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The annual report and accounts

A GUIDE FOR GOVERNORS

MAY 2024



THE ANNUAL REPORT AND ACCOUNTS

A guide for governors

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REPORT AND
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A GUIDE FOR
GOVERNORS

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BACKGROUND

The annual report, the annual accounts and the auditor's report on the accounts are important documents for foundation trusts (FTs). They provide accurate and comprehensive information on the trust's performance, business model and strategy to their members, patients, commissioners, taxpayers and other stakeholders. Governors are important users of these documents as they have been elected or appointed to represent these groups and have a statutory responsibility to hold the non-executive directors to account for the performance of the board of directors. When these documents are published, they are compiled in a single document known as the annual report and accounts. The council of governors has a statutory duty to receive the foundation trusts annual report and accounts, and the auditor's report on them, in a public meeting of the council of governors.

GLOSSARY AND ACRONYMS

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Accounting officer	The person responsible for keeping proper accounting records, preparing the annual accounts for the foundation trust, looking after foundation trust's assets and for maintaining a sound system of internal control. In a foundation trust, this is the chief executive.
Annual accounts	Documents prepared by the foundation trust, showing its financial performance and financial position for the previous financial year.
Annual governance statement	A statement about the governance arrangements and internal controls the foundation trust has in place to manage risk, signed by the accounting officer.
Annual report	A document produced by the foundation trust that summarises its performance during the year and provides background information about its performance, business model, governance arrangements and contribution to the integrated care system.
Asset	Something the foundation trust owns, such as a building, equipment, cash or consumables.
Audit certificate	A certificate by the independent auditor that they have completed the audit in accordance with legal requirements.
Audit committee	A committee of the board of directors (required by section 23 (6) of the Schedule 7 of the NHS Act 2006) with responsibility for reviewing the integrity of the foundation trusts financial statements and monitoring its performance, probity and accountability.
Audit opinion	The auditor's opinion of whether the foundation trusts accounts show a true and fair view of its financial position. If the auditors are satisfied with the accounts, they will give an unqualified opinion.
Care Quality Commission	The Care Quality Commission (CQC) is the independent regulator of health and adult social care in England.
External auditor	The independent auditor who reviews the accounts and issues a professional opinion on whether the accounts present a true and fair view. They are appointed by the council of governors.
Financial statements	A series of statements that are required by the FT ARM (see below) to be contained within the annual accounts.
Foundation Trust Annual Reporting Manual (FT ARM)	A document published each year by NHS England that sets out the requirements for the content of the foundation trusts annual report and accounts.
Financial Reporting Advisory Board (FRAB)	The financial reporting advisory board is a group of experts who advise the Treasury on financial reporting standards and practices for the UK public sector.

Group accounting manual	The manual produced by the Department of Health and Social Care that sets out the rules to produce the annual accounts for all health bodies.
Going concern	An expectation that the foundation trust will have the resources available to continue to operate for at least 12 months from the date of the accounts. The FT ARM requires providers to make a statement to confirm they are a going concern.
NHS provider licence	The NHS provider licence is NHS England's main tool for regulating providers of NHS services. It sets out the conditions that providers of healthcare services for the purposes of the NHS in England must meet to help ensure that the health sector works for the benefit of patients.
International Financial Reporting Standards (IFRS)	The International financial reporting standards are a set of accounting rules for the financial statements of public companies that are intended to make them consistent, transparent, and easily comparable around the world.
Laid before parliament	Required by law to be reported in the proceedings of a parliamentary session.
Liability	Something the foundation trust owes, for example a loan or an unpaid bill.
Reserves	An increase in overall value of the organisation since it was created. NB reserves are not necessarily held in accessible cash.
Taxpayers' Equity	The total value of the foundation trust, representing what the taxpayer has invested in it.
True and fair	A faithful and accurate account of what has happened.

WHEN ARE THE ANNUAL REPORT AND ACCOUNTS PRODUCED?

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NHS England issues a letter, in February each year, which sets out the NHS accounts timetable for the current year. The letter sets out detailed timelines. These will vary slightly each year. The letter and timeline are updated in May or June when the recess dates for Parliament are known.

The dates below are an example to give governors an indication of the steps in the process only. The actual dates may change from year to year.

