year ends in quick succession last year, not properly considered and resourced. Faulty templates did not help either. As usual, everyone worked diligently and put in extra hours to make it work, but this is becoming less and less acceptable.’

‘I am sure NHSE will do their own year-end feedback questionnaire too so I will be ensuring they are aware of the number of queries sent to them this year-end that were never acknowledged or answered. As this has been the most difficult year-end, I have experienced in 20 years we really could have done with more support in place and timely responses when we needed assistance.’

Confirmation of allocations was an issue:

‘The original allocation confirmation letters were issued on a timely basis, but I have to draw attention to the problem we experienced getting revised allocation directions issued which greatly contributed to our ICB accounts not being submitted on 30th June. I appreciate that NHSE is a huge organisation and there are different departments dealing with different aspects of finance - however the process to get allocation figures revised across our CCGs and ICB was laborious, confusing and time consuming. We had to continually chase and escalate this issue.’

‘NHSE allocations need to be released earlier in the year - month 12 allocations in particular cause issues as spend cannot be committed against these until the following year due to time constraints. These allocations need to pass through I&E to meet NHSE's expected position, but auditors then raise issues with expenditure accruals made against these allocations.’

Preparers would also like to understand auditors’ requirements and planned approach earlier.

IFRS 16 was mentioned, some would like further guidance and others were concerned that they did not know the approach auditors would take, particularly in relation to key judgements and the valuation of right of use assets.

Some reported that pension information for the remuneration report was difficult to finalise and the late update to the Group accounting manual in relation to the fair pay multiple calculation caused difficulties. This is reflected by the fact that 20 (26%)

respondents said that there were issues relating to pensions information that had to be dealt with during the closedown period.

Issues impacting on the preparation of the accounts

30 (41%) of respondents were waiting for one issue with their valuers to be resolved during the closedown period and a further eight (11%) had material issues to resolve in relation to their valuation. In answer to a separate question, 26 (37%) of respondents reported that issues relating to the valuation report made the preparation of the annual report and accounts more difficult.

For those affected, 40% of respondents were waiting for information from local authorities. This included pension information for those with staff that are members of the local government pension scheme. There is concern that this will be worse for ICBs in the future.

Shared service reports were a concern for a small number:

‘Shared service reports need to work better:
a) There needs to be clear communications to bodies on where to get them from
b) There needs to be clear central message on the expected response to them. Currently auditors are telling bodies they are available, and are the ones asking what action taken’

Accruals for the agenda for change pay award made the preparation of the accounts more difficult for 24 (34%) respondents. The impact of this on the fair pay disclosure was an added complication. For 16 (24%) respondents the accrual affected the financial position but for 15 (23%) it did not.

Agreement of balances

In our pre-year-end survey, 44% of respondents did not expect agreement of balances to be an issue, while 38% were worried or concerned about this exercise.

The majority of respondents (53, 83%) reported that the exercise was about the same as last year with only eight (12%) reporting an improvement.

There are concerns that the changes to the financial regime have made income recognition more complicated. Deferred income remains an issue where commissioners account for the expenditure, but providers defer the income because the activity to earn the income will take place in the following year. Auditors reported concerns that IFRS 15 has not been embedded into processes which makes the process more difficult.

The preparation of part year accounts for CCGs and ICBs complicated agreement of balances as provider organisations did not always post transactions with the appropriate organisation.

As ever, the lack of engagement by some organisations was reported as an issue.

Adopting IFRS 16 Leases

In our pre-year-end survey, 62% of respondents reported that they were worried or concerned about the adoption of IFRS 16.
Of those that expected the whole process to be difficult:

- 16 (28%) found the collection of leases data more difficult than they expected and another 26 (31%) found it as hard as they expected
- 16 (28%) found the preparation of the accounts worse than they expected and another 20 (24%) found it in line with their expectations
- 10 (18%) and 14 (17%) found the same for the audit
- 15 (26%) found keeping the lease information up to date harder than expected and another 24 (29%) as hard as they expected.

On the other hand, eight reported that preparing the accounts was better than they expected, four of those also found the audit better than expected and a further 19 found the audit better than expected.

19 (28%) respondents reported that IFRS 16 adjustments affected their financial position in 2022/23.

Preparers of accounts reported that they had issues agreeing the approach to valuation of right of use assets with their auditors. This was particularly an issue for leases between NHS bodies, including NHS Property Services.

