

THE ANNUAL REPORT
AND ACCOUNTS
A GUIDE FOR GOVERNORS

CONTENTS

Background	3
Glossary and acronyms	4
When are the annual report and accounts produced?	5
What are the legal and governance requirements?	6
What goes into the annual report and accounts and why?	9
What should governors look for in the annual report and accounts?	16



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.

GLOSSARY AND ACRONYMS

Accounting officer	The person responsible for keeping proper accounting records, preparing the annual accounts for the FT, looking after FT's assets and for maintaining a sound system of internal control. In an FT, this is the chief executive.
Annual accounts	Documents prepared by the FT, 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 FT has in place to manage risk.
Annual report	A document produced by the FT that summarises its performance during the year and provides background information about its performance, business model and governance arrangements.
Asset	Something the FT 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 with responsibility for reviewing the integrity of the FT's financial statements and monitoring its performance, probity and accountability.
Audit opinion	The auditor's opinion of whether the FT's 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.
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 governors.
Financial statements	Another term for the annual accounts.
FRAB	Financial reporting advisory board.
Going concern	An expectation that the FT will continue to operate for at least 12 months from the date of the accounts.
IFRS	International financial reporting standards.
Laid before parliament	Required by law to be reported in the proceedings of a parliamentary session.
Liability	Something the FT owes, for example a loan or an unpaid bill.
Reserves	An increase in overall value of the organisation since it was created.
Taxpayers' Equity	The total value of the FT, 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?

The annual reporting calendar runs from April to September. The calendar below is based on the reporting cycle for the 2018/19 annual report and accounts.

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 Improvement.
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	The board of directors approves the annual report and accounts. 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.
29 May	Deadline for sending the audited accounts, the final text of the annual report and the report of the auditor to NHS Improvement.
25 June	Deadline for the receipt of the annual report and accounts to be laid before Parliament. Once laid before parliament, the annual reports and accounts cannot be changed.
Late June to early July	Foundation trusts' annual report and accounts are presented to the house of commons in a parliamentary session over a number of days and weeks.
19 July	Foundation trusts submit their final full annual report including full statutory accounts to NHS Improvement. These are then uploaded to the NHS provider directory on their website.
After the accounts have been laid before Parliament	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.

WHAT ARE THE LEGAL AND GOVERNANCE REQUIREMENTS?

Every FT is required to produce an annual report and accounts and make copies available to members of the public free of charge. NHS Improvement, the independent regulator of foundation trusts, provides guidance on the form and content of the annual report and accounts in the NHS foundation trust annual reporting manual (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 Improvement, along with the auditor's report on them. All FTs' annual report and accounts have to be laid before parliament before the summer recess and cannot be shared with the public until then.

The foundation trust

The legal requirements for foundation trusts in relation to its accounts are:

- 1** to keep proper accounts and proper records as directed by the regulator with the approval of the secretary of state
- 2** to prepare annual accounts as directed by the regulator with the approval of the secretary of state
- 3** to comply with any directions given by the regulator 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 the accounts.

NHS Improvement

The regulator, NHS Improvement, issues instructions to FTs about what needs to go into the annual report and accounts and the accounting standards it needs to follow in the ARM. This is updated annually and also gives a timetable for the production of the document.

NHS Improvement's instructions are aimed 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 delegated to the accounting officer, who in the FT is the chief executive. The accounting officer is responsible for spending public finances wisely, looking after the FT'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 have to 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 FT has:

- prepared its accounts properly
- 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 FT'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 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 FT's position and prospects and of how it, as a board, has discharged its duty to promote the success of the foundation trust so as 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 FT operates. When approving the accounts, board members are saying that the financial management of the FT is operating effectively and that what is being reported is consistent with the information the board has seen over the previous year.

Laying before parliament

When complete, foundation trusts are required by law to lay a copy of the annual report and accounts with the report of the auditor on them, before parliament. As public benefit corporations, FTs 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 document in hard copy to the parliamentary clerk by a strict deadline, usually at the end of June. It is then reported to the house of commons in a parliamentary session between that date and the parliamentary recess at the end of July. FTs cannot publish their annual report and accounts until this has taken place.

The council of governors

It's a legal requirement for the FT to present the annual accounts, the annual report and 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.

Trusts that merge or are taken over

FTs that merge or are taken over by another FT 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 is the same as if they had existed for a full year. In other words, from April to June in the following year.