31 March	The year-end for all foundation trusts.
April	Foundation trusts prepare their annual accounts and annual report.
24 April	Deadline for sending draft annual accounts to NHS England.
May	The external auditors carry out an audit of the accounts.
Late May	The audit committee reviews a draft of the annual report and accounts. The external auditor produces a report and their draft audit opinion.
Late May	After the audit committee's detailed review, the board of directors receives the annual report and accounts for approval. Once approved, the chief executive, as accounting officer, can then sign and date the statement of financial position and annual report as evidence of board approval. The accounting officer also signs the foreword to the accounts, the annual governance statement and the remuneration report.
Either mid July	For the last few years foundation trusts have been able to lay their annual report and accounts before or after the Parliamentary summer recess.
OR mid-September	Once laid before parliament, the annual report and accounts cannot be changed.
Late July or mid September	Foundation trusts' annual report and accounts are presented to the house of commons in a parliamentary session over a number of days and weeks.
Late September	<p>Foundation trusts submit their final full annual report including full statutory accounts to NHS England. These are then uploaded to the NHS provider directory on their website.</p> <p>After the accounts have been laid before Parliament, and before the end of September.</p> <p>The annual report and accounts and the report of the auditor are presented to the council of governors at a general meeting. Usually, this takes place at the annual members' meeting, which may be called or be part of a foundation trusts annual general meeting. Each foundation trust must publish their annual report and accounts on its website.</p>

WHAT ARE THE LEGAL AND GOVERNANCE REQUIREMENTS?

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Every foundation trust is required to produce an annual report and accounts, as one document and make it available in an accessible format to members of the public free of charge. NHS England, provides guidance on the form and content of the annual report and accounts in the NHS foundation trust annual reporting manual (FT ARM). The annual report and accounts are produced and audited in the weeks following the year-end, which for all foundation trusts, is 31 March. The completed document is sent to NHS England, along with the auditor's report on them. All foundation trusts annual report and accounts must be laid before parliament either before or after the summer recess, as directed by NHS England and cannot be shared with the public until then.

The foundation trust

The legal requirements (sections 24 and 25 of schedule 7 of the NHS Act 2006) for foundation trusts in relation to its accounts are:

- 1 To keep proper accounts and proper records as directed by NHS England with the approval of the secretary of state.
- 2 To prepare annual accounts as directed by NHS England with the approval of the secretary of state.
- 3 To comply with any directions given by NHS England with the approval of the secretary of state as to the methods and principles according to which the accounts are to be prepared and the content and form of the accounts.

NHS England

NHS England issues instructions to foundation trusts about what needs to go into the annual report and accounts and the accounting standards it needs to follow in the FT ARM. This is updated annually and is accompanied by an accounts timetable letter that gives a timetable to produce the document.

NHS England's instructions seek to ensure that the accounts present a true and fair view, which is a fundamental principle when preparing accounts, meaning that they give a faithful record of its transactions. This means that the accounts must comply with international financial reporting standards (IFRS) and the advice of the financial reporting advisory board (FRAB). This is to ensure that all foundation trusts are following the same rules and applying them consistently.

The accounting officer

The responsibility for keeping proper accounting records and preparing the annual accounts is the duty of the accounting officer, who in the foundation trust is the chief executive. The accounting officer is responsible for spending public finances wisely, looking after the foundation trust's assets and maintaining a sound system of internal control. These duties are stated explicitly in two of the disclosure statements that go into the annual accounts – the annual governance statement and the statement of accounting officer's responsibilities – both of which must be signed by the chief executive.

The external audit and the role of the independent auditor

The external auditor's responsibilities are to satisfy themselves that the foundation trust has:

- prepared its accounts properly, and
- made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources.

The auditor must review the annual report to assess whether the information in it is consistent with the financial statements. The audit must be conducted in accordance with the National Audit Office's code of audit practice and legal requirements.

The audit committee

The audit committee reviews the annual report and accounts on behalf of the board of directors. To do this, they will look at the foundation trust's accounting policies and practices and the reports of the internal auditors in their reviews of the financial reporting and financial management systems during the year. The audit committee will review the head of internal audit opinion to provide assurance on the effectiveness of controls and will ensure this is reported within the annual governance statement.

The external auditor reports the findings of their audit of the figures in the financial statements and the narrative being reported in the annual report to the audit committee just before the annual report and accounts are finalised for the board of directors to approve. Although the external auditor reports to the audit committee, their primary responsibility is to the council of governors. It is important for governors and non-executive directors to understand the work that the external auditor has carried out on the annual report and accounts to help them in their duties to hold the board to account.

The board of directors

The board of directors must approve the annual report and accounts. When it does so, it is confirming that it is satisfied that the annual report and accounts give a fair, balanced, and understandable assessment of the foundation trust's position and prospects and of how it, as a board, has discharged its duty to promote the success of the foundation trust to maximise the benefits for its members and the public as a whole. When approving the performance report in the annual report, directors are confirming that they agree with what is being reported about the strategic objectives, business plan, key risks and issues and context in which the foundation trust operates. When approving the accounts, board members are saying that the financial management of the foundation trust is operating effectively and that what is being reported is consistent with the information the board has seen over the previous year. Like the audit committee, the board will take assurance from the external audit report to approve the document, and also from the audit committee that the report is accurate.

Laying before parliament

When complete, foundation trusts are required by law to lay the annual report and accounts with the report of the auditor on them, before parliament. As public benefit corporations, foundation trusts are a type of statutory body whose annual report and accounts are classified as an act paper. This means that a full set of accounts, along with the annual report and the report of the auditor, must be sent as one electronically formatted document to the parliamentary clerk by a strict deadline. It is then reported to the house of commons in a parliamentary session between late July and the parliamentary summer recess, or between the summer and party conference recess in September. These dates are confirmed to foundation trusts each year in the annual NHS accounts timetable letter from NHS England. Foundation trusts cannot publish their annual report and accounts until they have been laid before Parliament.