'Valuation around property buildings was a major discussion point, thankfully it didn't really impact us this year, but could in future years. Auditors suggested that guidance around DHSC was too tight and, as such, restricted trusts in what they could do around valuing property leases.'

There is ongoing concern about maintaining lease registers and appropriate documentation:

'Need to keep all payments and terms and contracts up to date. Needs significant full-time resources and process to pick up new leases. Also now are aware of recognition criteria better (the point at which the lease and asset should be recognised.) Also now know how auditors will audit it (which is rigorously). Potential to review materiality of what we included to make it simpler going forward.'

'Need estates to take responsibility for leased areas and keep a proper lease register and documentation. Lots of leases involve NHS Property Services where there is no documentation.'

'I think one of the issues is that because it has taken so long to implement, the profile of IFRS16 as an organisational wide issue has diminished and it isn't on everyone's radar. We need to make sure non-finance (and finance) colleagues are aware that this wasn't a one-off job and the requirements are ongoing.'

Only 12 (18%) of respondents have a process in place to identify new leases and changes to leases that is working well. 43 (64%) report teething problems with their processes.

'We are relying on emailing various teams quarterly for updates on this and other matters (provisions, losses and special payments etc) to bring visibility of these to the financial control team.'

‘Some of the issues we have is around timing especially the smaller leases (i.e., lease cars) because the supply issues mean that we don't know when newly leased assets will be delivered, meaning it is difficult to plan or predict when new leases for vehicles will commence.’

Additional guidance would be welcomed in relation to:

- valuation of right of use assets
- the impact of IFRS 16 on PFI liabilities
- CDEL coverage for new and amended leases.

There was recognition that helpful guidance has been issued by the DHSC and NHS England, although there is always room for more examples:

‘Guidance from NHSE has been overall good. Further guidance on changes to lease liability relating to inflationary increases including examples would be good.’

‘There are useful examples on SharePoint. One scenario not provided for is when the estimates for lease payments (entered into FMIS) vary from the actual payments. A guide on what should be done to reconcile these differences especially as FMIS cannot be changed retrospectively.’

The audit of the accounts

Preparers’ perspective

The vast majority of CCGs and ICBs (88%) reported that the audit of the accounts was worse than last year. This is unsurprising given that there were two part-year accounts to audit. However, for providers, the numbers reporting that the audit is worse has reduced (see table 2).

	2022/23 CCGs/ICBs	2022/23 Provider bodies	2022/23 Total	2021/22 Total	2020/21 Total	2019/20 Total
Better than last year	0 (0%)	17 (31%)	17 (27%)	4 (20%)	22 (27%)	12 (17%)
About the same as last year which is fine	1 (13%)	19 (35%)	20 (32%)	5 (25%)	20 (25%)	26 (38%)
About the same as last year but that is an issue	0 (0%)	2 (4%)	2 (3%)	1 (5%)	6 (7%)	5 (7%)
Worse than last year	7 (88%)	16 (30%)	23 (37%)	10 (50%)	33 (41%)	26 (38%)

Table 2: was the audit process better, about the same or worse than last year

Common issues raised included:

- inexperienced audit staff
- off site and, in some cases, off shore auditors making communication difficult
- lack of communication between auditors and NHS bodies
- lack of interim audits putting more pressure on the final audit
- the extended timetable for the preparation and, in particular, the audit of the accounts.

One suggestion to improve the submission process would be to simplify the finalisation process and the number of documents that need to be signed.

There were positive comments too:

‘No major issues - audit team spent more time onsite than previously which helped deal with queries.’

‘The ICB audit was one of the best managed audits I have experienced due to the assistant manager allocated to it. However, the fact that we were being audited on the CCG Q1 accounts at the same time (by different teams) was very tough.’

The length of time to finalise the accounts is a key issue, particularly in relation to the pressure this puts on staff working in finance:

‘More time for accounts preparation and less time for auditors will be helpful. Plus, moving plan to a different time will help as well. People are ending up working for weeks without any days of break. Not really right for the staff to be put under such pressure.'