Things to look out for in the annual report and accounts of FTs 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 FT during the period of the accounts will continue to be provided in the foreseeable future by the FT that has taken it over, using the assets as acquired by that FT.
- 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 was in place at the time the report was produced.
- The annual report will not include a quality report but instead should include a statement on the assurances it is giving to its successor organisation on the quality of its services.
- 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?

The main objective of the annual report is to report on what the FT has done and is doing in order 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. It comprises three reports, as follows:

- Performance report
- Accountability report
- Quality report

The objective of the accounts is to present the FT's financial position, performance and development in accordance with International Financial Reporting Standards (IFRS). By using the same standards, the accounts for all FTs are consistent and comparable. This section usually comes after the annual report and also 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. FTs 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 FTs 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 FT. It provides information about the FT's objectives and strategies and the principal risks that it faces. It must also provide a fair, balanced and understandable analysis of the FT's performance. There are two sections to the performance report – an overview, which provides a short summary of the FT's purpose, objectives, key risks and performance and a performance analysis, which provides a more detailed narrative on how the FT 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 FT's purpose, its key risks and how it has performed during the year. It includes a history of the FT, 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 FT's performance, including information on its key performance measures and how they are checked. It includes information about environmental matters and the impact of the FT's 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 FT. If the FT has any overseas operations, it must provide details in this section.

Overseas operations

Moorfields Hospital NHS Foundation Trust has overseas operations in the Middle East in the United Arab Emirates.

These were referred to in their annual report and accounts for 2018/19 both in the overview of performance as part of the chief executive's statement, with more details being provided in the Performance Analysis section on its activities in Dubai and Abu Dhabi.

This section gave a narrative analysis of its investment in facilities and equipment, contractual arrangements, service developments, research activities and partnerships, along with some key performance indicators for this segment of their business.

Having overseas operations also affects the financial statements, requiring a note in the accounts on foreign exchange and how the exchange rate affects the statement of financial position.

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 FT, 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 FT. 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 FT 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 2018/19), there should be an explanation in this section of the report on the steps the FT 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.

FTs are also required to disclose statistics relating to time spent on trade union work in this section.

FT code of governance disclosures

This section provides information about the FT's compliance with the FT code of governance (FT code), which is guidance produced by NHS Improvement stating best practice advice on corporate governance.

There is a lot of detail in the FT 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. Other parts of the FT code only need to be mentioned if the FT doesn't comply. This requirement is known as comply or explain, which means that if an FT hasn't complied with a code provision, it must explain the reasons why.

CASE STUDY

FT code of governance – disclosure and comply or explain

Many FTs 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 FT 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 chairperson, 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 2018/19 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.

The section on FT governance disclosures is particularly relevant to the governors as it describes the overall governance arrangements and how the FT 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 FT's 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 FT, 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 FT's membership is and the level and effectiveness of member engagement and report on this in the annual report. This is usually placed in the FT 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.

CASE STUDY

Reporting on how representative the membership is

FTs are expected to monitor how representative their membership is and to report on this in the annual report.

In its 2018/19 annual report, East Suffolk and North Essex NHS Foundation Trust reported on the age profile of its members in its public constituencies and the demographic groups to which they belonged, and compared it with the population as a whole. It also published a map showing where the membership was predominantly located.

There was also a separate report on staff members in its staff report, which compared the FT's staff membership and its public membership, categorised by age, ethnicity and gender.

If the governors have exercised their power to require one or more directors to attend a governors' meeting for the purpose of obtaining information about the FT's performance of its functions or the directors' performance of their duties (and deciding whether to propose a vote on the FT's 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 FT chair, need to be given here, along with details of any external facilitator that may have been used to conduct that evaluation.

NHS oversight framework

The oversight framework is the name given to the way NHS Improvement oversees NHS trusts and FTs to identify whether they need additional support. The framework reviews NHS organisations across five themes: quality of care, finance and use of resources, operational performance, strategic change and leadership and improvement capability. Trusts are then categorised according to whether they are strong organisations requiring very little support (segment 1 – maximum autonomy), needing support in very few areas (segment 2 – targeted support), requiring significant support but not in special measures (segment 3 – mandated support) or have very complex support needs (segment 4 – special measures).