The council of governors

It's a legal requirement for the foundation trust to present the annual report and accounts, as well as the report of the auditor on them to a general meeting of the council of governors. This happens at their annual members' meeting (sometimes called annual general meeting), which takes place after the annual report and accounts have been laid before parliament. In practice, some foundation trusts will share a confidential draft of the annual report and accounts in advance of that meeting so that governors have a chance to receive assurance and ask questions at a council of governors meeting, held in private session, prior to the annual members meeting.

CASE STUDY

Foundation trusts that merge or are taken over by another part-way through the year are still required to produce an annual report and accounts. The annual report and accounts will cover only the part of the year that they existed – sometimes this can be as little as one month – but the timetable for producing the report is the same as if they had existed for a full year, in other words, from April to September in the following year. Things to look out for in the annual report and accounts of foundation trusts that have ceased to exist during the year include the following:

- They will still have a going concern statement and the report will be prepared on a going concern basis as the services provided by the foundation trust during the period of the accounts will continue to be provided in the foreseeable future by the foundation trust that has taken it over, using the assets as acquired by that foundation trust.
- The signatures on the performance report, the directors' report, the statement of accounting officer responsibilities and the financial statements may not necessarily be the signatures of the chief executive and officers in place during the period covered by the annual report and accounts. The accounting officer signing these statements will be the chief executive of the successor organisation, who is expected to take steps to ensure they are able to obtain the necessary assurances to enable them to make the required disclosures.
- The independent auditor's report is to the council of governors of the new organisation as that is the council that will be in place at the time the report is produced.
- The annual report and accounts will be presented at a general meeting of the successor organisation alongside the successor organisation's annual report and accounts.

WHAT GOES INTO THE ANNUAL REPORT AND ACCOUNTS AND WHY?

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Schedule 7, paragraph 26 of the NHS Act 2006 (the 2006 Act) requires all NHS foundation trusts to prepare an annual report. Paragraph 26(3) of schedule 7 provides that it is for NHS England to decide the form of the reports, when the reports are to be submitted, and the periods to which the reports relate. NHS England sets out the required form and timetable each year in the FT ARM, and the NHS accounts timetable letter.

The main objective of the annual report is to provide a true and fair report on what the foundation trust has done and is doing to meet its objectives and to demonstrate that it is adding value to its members, patients, public and other stakeholders. It provides context for the financial statements and information on corporate governance arrangements.

The annual report and accounts of an NHS foundation trust consist of:

- The performance report comprising:
 - Overview of performance.
 - Performance analysis.
- The accountability report, comprising:
 - Directors' report.
 - Remuneration report.
 - Staff report.
 - The disclosures set out in the code of governance for NHS provider trusts.
 - NHS Oversight Framework.
 - Statement of accounting officer's responsibilities.
 - Annual governance statement.
- The auditor's report including certificate.
- The foreword to the accounts which should state that the accounts are prepared in accordance with paragraphs 24 and 25 of schedule 7 to the NHS Act 2006 and are presented to Parliament pursuant to schedule 7, paragraph 25 (4) (a) of the National Health Service Act 2006.
- Four primary financial statements.
- The notes to the accounts.

The objective of the accounts is to present the foundation trusts financial position, performance, and development in accordance with International Financial Reporting Standards (IFRS). By using the same standards, the accounts for all foundation trusts are consistent and comparable. This section usually comes after the annual report it includes the report of the external auditor and their opinion on the accounts.

The annual report

Principles and purpose

The purpose of the annual report is to provide stakeholders with relevant information that is useful for assessing management's stewardship. Foundation trusts differ enormously in the way they structure and present their annual reports. The headings below reflect the NHS foundation trust ARM guidance on what must go into the annual reports, but individual foundation trusts do not necessarily present their information in that order or under those specific headings.

Performance report

The performance report is intended to inform readers of the annual report and accounts and help them to assess how directors have performed their duty to promote the success of the foundation trust. It provides information about the foundation trusts objectives and strategies and the principal risks that it faces. It must also provide a fair, balanced and understandable analysis of the foundation trusts performance. There are two sections to the performance report – an overview, which provides a short summary of the foundation trusts purpose, objectives, key risks and performance, and a performance analysis, which provides a more detailed narrative on how the foundation trust measures its performance, what its key performance indicators are and a long-term trend analysis where appropriate.

Overview of performance

The overview is a short summary that provides the user with sufficient information to understand the foundation trust's purpose, its key risks and how it has performed during the year. It includes a history of the foundation trust, a description of how it is organised, its strategies and objectives and a summary of performance. The overview must include a statement on whether the financial statements have been prepared on a going concern basis and the reasons for this decision.

