NHS providers: COVID-19 related considerations for 2019/20 annual reports and accounts disclosures
(Plus disclosures for DHSC cash regime changes)

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About this document

This document is intended to give guidance to NHS providers on matters to consider in preparing the trust’s 2019/20 annual report and accounts. None of this document forms part of a direction to NHS trusts or NHS foundation trusts, and its guidance is not mandatory. Where template disclosure text is provided, this might not be sufficient to cover all local circumstances. Local auditors will review the disclosures made by each individual trust based on local issues. Each NHS provider chief executive and board continues to be responsible for preparing the annual report and accounts for that entity and making appropriate judgements, in line with the directions in the Department of Health and Social Care’s Group Accounting Manual (DHSC GAM) and NHS Improvement’s NHS Foundation Trust Annual Reporting Manual (FT ARM).

Property valuations: accounts disclosures

The issue

The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of COVID-19 on markets might cause a valuer to conclude that there is a material uncertainty, which the valuer would then declare in their report. RICS has explained that valuers are continuing to apply their professional judgement; this is declaring the additional uncertainty attached to current valuations.

Considerations to make

Trusts should be mindful of their established accounting policy. If a trust had not already commissioned a valuation for 2019/20, this notice from RICS does not imply that the trust now should.

Where a trust applies a valuation obtained this year and the valuer has declared a material uncertainty attached to the valuation, the trust should ensure it makes the appropriate disclosure in its accounts, assuming the impact is material.

Where a trust is not applying a valuation this year, the current market uncertainties raised by RICS might mean there is uncertainty over any figures based on a previous valuation too. The RICS statement makes clear it is for each individual valuer to conclude whether they need to report a ‘material uncertainty’. If the trust is relying on a
prior year valuation this conclusion might not be available to the trust but if the measurement of assets is materially dependent on a market-based valuation, adding additional disclosure is advised.

Trusts will also need to have documented any considerations for an impairment review. Paragraph 9 of International Accounting Standard 36 requires “an entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired”.

Where trusts are disclosing wider uncertainties around valuations, auditors may ask trusts to contact valuers to seek to quantify the uncertainty to aid disclosure in the financial statements. One audit firm has reported to us that valuers may be willing to indicate the range of uncertainty (perhaps a percentage) in which they are operating. If additional information is sought from valuers any additional expense here should be minimised where possible: if the valuer and trust is disclosing an uncertainty around a balance sheet measurement based on a recent valuation, we suggest there is limited value in spending additional money to obtain and disclose an alternative number that is equally uncertain.

But in all cases, the trust will need to be able to demonstrate to its auditors that its measurement of assets is materially accurate. This is true at any year end; the practice notice on uncertainties caused by COVID-19 issued by RICS makes it more important this year. Where the valuation that informs the measurement of assets is less recent, it may be necessary to obtain an updated valuation.

Based on information available trusts should consider additional ways of explaining potential impacts of the uncertainty to the reader of the accounts: for example showing that an x% change in the valuation would have £y impact on the statement of financial position with a £z impact on the PDC dividend due to be paid next year and accrued in these financial statements.

It is also worth considering what the valuation uncertainty means in the context of the valuation. For example, specialised assets are valued on a depreciated replacement cost basis. Here the valuer bases their assessment on the cost to the Trust of replacing the service potential of the assets. The valuation uncertainty relates to the estimated cost of replacing the service potential, rather than the extent of the service potential to be replaced.

In some cases, application of the trust’s accounting policy may have led to a full valuation this year, but this was not possible due to restricted access to trust premises. If the valuer declined to issue a report, the Trust should disclose this fact and consider alternative means to assure itself that the balance sheet measurement remains materially accurate. This may include the use of market indices, desktop valuations supported by documented assertions by the trust, the trust’s impairment review and other measures.

Finally, in relation to all of the above, consider whether the ‘sources of estimation
uncertainty’ disclosure commonly made within the accounting policies should make reference to these property disclosures elsewhere in the accounts.