In this section of the report, FTs must disclose the segment that NHS Improvement has placed it in. If NHS Improvement has found the FT to be in breach or suspected breach of its licence, this should be disclosed in this section, with an explanation of the proposed actions to remedy this.

Statement of accounting officer responsibilities

The FT's accounting officer is the chief executive and this statement explains his responsibility for keeping proper accounting records, preparing the financial statements, including the duty to comply with the accounting standards issued by NHS Improvement.

Annual governance statement

This statement goes into the accounts after the statement of accounting officer responsibilities and before the financial statements, and is a narrative statement explaining how the accounting officer discharges his 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 FT identifies, assesses and manages its principal risks and summarises what they are at the time the report is written. 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 FT.

Other voluntary disclosures

FTs 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.

Quality report

This section provides information about the quality of care provided by the FT and contains a statement on quality from the chief executive of the FT, priorities for improvement and statements of assurance from the board, other information relevant to quality and statements from commissioners, local health watch organisations and overview and scrutiny committees.

The quality report will also include a limited assurance report from the external auditors on the content of the report. This will report on whether anything has come to their attention that leads them to believe that the content of the quality report does not meet NHS Improvement's standards and/or is not consistent with other information sources.

Financial statements (the accounts)

Principles and purpose

The accounts are the financial statements of the FT and their purpose is to show the FT's financial position and performance during the past financial year.

Main financial statements and notes

The FT must produce four statements: a statement of comprehensive income, statement of financial position, statement of changes in equity, 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. These are described in more detail below:

Statement of comprehensive income

This records the FT's 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 FT 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

This statement provides a snapshot of the FT's financial position at the end of the financial year and is sometimes referred to as a balance sheet. The top half shows the FT's total net assets (assets minus liabilities). The bottom half shows the taxpayer's investment in the FT and must equal the top half.

Assets are made up of non-current assets and current assets. Non-current assets are those that the FT 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 FT 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 FT 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 FT when it was first established as a 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 a 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 equity

The taxpayers' equity is the total value of the FT and represents the taxpayers' investment in it. This statement gives a breakdown of how the taxpayer's investment in the FT 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 FT is a part of.

Statement of cash flows

This statement shows the movement of cash flowing in and out of the FT 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 FT's bank accounts at the end of the year and whether that has gone up or down.

Notes to the financial statements

The notes explain the accounting rules that the FT 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 Improvement 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 FT and have been prepared according to the standards set by NHS Improvement. The auditors also state in their report whether the information in the performance review 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 FT. 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 FT has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and has prepared its quality report in accordance with NHS Improvement guidance.

CASE STUDY

Trusts in special measures

Trusts that have been placed in special measures 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 a CQC inspection has rated the FT 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?

To be able to hold the non-executive directors to account for the performance of the board, governors need to be informed about the overall performance of the FT, 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 FT.

Section of the report	Principles and purpose	Component parts	What governors need to look for
<p>Annual report: Performance report</p>	<p>The purpose of the performance report is to provide stakeholders with relevant information about the strategy, activities and performance of the Trust.</p> <p>This is useful for assessing management's stewardship and whether the interests of members and the public have been served.</p>	<p>Performance report</p>	<p>This section gives context and background to the FT, 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 FT deals with social, community, anti-bribery and human rights issues.</p> <p>The strategic part of the performance report should be familiar to governors from the annual plan and from the FT's engagement with them over forward plans.</p> <p>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.</p> <p>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.</p> <p>It is in this section that directors will report that the FT is a going concern.</p>

Section of the report	Principles and purpose	Component parts	What governors need to look for
Annual report: Accountability report	The accountability report is where the FT explains how it complies with the law and regulatory standards and gives an open and transparent account of how it is run.	Directors' report	<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.</p> <p>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 FT chair or the senior independent director.</p>
		Remuneration report	<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.</p> <p>Governors are responsible for chair and NED 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.</p> <p>Governors will be able to see their own expenses in this section, as well as those of the directors.</p>
		Staff report	<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.</p> <p>This section provides a commentary and summary of the FT's performance against the national NHS staff survey, including action plans to address areas of concern, future priorities and targets.</p> <p>This is of particular relevance to staff members of the FT. If the FT 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>