Performance analysis

The performance analysis provides more detail on the foundation trusts performance, including information on its key performance measures and how they are checked. It includes information about environmental matters and the impact of the foundation trusts business on the environment, along with information about social, community, anti-bribery, and human rights issues, including information about any trust policies and the effectiveness of those policies. This section also includes information on any important events after the end of the financial year affecting the foundation trust. If the foundation trust has any overseas operations, it must provide details in this section.

CASE STUDY

Overseas operations

Moorfields Hospital NHS Foundation Trust has overseas operations in the Middle East in the United Arab Emirates and in Abu Dhabi. These were referred to in their annual report and accounts for 2022/23 in the Performance Analysis section and in the notes to the accounts.

Accountability report

The accountability report is made up of a number of disclosures confirming compliance with expected standards relating to the accounting records, legal and regulatory responsibilities and overall governance arrangements. It is made up of a number of individual reports, as detailed below.

Directors' report

This section contains the names of individuals who at any time during the financial year were directors of the foundation trust, along with other disclosures that are not part of the performance report, such as compliance with the better payment practice code to pay invoices within 30 days, an overview of arrangements to ensure that services are well-led and information on developments and improvements in patient care and stakeholder relations. This section also includes a statement by the directors that they have disclosed all relevant audit information to the auditors and have taken all the steps that they ought to have taken to ensure they have met their duties as directors to exercise reasonable care, skill and diligence.

Remuneration report

This section discloses information about all individuals in senior positions having authority or responsibility for directing or controlling the major activities of the foundation trust. They will include all members of the board, including non-executive directors and advisory board members. Details of salaries and fees, taxable benefits, bonuses, pension-related benefits and benefits for loss of office are shown. As this is personal information, the foundation trust must inform those individuals in advance of this and advise them that they can object to disclosure under Article 21 of the General Data Protection Regulation (GDPR). If they do object, the fact that certain disclosures have been left out should be disclosed. This section also gives details of the number of meetings, membership and attendance at the remuneration committee of the board, details of any internal or external advisors to the committee, an explanation of the remuneration policy for senior managers, information on duration of contracts, notice periods and termination payments. This part of the annual report also includes information about governors' and directors' expenses. Where one or

more senior managers are paid more than £150,000 (the threshold in 2023/24), there should be an explanation in this section of the report on the steps the foundation trust has taken to satisfy itself that this remuneration is reasonable.

Staff report

The staff report provides information on staff costs, staff numbers, statistics on gender, sickness absence data and policies relating to staff with disabilities, staff consultations, staff engagement and countering fraud and corruption. This section includes performance information on health and safety and occupational health, staff survey results and statistics relating to officers who were engaged on off-payroll arrangements. This term is used for officers who are contractors rather than employees and is applicable for both self-employed contractors and those who are employed through an agency. Foundation trusts are also required to disclose statistics relating to time spent on trade union work in this section.

Code of governance for NHS provider trusts – disclosures

The code of governance for NHS provider trusts (the code) was published by NHS England in October 2022 and has been applicable since 1 April 2023. It replaces the previous NHS foundation trust code of governance issued by Monitor.

This section of the annual report provides information about the foundation trusts compliance with the code. There is a lot of detail in the code that requires disclosure in the annual report, some of which will have been included in some of the other sections, like the performance report and the directors' report and does not need to be replicated in this section, but cross referencing to where it can be found should be included. In addition to the required disclosures, a foundation trust may choose to include details of compliance with all elements of the code. The code requires a trust to comply or explain. If a foundation trust hasn't complied with any of the code provisions, it must explain the reasons why and how it believes it has met the relevant principles of the code.

The section on foundation trust governance disclosures is particularly relevant to the governors as it describes the overall governance arrangements and how the foundation trust complies with best practice. It also contains information on the council of governors and its members, including the name of the lead governor, attendance at meetings and how the council has discharged its duties to engage with members and the public over the foundation trusts forward plan. Included in the disclosure requirements is a statement by the board of directors on the steps they have taken to ensure that the members of the board, and in particular the non-executive directors, develop an understanding of the views of governors and members about the foundation trust, for example through attendance at meetings of the council of governors, direct face-to-face contact, surveys of members' opinions and consultations. The board of directors is expected to monitor how representative the foundation trusts membership is and the level and effectiveness of member engagement and report on this in the annual report. This is usually placed in the code of governance section but as information on staff membership duplicates some of the reporting requirements of the staff report, some elements can be found there.

If the council of governors has exercised their power to require one or more directors to attend a governors' meeting for the purpose of obtaining information about the foundation trusts performance of its functions or the directors' performance of their duties (and deciding whether to propose a vote on the foundation trusts or directors' performance), this must be disclosed in this section of the report. Unless reported elsewhere (e.g. in the directors' report) details of the process for performance evaluation of the board, its committees and directors, including the foundation trust chair, need to be given here, along with details of any external facilitator that may have been used to conduct that evaluation.