**Template disclosure text**

Example text to add to disclosures on valuations:

Where a valuation report obtained in 2019/20 (either ‘desktop’ or full) includes a materiality uncertainty declaration by the valuer:

*The valuation exercise was carried out in [month] 2020 with a valuation date of 31 March 2020. In applying the Royal Institute of Chartered Surveyors (RICS) Valuation Global Standards 2020 [replace 2020 with 2017 if applicable] (‘Red Book’), the valuer has declared a ‘material valuation uncertainty’ in the valuation report. This is on the basis of uncertainties in markets caused by COVID-19. [Consider here directly quoting the reason the valuer has given for the valuation uncertainty.] The values in the report have been used to inform the measurement of property assets at valuation in these financial statements. With the valuer having declared this material valuation uncertainty, the valuer has continued to exercise professional judgement in providing the valuation and this remains the best information available to the Trust.*

Where the trust has not obtained a valuation report in 2019/20, and has already disclosed its judgements and approach taken to supporting the measurement of assets this year:

*In making these judgements, the Trust is aware that the Royal Institute of Chartered Surveyors (RICS) has issued a valuation practice notice which gives guidance to valuers where a valuer declares a materiality uncertainty attached to a valuation in light of the impact of COVID-19 on markets. As explained above, the Trust has not obtained a valuation report for 2019/20 but it should be noted that there may now be greater uncertainty in markets on which the valuation obtained in [date] and reflected in these financial statements is based. Given the judgements explained above in preparing these 2019/20 financial statements, the Trust has not deviated from its existing accounting policy by obtaining an additional valuation to which a materiality uncertainty might be attached.*

Further disclosures to consider if relevant, for either of the above scenarios:

- [If available] *The valuation report has indicated the range of uncertainty attached to the report is x%.*
- A x% change in the valuation would have £y impact on the statement of financial position with a £z impact on the PDC dividend due to be paid next year and accrued in these financial statements
- Of the £x net book value of land and buildings subject to valuation, £y relates to specialised assets valued on a depreciated replacement cost basis. Here the valuer bases their assessment on the cost to the Trust of replacing the service potential of the assets. The uncertainty explained above relates to the estimated cost of replacing the service potential, rather than the extent of the service
potential to be replaced.
[And, if applicable]: It is possible that the COVID-19 pandemic will affect the Trust’s future assessment of what would be required in a modern equivalent asset, but as yet there is insufficient evidence to affect the assumptions used in the valuation.

[If there are material balances measured at fair value within property plant and equipment (ie surplus assets), the template text above should be adapted to also make reference to uncertainty over fair values.]

[If a provider has material investment property balances (held at fair value), the template text above should be adapted and also included alongside investment property disclosures.]

**Going concern: annual reports and accounts disclosures**

**The issue**

Providers need more information on income after July 2020 to support cash flow forecasts to inform assessments for going concern disclosures. We do not expect the current changes to NHS financial architecture (ie block contracts for the first four months of 2020/21) to lead to providers making new disclosures of material uncertainties over going concern in accounts. Previous considerations in this area made by trusts and auditors due to other factors will continue to be relevant. A further communication on this to aid cash flow forecasts to inform going concern assessments will follow in the coming weeks.

In addition, DHSC has announced it will issue PDC during 2020/21 to allow the repayment of ‘interim’ DHSC loans. DHSC has confirmed via an update to its 2019/20 GAM that this is considered an adjusting event after the reporting period and such interim DHSC loans should be classified as repayable within twelve months in providers’ 2019/20 accounts. For some providers this will distort the appearance of the statement of financial position, with significant net current liabilities.

**Template disclosure text**

[For providers where the reclassification of interim DHSC loans as ‘current’ significantly affects the statement of financial position]:

On 2 April 2020, the Department of Health and Social Care (DHSC) and NHS England and NHS Improvement announced reforms to the NHS cash regime for the 2020/21 financial year. During 2020/21 existing DHSC interim revenue and capital loans as at 31 March 2020 will be extinguished and replaced with the issue of Public Dividend Capital (PDC) to allow the repayment. The affected loans totalling £[insert interim loan principal and interest accrual] are classified as current liabilities within these financial statements. As the repayment of these loans will be funded through the issue of PDC, this does not present a going concern risk for the Trust.
Events after the reporting period (DHSC loans)

Template disclosure text

Example text to add to existing disclosures:

On 2 April 2020, the Department of Health and Social Care (DHSC) and NHS England and NHS Improvement announced reforms to the NHS cash regime for the 2020/21 financial year. During 2020/21 existing DHSC interim revenue and capital loans as at 31 March 2020 will be extinguished and replaced with the issue of Public Dividend Capital (PDC) to allow the repayment. Given this relates to liabilities that existed at 31 March 2020, DHSC has updated its Group Accounting Manual to advise this is considered an adjusting event after the reporting period for providers. Outstanding interim loans totalling £[insert interim loan principal and interest accrual] as at 31 March 2020 in these financial statements have been classified as current as they will be repayable within 12 months.