Section of the report	Principles and purpose	Component parts	What governors need to look for
<p>Annual report:</p> <p>Accountability report (continued)</p>		<p>FT code of governance disclosures</p>	<p>This section describes overall governance arrangements in the FT and how the FT complies with best practice in the FT code.</p> <p>Disclosures relating to governance arrangements which 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 governors have exercised their power to require one or more directors to attend a governors' meeting to discuss performance, this needs to be disclosed here.</p> <p>This section will also include information on how representative the FT's membership is of the population that the trust serves. If there is a particular group of the population that the Council feel may be unrepresented, it should use this information to help inform the FT's membership strategy and consider the actions the FT needs to take to remedy this.</p> <p>If not included elsewhere, this section will explain how the board has evaluated its performance and that of its directors along with details of any external evaluator they may have used. Given that governors have a responsibility to hold the NEDs to account for the performance of the board, this disclosure will be of particular interest.</p> <p>The principle of comply or explain means that the FT must explain if it does not comply with the FT code.</p> <p>The board of directors is responsible for governance and is free to depart from the FT code if it has good reason to. If the governors have concerns about the areas of non-compliance and are not satisfied with the explanation, they may want to discuss it further with the FT chair.</p>
		<p>NHSI oversight framework</p>	<p>This section provides commentary and disclosure on the FT's ratings against the NHS Improvement's oversight framework. If the trust is in breach or suspected breach of its licence, this must be disclosed in this section.</p> <p>Governors of FTs that are in special measures or in breach of their licences 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.</p>

Section of the report	Principles and purpose	Component parts	What governors need to look for
Annual report: Accountability report (continued)		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 the regulators in that regard.
		Annual governance statement	<p>Along with the NHS FT code of governance disclosure (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.</p> <p>This statement provides background information about the risk, control and governance framework in the FT, the responsibilities of board committees, what the board considers to be the principal strategic risks affecting the FT and significant control issues which the board is concerned about.</p> <p>If governors have any questions about governance arrangements and board performance, they should raise them with the FT chair and NEDs.</p>
Quality report	The quality report is a detailed report on the quality of care and is intended to improve public accountability for the quality of care.	Quality report Limited assurance report from the external auditors	<p>This section provides detailed information about the quality of care provided by the FT, its priorities for improvement, the results of reports from the Care Quality Commission (CQC), staff and patient surveys and complaints.</p> <p>If the FT is reporting negative feedback, a deteriorating position in its quality performance indicators or performance which is not in line with its plans, governors may want to ask the non-executive directors to explain how the board is planning to deal with this.</p>

Section of the report	Principles and purpose	Component parts	What governors need to look for
The accounts	The accounts are the financial statements of the Foundation Trust and their purpose is to show the FT's financial position and performance during the past financial year.	Main financial statements: <ul style="list-style-type: none"> ● Statement of comprehensive income ● Statement of financial position ● Statement of changes in taxpayers equity ● Statement of cash flows 	<p>These statements summarise the FT's financial performance for the past year. If the FT is reporting a deteriorating position or performance which is not in line with its plans, governors may want to ask the non-executive directors for an explanation.</p> <p>In the statement of comprehensive income, governors will be able to see how much of the FT's income is from non-NHS sources and whether it is close to needing a vote from the governors to increase its percentage.</p> <p>If governors have any concerns about this part of the report, they should direct them to the chair of the audit committee and/or external auditor.</p>
		Notes to the accounts	<p>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.</p> <p>Of interest to governors will be, among other things, income from non-NHS sources and any costs of an exceptional nature.</p>
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 	<p>This report is addressed to the council of governors and will have been reported to them at the end of the external audit.</p> <p>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.</p>

SOURCES

Code of Audit Practice (National Audit Office)
The NHS Foundation Trust Code of Governance
NHS Foundation Trust Annual Reporting Manual
NHS Foundation Trust Accounting Officer memorandum
Your Statutory Duties: a reference guide for NHS foundation trust governors
National Health Service Act 2006
Health and Social Care Act 2012

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 membership, collectively accounting for £84bn of annual expenditure and employing more than one million staff.



One Birdcage Walk, London SW1H 9JJ
020 7304 6977
enquiries@nhsproviders.org
www.nhsproviders.org
@NHSProviders

© Foundation Trust Network 2020
NHS Providers is the operating name of the Foundation Trust Network
Registered charity 1140900
Registered in England & Wales as company 7525114
Registered Office
One Birdcage Walk, London SW1H 9JJ

January 2020