CASE STUDY

Code of governance for NHS provider trusts – disclosure and comply or explain

Many foundation trusts that are affiliated to a medical school provided by a university have a non-executive director position on the board of directors that is a representative of that institution. The code of governance requires a disclosure statement to be made identifying each non-executive director it considers to be independent, with reasons where necessary and a comply or explain statement that at least half the board, excluding the chair, should comprise non-executive directors determined by the board to be independent. Both Moorfields NHS Foundation Trust and Cambridge University Hospitals NHS Foundation Trust have a non-executive director representing the medical school that they are affiliated with but have taken a different view of whether that individual is independent, resulting in a different type of disclosure in their 2022/23 annual reports. Moorfields considered that their appointment did not meet independence requirements and that therefore their board did not comprise of a majority of independent directors. Their comply or explain statement discloses this and explains that 'if the independence of their individual might come into conflict with the matter being discussed, that this would be managed in line with the Moorfields constitution, trust policy and good practice guidance for addressing conflicts of interest'. The statement made by Cambridge University Hospitals, on the other hand, is a disclosure statement only as 'the board of directors has determined that all of the non-executive directors are independent in character and judgement. This includes the appointed representative of University of Cambridge'. In other words, by considering the medical school representative to be independent, it has the required majority of independent directors on the board and therefore complies with the code. In both cases, the statement made has been open and transparent about the potential for an actual or perceived conflict of interest and although by considering their medical school representative to be independent, Cambridge University Hospitals did not need to comply or explain, their statement presents their position directly and succinctly.

NHS oversight framework

The oversight framework is the name given to the way that NHS England oversees NHS systems, including foundation trusts, and identifies potential support needs. Foundation trusts must include a section in their annual report which describes the application of NHS England's NHS Oversight Framework to the trust.

NHS organisations are allocated to one of four 'segments'. A segmentation decision indicates the scale and general nature of support needs, from no specific support needs (segment 1) to a requirement for mandated intensive support (segment 4).

A segment does not determine specific support requirements. By default, all NHS organisations are allocated to segment 2 unless the criteria for moving into another segment are met. These criteria have two components:

- objective and measurable eligibility criteria based on performance against the six oversight themes using the relevant oversight metrics (the themes are: quality of care, access and outcomes; people; preventing ill-health and reducing inequalities; leadership and capability; finance and use of resources; local strategic priorities).
- additional considerations focused on the assessment of system leadership and behaviours, and improvement capability and capacity. An NHS foundation trust will be in segment 3 or 4 only where it has been found to be in breach or suspected breach of its licence conditions.

In this section of the report, a foundation trust must use a templated wording format to disclose the segment that NHS England has placed it in. Where NHS England has notified the foundation trust that it has been found to have been in breach or suspected breach of its licence, this should be disclosed together with the action taken or proposed actions to remedy this.

Statement of accounting officer responsibilities

The foundation trusts accounting officer is the chief executive and this statement explains their responsibility for keeping proper accounting records, preparing the financial statements, including the duty to comply with the accounting standards issued by NHS England.

Annual governance statement

This statement goes into the accounts after the statement of accounting officer responsibilities and before the financial statements. It is a narrative statement explaining how the accounting officer discharges their responsibility to maintain a sound system of internal control and what those governance structures look like. It describes the risk, governance and control framework and how the board gives leadership to the risk management process and how its quality governance arrangements work. It explains how the foundation trust identifies, assesses and manages its principal risks and summarises what they are at the time the report is written. It should include the head of internal audit opinion on the control framework in place within the foundation trust. It also explains how the board, audit committee, other board committees charged with governance responsibilities work and declares any significant internal control issues affecting the foundation trust.

Task force on climate-related financial disclosures (TCFD)

The TCFD recommendation is for the foundation trust to disclose its governance around climate related issues. This templated disclosure statement has been introduced as a requirement from 2023/24.

The specific disclosures require the foundation trust to:

- Describe the board's oversight of climate-related issues.
- Describe management's role in assessing and managing climate-related issues.

The foundation trust should disclose information which explains how risks and opportunities relating to climate change are identified, considered, and managed within the foundation trusts governance structure. This may have significant linkage to the content of other parts of the annual report as well as some linkage to detail set out in NHS bodies' green plans.

Other voluntary disclosures

Foundation trusts are encouraged to include other disclosures at their own discretion on equality reporting and the Modern Slavery Act 2015. These can be presented on their own or as part of one of the other sections of the annual report.

Financial statements (the accounts)

Principles and purpose

The accounts are the financial statements of the foundation trust and their purpose is to show the foundation trusts financial position and performance during the past financial year.

