Agreement of Balances Month 12 Update

Introduction and Purpose

Agreement of Balances remains one of the key risks to the Group in achieving pre-recess unqualified accounts and as such it is important that the mismatch is reduced to an acceptable level as soon as possible at month 12. The results from the month 9 exercise, whilst encouraging, were still material to the Department's accounts. The Dr/Cr maximum error dropped from £1.8bn at initial submission to £1.4bn on resubmission. The I & E dropped from £5.4bn to £1.9bn at resubmission. Net differences on receivables and payables increased however as part of the resubmission, which increases the importance of counterparties agreeing their year end position.

The purpose of this guidance is to provide an update of changes to the process at month 12, and highlight key issues.
This update document should be read in conjunction with the Agreement of Balances guidance document on FINMAN which has been updated for month 12.

Changes at Q4

The AoB results for Q3 showed that the introduction of an increased £100k threshold for agreeing Dr/Cr transactions did not adversely impact on the maximum error calculation. As such, this threshold will apply at Q4.
Accruals statements must be issued at month 12, and discussions undertaken.

For the avoidance of doubt, a summary of the thresholds applicable for the month 12 exercise can be found at the end of Section 4 of the full AoB guidance document.

Updates

The Agreement of Balances process relies on invoices being raised and paid in a timely manner. All organisations should endeavour to do this at all times to avoid the need for requesting large numbers of copy invoices.

Statements should be sent by email and excel format is preferable. It is also recommended that the email subject include the name of the organisation sending the statement. For details of what should be included in the notified, accrued, adjusted and disputed columns please refer to Section 5 of the main AoB guidance document.

1) **Future period invoices**

   Invoices raised relating solely to future periods should not be included on statements at month 12 as the receiving organisation should be reflecting the fact that the invoice has been received in advance and there are no associated accounting transactions in the current financial year given the goods/services have not yet been delivered. If amounts relating to future periods billed in advance are included on statements, they should be clearly identified on the statement as being for the future period: identifying that the provider will be deducting this item in the ‘adjustment’ column to remove it from receivables, and that the commissioner should do the same in the ‘adjustment’ column to remove the item from payables.

2) Accruals

There has been a continuing issue with accruals mismatches throughout the agreement of balances exercises this year, and this is in part due to organisations not being required to issue accruals statements at months 6 and 9. At month 12, accruals statements should be issued and these should include all relevant accruals, including non-invoiced amounts (eg grant income).

3) Balances with NHS England entities

At month 9 there were still a significant number of organisations sending statements to the wrong part of NHS England. Although much of this was corrected on resubmission, organisations should endeavour to send the initial statements to the correct place. This will ensure that organisations are agreeing balances with the correct sub entity. Further information can be found in Section 7 of the full AoB guidance**.**

4) Maternity pathway prepayment/Partially Completed Spells

Providers are reminded that partially completed spells and accounting adjustments for deferring maternity pathway income should be recorded on accruals statements and provided to commissioners. These amounts should be separately identified in the statement. Please note that although these items are included on the accruals statements an invoice/credit note should not be raised.

Further information on the accounting treatment for maternity pathways by both commissioners and providers can be found in the FAQ on the FINMAN website.

Please also note that contact lists have been refreshed for month 12 and are on FINMAN.

5) Treatment of NCAs (month 12)

For commissioners, if an NCA balance is included on a statement it should be included as either a notified amount (if on the receivables statement) or an accrual amount (if on the accruals statement) against that provider. Any “general” NCA accrual should be recorded as an adjustment on the FT/Trust general NCA line. NHS England will query with commissioning organisations large balances on these lines. To enable reconciliation, a sub analysis 2 code has been created for general NCA (FT and non FT).

For providers there will also be a general NCA line included on the collection forms which should only be used where the accruals are not attributable to a specific commissioner.

6) Income and Expenditure at Quarter 4

There is no requirement to agree income and expenditure at Q4, however it is deemed best practice for organisations to issue income statements wherever possible. The Financial Accounts Steering Group has agreed that at Q4 2015/16 income and expenditure will be agreed, although this is likely to be above a substantially higher threshold which is yet to be agreed.

It is still a requirement to report I & E balances (in addition to Payables and Receivables balances) at Q4 on the national data collection Forms, and DH will produce mismatch reports relating to all balances provided.

Mismatches in income and expenditure contribute to the overall error in the consolidated accounts and may also be indicative of errors in underlying statutory accounts. At both Month 6 and Month 9, the level of mismatch reported, even after resubmission was material to the Group account and must be addressed. When issuing mismatch reports organisations will be advised of the threshold above which, all mismatches should be resolved or explained. As such, although no formal pre-draft accounts I&E agreement is required, organisations are encouraged to send income statements where possible and discuss those transactions to reduce the risk of further work being necessary after the submission of unaudited accounts.

7) Recording Transactions in the Correct Year

There are occasions when organisations have transactions in different years and this causes a mismatch. As it is necessary that the Agreement of Balances data matches the accounts data, this is difficult to resolve and can result in an irresolvable mismatch where the discrepancy pulls from differences in prior year published accounts. It is important therefore that all organisations accrue for goods and services in the correct year, in order that these types of mismatches are reduced going forward. A mismatch relating to the accrued income and expenditure position at the year end is likely to lead to the same mismatch in the opposite direction in the following year. This situation can be avoided by agreeing the original year end position.