‘Every year the year-end accounts and audit process is getting more and more difficult with no additional resources provided to deliver the outputs which places a lot of pressure on people and key individuals. It is already difficult to recruit quality staff to posts and even harder to keep good people on. The amount of work that is also required to support the year-end audit creates an additional burden as staff don't feel that they can do their normal day job effectively because they spend so long dealing with audit queries. Our auditors started their interim audit in January 2023 and were effectively 'on-site' right until the end of June 2023 when we submitted the accounts. That's nearly six months of dealing with audit queries, and it seemed one response would simply lead to another query. Prior to the pandemic, audits and submissions were done and dusted by the end of May, but now stretch on to the end of June, which, although only another month, does mean accounts aren't completed until one quarter into the new financial year. Staff are also reluctant to take annual leave for up to four/five months in the year because they don't want to burden their colleagues with dealing with audit queries, or because managers don't want to let staff go on leave, because there isn't the sufficient level of cover or expertise in the team to respond to the multitude of audit queries. There are signs of staff burnout from the burden that is occurring around year-end accounts and more so especially, the year-end audit process.’

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These issues are unlikely to be resolved in the short term, as one auditor noted:

> ‘Nationally there is a shortage of public sector auditors and the impact of issues in other parts of the market (particularly local government but also NAO work) are now affecting the NHS - the NHS sector should be aware of the NAO expectation of bringing more audits pre recess and the further impact that will have.’

Auditors’ perspective

Most auditors reported that the quality of the accounts was better or the same as last year which was acceptable. Three auditors (43%) reported that the quality of the draft accounts was worse than last year.

‘IFRS 16 added new areas of reporting challenge, which were therefore worse than last year.’

‘Remuneration report remains a significant challenge, with interactions between multiple teams.’

‘Issues identified on a number of bodies around the better payment practice code reporting (not previously a focus, and some historic issues) on how data collated.’

‘Many draft annual reports did not follow the structure and content requirements set out within the GAM this year. Remuneration reports were prepared very late and the definitions to be applied are not consistently understood.’

Looking ahead

We asked respondents to rank the areas where they think guidance is required going forward (see table 3). The key issues remain unchanged from previous years and all relate to capital in some way:

‘Capital expenditure continues to be an issue, with pressure on quality of accounting by trying to hit year-end targets. Use of vesting certificates overall increased, with limited evidence of improved value for money rationale.’

Accounting for accruals and provisions was added to the list for the first time this year and is another area where guidance would be welcomed. This links to the issues identified as relating to agreement of balances. As one auditor commented:

‘We have seen significantly more pressure on financial results this year, and issues in both directions on accruals, provisions and accounting estimates in managing position. Although not a going concern issue, financial sustainability considerations have increased significance, with us returning to value for money exceptions around cost improvement programmes and realism of savings.’

Rank in 2022/23		Rank in 2021/22	Rank in 2020/21	Rank in 2019/20	Rank in 2018/19
1	IFRS 16 on leases	1	1	1	1
2	Asset valuation	2	8	8	7
3	Capital accounting	4	5	11	10
4	Accruals and provisions	n/a			
5	Remuneration report disclosures	5	9	2	2
6	Judgements, estimates and prudence	3	3	4	4
7	Agreement of balances	6	8	6	3
8	The annual report	n/a			
9	Going concern	7	7	3	5
10	IFRS 17 Insurance contracts	11	n/a		
11	Governance statement	9	11	7	6
12	Inventory	10	12	13	
13	The establishment				

Rank in 2022/23		Rank in 2021/22	Rank in 2020/21	Rank in 2019/20	Rank in 2018/19
1	IFRS 16 on leases	1	1	1	1
2	Asset valuation	2	8	8	7
3	Capital accounting	4	5	11	10
4	Accruals and provisions	n/a			
5	Remuneration report disclosures	5	9	2	2
6	Judgements, estimates and prudence	3	3	4	4
7	Agreement of balances	6	8	6	3
8	The annual report	n/a			
9	Going concern	7	7	3	5
10	IFRS 17 Insurance contracts	11	n/a		
11	Governance statement	9	11	7	6
12	Inventory	10	12	13	
13	The establishment				

	of integrated care boards and integrated care partnerships	8	4	n/a	
14	Accounting for subsidiaries	13	14	12	11
15	Accounting for joint ventures	12	13	14	12

Other issues raised include:

- governance in system vs organisation decision making, financial performance, and value for money
- auditor expectations with respect to the design or evidence of implementation of financial controls and processes
- place reporting and the impact on the accounts, particularly whether segmental reporting is required
- task force on climate related financial disclosure (TCFD) adoption – the requirements for reporting and auditor expectations
- compliance with NHS provider code.

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.

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