Main financial statements and notes

The foundation trust must produce four statements within the accounts: a statement of comprehensive income, statement of financial position, statement of changes in equity, and statement of cash flows, along with notes to the accounts which provide more detail on the entries in the financial statements and the accounting rules that it followed when preparing them. The detail for the contents of these statements is set out in the Department of Health and Social Care's group accounting manual (GAM). The manual is updated each year to take account of international financial reporting standards (IFRS). These are described in more detail below:

Statement of comprehensive income (SoCI): This records the foundation trusts income and expenditure for the year together with any other gains and losses. It includes cash and non-cash items. Those other recognised gains and losses are those that the foundation trust has made but not yet realised, for example, if the value of assets has increased but the assets have not been sold so there is no cash profit.

Statement of financial position (SoFP): This statement provides a snapshot of the foundation trusts financial position at the end of the financial year and is sometimes referred to as a balance sheet. The top half shows the foundation trusts total net assets (assets minus liabilities). The bottom half shows the taxpayer's investment in the foundation trust and must equal the top half. Assets are made up of non-current assets and current assets. Non-current assets are those that the foundation trust expects to keep for more than one year and includes property, equipment and intangible assets, such as licences and patents. Current assets are those that the foundation trust expects to keep for less than one year and includes stocks of consumable items, money owed to it by its debtors and cash. Liabilities are made up of current liabilities and non-current liabilities. Liabilities that are due in less than a year's time are current liabilities and include things such as money owned by the foundation trust for supplies and services it has purchased, overdrafts and amounts due on loans, finance leases or private finance initiative contracts. Non-current liabilities are those which are due in over a year's time and include long-term borrowings and provisions. Taxpayers' equity has to match the total net assets shown in the top half of the balance sheet. It is made up of public dividend capital, which represents the net assets of the foundation trust when it was first established as an NHS trust. The rest of it is usually made up of reserves, such as the income and expenditure reserve, which is the surplus or deficit it has accumulated since it was established as an NHS trust. Another reserve is the revaluation reserve, which represents a net increase in the value of property, plant or equipment over its historic cost.

Statement of changes in taxpayers' equity (SoCTE): The taxpayers' equity is the total value of the foundation trust and represents the taxpayers' investment in it. This statement gives a breakdown of how the taxpayer's investment in the foundation trust changed over the year. The value of the taxpayer's equity is made up of what the reserve was originally when the NHS trust was established, with adjustments for any surpluses or losses. Other things that can make the taxpayers' equity go up or down include, among other things, any gains or losses from having land and buildings revalued, any gains or losses from selling property and any share of income from associated companies or joint ventures that the foundation trust is a part of.

Statement of cash flows (SoCF): This statement shows the movement of cash flowing in and out of the foundation trust during the financial year. Not everything that is reported in the statement of financial position involves cash (e.g. when a property is revalued, or equipment is written off) and not every cash transaction is reported in the statement of financial position (e.g. if a payment is made in advance). This statement explains how much cash is held in the foundation trusts bank accounts at the end of the year and whether that has gone up or down.

Notes to the financial statement: The notes explain the accounting rules that the foundation trust has followed when preparing its accounts and provide more detailed information on the assumptions underlying the entries in the financial statements. The accounting policies will be based on IFRS and guidance from NHS England in the annual reporting manual. The notes to the financial statements provide analysis and breakdown of certain types of transactions and entries.

Independent auditor's report

The external auditor is appointed by the council of governors. The independent auditor's report is addressed to the governors and explains the scope of their audit and gives an opinion on whether the financial statements give a true and fair view of the foundation trust and have been prepared according to the standards set by NHS England. The auditors also state in their report whether the information in the performance report and directors' report is consistent with the financial statements and whether there is anything in the annual governance statement that is inconsistent with what they know about the foundation trust. These statements produce the audit opinion and will be qualified if the auditors have any concerns about the accuracy of the accounts and the way they have been prepared.

Along with the audit opinion, the external auditor must certify that they have completed the audit in accordance with the National Audit Office's code of audit practice and legal requirements. This is known as the audit certificate and will also be qualified if the audit opinion is qualified. It may also be qualified for other reasons, for example when concluding whether the foundation trust has made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources.

CASE STUDY

Trusts in segment 4 of the NHS Oversight Framework, in breach of licence conditions or rated as inadequate by the Care Quality Commission (CQC)

Trusts that have been placed in segment 4 of the NHS Oversight Framework and are in breach of their license conditions present the external auditor with a dilemma, as the code of audit practice requires the auditor to be satisfied that proper arrangements have been made for securing economy, efficiency, and effectiveness in their use of resources. Where this has happened and/or a CQC inspection has rated the foundation trust as inadequate, the auditor considers this to be compelling evidence of weaknesses in arrangements for planning and deploying resources to provide a good quality of service. In these cases, the auditors are almost certain to report an adverse conclusion to this aspect of their audit and will give a qualified conclusion in the independent auditor's report to the council of governors.

WHAT SHOULD GOVERNORS LOOK FOR IN THE ANNUAL REPORT AND ACCOUNTS?