For example; Trust A included on the accruals statements to CCG1 an amount of £10 for NCAs in 13/14. The actual charge was £15. If the CCG accrued £15, there would have been a £5 mismatch in both income/expenditure and payables/receivables in 13/14 as the CCG considered it had £15 expenditure in 13/14. The Trust will consider this £5 to be a 14/15 income item, so there will be a £5 mismatch in income/expenditure in 14/15 as well. If the £5 was ignored by both parties in 13/14, it will be considered income/expenditure by both parties in 14/15.

8) Part year NHS Foundation Trusts

When accounting for gross income and expenditure the categorisation on the data collection forms, the recording of the I&E changes from Trust to Foundation Trust after the date of status change. Any I&E before this date should be recorded against the NHS Trust (Goods and Services from other NHS bodies), before this date, and against the Foundation Trust (Goods and Services from Foundation Trusts) after this date. **It is very important that commissioners split agreement of balances income and expenditure between the period the counterparty was an NHS Trust and when it was an NHS Foundation Trust. Failure to do so leads to mismatches on all sides of the transaction and contributes to the overall gross mismatch.**

9) Gross/Net Accounting

Organisations are reminded that Section 6 of the agreement of balances guidance sets out that the default is for all transactions to be treated gross. Net accounting is only appropriate where one organisation is acting as an agent to the transaction and has transferred the risks and rewards. The lack of ‘profit’ in the arrangement does not automatically mean net accounting is used.

An organisation is acting as an agent if it has transferred the risk and rewards. For example, in the case of a staff recharge, if the member of staff concerned is off sick for a period of time, if the employing organisation would need to supply someone else to the receiving organisation, then the risks of employment have not been transferred. The employing organisation should use gross accounting. Alternatively, for example, if no substitute employee would be provided and the receiving organisation would continue to pay, this may indicate that the employing organisations has transferred the risks and should use net accounting. This is one factor amongst many and each circumstance should be assessed individually and agreed between both parties but, in line with the principles of IFRS, the default is for all transactions to be treated gross.

Similarly, the default for hosted services is for them to be treated gross i.e. the organisation hosting the network would account for its income (from the DH for example), and for the expenditure relating to the payments it makes to other organisations. If ALL parties involved in the arrangement agree net accounting is appropriate then net accounting may be used. In this scenario, organisations would record their receipts as being directly from the DH. However, for this to work there should be the joint agreement of ALL parties. The default is for transactions to be treated gross.

Paragraph 6.11 and Annex 5 of the Agreement of Balances guidance sets out where NHS England has hosted services which are being accounted for on a net basis.

The tables in paragraph 6.4 of the full AoB guidance document summarise how income, expenditure, payables and receivables should be treated in respect of staff recharges for Foundation Trusts. In a hosted service arrangement, the receivable organisation should send a receivables statement (where applicable) to the host of the arrangement as the payable organisation whilst income statements should be split between all the principal parties within the hosted services arrangement (agent and principal) for their share of the arrangement. NHS England Commissioning entities operating in the ISFE environment should see the separate guidance issued by NHS England which can be found in Appendix 4 of the main guidance.

Taking into consideration that the default treatment is for all transactions to be gross, if in the event that net accounting is to be employed – it may then be good practice to notify and engage with the respective auditors of the parties involved. Engaging with the auditors of all parties involved will not only ensure consistency and the avoidance of any unnecessary mismatches, but will also eliminate the need for any potential adjustments to the accounts at a later stage.

10) Reporting of Supply Chain, FP10 Prescription Charges, Injury Benefits and NHS Litigation Authority Transactions

The DH has been experiencing continued issues with the reporting of the following transactions. This has increased the maximum error across the group quite significantly. It is important that balances with the above bodies are classified correctly as follows:-

- **NHS Supply Chain**

Please see below list of how transactions are to be reported in respect of NHS Supply Chain Transactions:-

- Report against DOH033 (Dept. of Health) where the invoices are prefixed with the number 904 (School Fruit and Veg Scheme).
- Report against PHE033 (Public Health England) where the invoices are prefixed with the numbers 901 (Pandemic Flu), 902 (Vaccines) and 903 (Emergency Preparedness EPRR).
- Invoices prefixed with the numbers 101, 201 and 905 are to be reported as external to government and should not be included as part of the agreement of balances exercise.

- **NHS Business Services Authority**

There are still quite a high number of mismatches between organisations who are reporting balances relating to FP10's (Prescription Charges) and Injury Benefits against either DH or the NHS BSA. Any transactions relating to the above should be reported as external to government in all instances, see para's 7.17 – 7.24 of the agreement of balances guidance.

- **NHS Litigation Authority**

NHS Litigation Authority are experiencing a high number of mismatches relating to the incorrect reporting of balances.

Full details of the how transactions relating to the NHS LA are to be reported can be found in the agreement of balances guidance para 7.30 – 7.32.