Annual report: performance report overview and other areas

Considerations to make

There are a number of important areas of the annual report which summarise key events and activities for the trust during the year. These include (but are not limited to) the chief executive’s summary and the performance report overview. The impact and response to COVID-19 will form part of these disclosures for many trusts. Please consider the following.

- The impact of COVID-19 was felt by trusts at the very end of the 2019/20 financial year, with significant impact continuing into 2020/21. Try to be mindful of what the impact was in the 2019/20 year. Disclose the continuing impact after the year end where relevant, but disclosures should draw a distinction between the financial years as far as possible.

- The performance report overview is likely to include a commentary on matters including finances, operational performance and workforce. All of these may have been affected by COVID-19. Give consideration to whether commentary on the impact of COVID-19 in each area is best addressed in each part, or if it is better covered in its own sub-section. The right answer will differ depending on the trust and its specific circumstances.

- COVID-19 is hugely significant for the NHS, and of very significant importance for many individual trusts. But in preparing the annual report, be mindful that the trust should present a balanced report covering the whole of 2019/20. Priorities set and delivered on for the first ten months of the financial year still matter. As explained in the DHSC GAM and FT ARM, the performance analysis section can now be omitted and the performance report overview will be briefer in comparison. While the activities and focus of the trust for the first part of the
financial year now feel out of date and will be covered more briefly than otherwise might be the case, the report should still present a balanced picture for the year as a whole.

**Annual report: annual governance statement**

**Considerations to make**

The overall structure of the annual governance statement is to define the system of internal control and risk management, describe the trust’s major risks, explain the control environment to manage these risks, and cover the effectiveness of the control environment including identifying any significant internal control issues. It is unlikely that the emergence of COVID-19 in 2019/20 would in itself be considered a significant internal control issue.

But this does not mean that we would expect COVID-19 to not feature in trust annual governance statements. We expect that COVID-19 should influence thinking throughout the annual governance statement for 2019/20. For example:

- Was the trust’s structure of governance designed to allow a prompt response to a significant change in circumstances?
- How did the trust maintain control over its decision making in light of COVID-19?
- Was the trust’s response consistent with its control environment, or did the control environment need to adapt?
- Did the trust experience any notable business continuity issues? Is any work needed on the trust’s business continuity plan?
- Has the head of internal audit’s opinion been affected? How does this affect the chief executive’s overall review of effectiveness of the control environment?

These points are intended to provide examples of questions to ask when preparing the annual governance statement in light of COVID-19, rather than be an exhaustive list. The implications of COVID-19 may have led to a change in how the trust’s control environment is applied or have caused other issues to emerge, which may in some circumstances constitute a significant internal control issue. This is a judgement for each individual trust, applying our existing guidance\(^1\) to providers on determining what is a significant internal control issue. Providers are reminded that the conclusion section of the annual governance statement must clearly state whether any significant internal control issues have been identified and, if so, clearly summarise what they are.

Finally, as with the rest of the annual report, try to be mindful of what the impact was in

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\(^1\) For NHS trusts, this is available here: http://improvement.nhs.uk/financialreporting/#trustags1920. For NHS foundation trusts see pages 74 to 75 of the FT ARM: https://improvement.nhs.uk/resources/nhs-foundation-trust-annual-reporting-manual/.
the 2019/20 year. Disclose the continuing impact after the year end where relevant, but disclosures should draw a distinction between the financial years as far as possible.

Other COVID-19 considerations for accounts disclosures

Other accounts disclosures may be affected too:

- **Credit risk disclosures**: do changes in the financial architecture of the NHS need to be reflected in the trust’s credit risk disclosures?

- **Liquidity risk disclosures**: has the trust’s exposure to liquidity risk changed?

- **Inventory**: was the trust able to perform its planned year end inventory counts? If not, is amended or additional disclosure required in the accounting policy and/or inventory disclosure? If inventory is material and the trust has not been able to perform year end inventory counts, additional disclosure will be essential.

- **Income and expenditure**: Has COVID-19 income and expenditure caused a significant movement in any individual lines of the notes to the financial statements compared to prior year which should be explained?

- **PDC dividend accounting policy**: If the Trust incurred significant expenditure on COVID-19 related assets in 2019/20 which has had a significant impact on the PDC dividend calculation in light of changes to that policy, consider updating the PDC dividend accounting policy, the template for which was issued before these changes.

- **Group accounts**: for trusts with material subsidiaries, if there are significant impacts on disclosures within the subsidiary accounts, ensure the trust group accounts continue to present a balanced picture.