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To be able to hold the non-executive directors to account for the performance of the board of directors, the council of governors need to be informed about the overall performance of the foundation trust, which is reported in the annual report and accounts, along with details of the strategy and business model that the board has agreed for the foundation trust. It should be noted that governors should not expect to find anything surprising in their foundation trusts annual report and accounts – any key risks or major issues during the preceding year that are reported in the document should have been reported to the council during the year. However, with a document of this length and detail, neither should governors expect to have been told everything in here.

Section of the report	Principles and purpose	Component parts	What governors need to look for
Annual report: Performance report	<p>The purpose of the performance analysis is for foundation trusts to provide a detailed performance summary of how the foundation trust measures its performance, more detailed integrated performance analysis and long-term trend analysis where appropriate.</p> <p>This is useful for assessing management's stewardship and whether the interests of members and the public have been served.</p>	Performance report	<p>This section gives context and background to the foundation trust, reports on performance, as well as an overview of its strategy, objectives and risks to those objectives. This is where you will find details of environmental and sustainability initiatives and how the foundation trust deals with social, community, antibribery and human rights issues. The strategic part of the performance report should be familiar to governors from the annual plan and from the foundation trusts engagement with them over forward plans. The important thing for governors is that this section should have nothing in it that is surprising and that they are reading about for the first time. This section will highlight any potential areas for governor involvement in the year ahead e.g. significant transactions, mergers, acquisitions, separations, dissolutions and increases in non-NHS income. Governors will need to ensure that their business calendar for the year ahead has made arrangements for these matters. It is in this section that directors will report that the foundation trust is a going concern.</p>

WHAT SHOULD GOVERNORS LOOK FOR IN THE ANNUAL REPORT AND ACCOUNTS?

<p>Annual report: Accountability report</p>	<p>The accountability report is where the foundation trust explains how it complies with the law and regulatory standards and gives an open and transparent account of how it is run.</p>	<p>Directors' report</p>	<p>This section contains information about members of the board of directors, which will be of interest to governors when forming a view about the board's performance. Information of particular interest will include the skills and background of board members, their other commitments, potential or actual conflicts of interest and their attendance record at board and committee meetings. Governors should direct any concerns regarding the information in this section to the foundation trust chair or the senior independent director.</p>
		<p>Remuneration report</p>	<p>This section provides information about the cost of the board of directors. Details of directors' remuneration are provided in this section, along with details of any performance incentives, termination payments and costs of advisors to the board. Governors are responsible for chair and non-executive director remuneration and the board's remuneration committee is responsible for chief executive and executive director remuneration. If governors have concerns about the costs of the board, they may want to ask members of the remuneration committee for an explanation. Governors will be able to see their own expenses in this section, as well as those of the directors.</p>
		<p>Staff report</p>	<p>This section provides an analysis of staff costs and numbers. Information on sickness absence is provided here, along with staff time spent on trade union duties, expenditure on consultancy and off-payroll engagements and exit packages. Specific disclosures are required relating to policies for the employment of disabled persons. This section provides a commentary and summary of the foundation trusts performance against the national NHS staff survey, including action plans to address areas of concern,</p>

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			<p>future priorities and targets. This is of particular relevance to staff members of the foundation trust. If the foundation trust is reporting a deteriorating position or a position which is significantly worse than the national average, governors may want to ask the non-executive directors to explain the board's plans to address this.</p>
		<p>Code of governance for NHS provider trusts (the code): disclosures</p>	<p>This section describes overall governance arrangements in the foundation trust and how the foundation trust complies with best practice in the code. Disclosures relating to governance arrangements which are not covered elsewhere in the annual report must be included here. This will include information about the council of governors and its membership, attendance at meetings, how the board engages with governors and members to understand their views and membership engagement in general. If the council of governors has exercised its power to require one or more directors to attend a governors' meeting to discuss performance, this needs to be disclosed here. If not included elsewhere, this section will explain how the board of directors has evaluated its performance and that of its directors along with details of any external evaluator it may have used. Given that the council of governors has a responsibility to hold the non-executive directors to account for the performance of the board, this disclosure will be of particular interest. The principle of comply or explain means that the foundation trust must explain if it does not comply with the specific provisions of the code. The board of directors is responsible for governance and is free to depart from the code if it has good reason to. If the council of governors has concerns about the areas of noncompliance and are not satisfied with the explanation, they may want to discuss it further with the foundation trust chair.</p>

WHAT SHOULD GOVERNORS LOOK FOR IN THE ANNUAL REPORT AND ACCOUNTS?

		NHS oversight framework	This section provides commentary and disclosure on the foundation trusts ratings against the NHS oversight framework. If the trust is in breach or suspected breach of its licence, this must be disclosed in this section. The council of governors of an foundation trust that is in segment 3 or 4 of the NHS oversight framework or in breach of their licence conditions need to be assured that there are actions being taken by the board of directors to address the underlying issues and that this is a topic under regular discussion by the council of governors.
		Statement of accounting officer responsibilities	This is a disclosure statement that requires the chief executive, as accounting officer, to explain their responsibility for preparing the financial statements and follow the instructions given by NHS England in that regard.
		Annual governance statement (AGS)	Along with the code of governance for NHS provider trusts' disclosures (see above), the annual governance statement will be of most interest to the governors as it contains a lot of information about how the board of directors fulfils its governance responsibilities, which is an important aspect of the performance of the board. This statement provides background information about the risk, control and governance framework in the foundation trust, the responsibilities of board committees, what the board considers to be the principal strategic risks affecting the foundation trust and significant control issues which the board is concerned about. If governors have any questions about governance arrangements and board performance, they should raise them with the foundation trust chair and non-executive directors.

WHAT SHOULD GOVERNORS LOOK FOR IN THE ANNUAL REPORT AND ACCOUNTS?

The accounts	The accounts are the financial statements of the foundation trust and their purpose is to show the foundation trusts financial position and performance during the past financial year.	<p>Main financial statements:</p> <ul style="list-style-type: none"> ● Statement of comprehensive income ● Statement of financial position ● Statement of changes in taxpayers' equity ● Statement of cash flows 	These statements summarise the foundation trusts financial performance for the past year. If the foundation trust is reporting a deteriorating position or performance which is not in line with its plans, the council of governors may want to ask the non-executive directors for an explanation. In the statement of comprehensive income, governors will be able to see how much of the foundation trusts income is from non-NHS sources and whether it is close to needing a vote from the governors to increase its percentage. If the council of governors has any concerns about this part of the report, they should direct them to the chair of the audit committee and/or external auditor, probably via the chair or trust secretary.
		Notes to the accounts	Although the technical information about accounting rules is likely to be of limited interest to governors, the notes also contain a more detailed analysis and breakdown of certain types of transaction. Of interest to governors will be, among other things, income from non-NHS sources and any costs of an exceptional nature.
Independent auditor's report	This is where the external auditor gives an opinion on the financial statements and the annual report	<ul style="list-style-type: none"> ● Scope of the audit ● Opinion on the financial statements ● Opinion on other matters prescribed by the code of audit practice ● Matters on which they are required to report by exception ● Audit certificate 	This report is addressed to the council of governors and will have been reported to them at the end of the external audit. Governors need to pay particular attention to any part of the report that is qualified as that means the auditors have concerns about aspects of the annual report and accounts. Other details governors need to look out for include matters reported by exception and any report in the public interest.

SOURCES

Code of Audit Practice

National Audit Office

<https://www.nao.org.uk/code-audit-practice>

The Code of Governance for NHS provider trusts

NHS England

<https://www.england.nhs.uk/publication/code-of-governance-for-nhs-provider-trusts>

NHS Foundation Trust Annual Reporting Manual (FT ARM)

NHS England

<https://www.england.nhs.uk/financial-accounting-and-reporting/nhs-foundation-trust-annual-reporting-manual>

NHS Foundation Trust Accounting Officer memorandum

GOV UK

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/451565/NHS_Foundation_Trust_Accounting_Officer_Memorandum.pdf

Your Statutory Duties: a reference guide for NHS foundation trust governors

GOV UK

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/284473/Governors_guide_August_2013_UPDATED_NOV_13.pdf

Addendum to your statutory duties – reference guide for NHS foundation trust governors

NHS England

<https://www.england.nhs.uk/long-read/addendum-to-your-statutory-duties-reference-guide-for-nhs-foundation-trust-governors>

National Health Service Act 2006 (as amended)

Legislation GOV UK

<https://www.legislation.gov.uk/ukpga/2006/41/contents>

Health and Social Care Act 2012

Legislation GOV UK

<https://www.legislation.gov.uk/ukpga/2012/7/contents>

Health and Care Act 2022

Legislation GOV UK

<https://www.legislation.gov.uk/ukpga/2022/31/contents/enacted>

Department of Health and Social Care: Group Accounting Manual (GAM)

GOV UK

<https://www.gov.uk/government/publications/dhsc-group-accounting-manual-2022-to-2023>

NHS Provider Licence: Standard Conditions

NHS England

<https://www.england.nhs.uk/publication/nhs-provider-licence-standard-conditions>

NHS Oversight Framework

NHS England

<https://www.england.nhs.uk/nhs-oversight-framework>

DISCLAIMER

This guidance note is based on the published documents as of May 2024. The reader is reminded that the publications on which this guidance is based are regularly updated and should be checked with your trust secretary or a reliable source before taking any action.

Suggested citation

NHS Providers (May 2024),
The annual report and accounts: A guide for governors.

For more information

Please contact:
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Or visit:
[**https://nhsproviders.org/governor-support**](https://nhsproviders.org/governor-support)

NHS Providers is the membership organisation for the NHS hospital, mental health, community and ambulance services that treat patients and service users in the NHS. We help those NHS foundation trusts and trusts to deliver high-quality, patient-focused care by enabling them to learn from each other, acting as their public voice and helping shape the system in which they operate.

NHS Providers has all trusts in England in voluntary membership, collectively accounting for £124bn of annual expenditure and employing 1.5 million people.



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