



Year-end survey 2018/19

Survey report



Background

In July 2019, the HFMA surveyed its members about the year-end process to see whether there were any lessons that could be learned.

The survey also included a series of questions looking ahead to the implementation of IFRS 16 *leases*.

The results of this survey have been shared with the Department of Health and Social Care, NHS England and NHS Improvement, and the National Audit Office to form part of their year-end review process. The HFMA's Accounting and Standards Committee will use the results of the survey to inform its work programme in 2019/20 as well as to develop the 2020 pre-accounts planning conference programme.

Overall results

In total, 77 (2017/18: 120) responses were received from:

- 19 CCGs (2017/18: 31)
- 3 CSUs (2017/18: 3)
- 32 NHS foundation trusts (2017/18: 49)
- 21 (NHS trusts 2017/18: 29)
- 2 others (2017/18: 13). In 2018/19, these were both NHS England/Improvement.

Not all individuals answered every question and the percentages referred to are percentages of respondents answering the specific question. (Some tables may not add up to 100% due to rounding.)

We also asked respondents whether they were responding on a personal basis or on behalf of an organisation:

- 32 personal responses (49 in 2017/18)
- 13 responses on behalf of their organisation (25 in 2017/18)
- 32 responses were a combination of both (45 in 2017/18).

Our survey focussed on the process of producing the annual report and accounts rather than the output. Therefore, the results of this survey do not provide any information on whether deadlines were met, the quality of the annual report and accounts produced or whether the auditor made any report or referral.

The survey revealed the following key points:

- despite the implementation of two new accounting standards, 2018/19 was another business as usual year although there are some specific issues which the Accounting and Standards committee will add to their work programme
- the implementation of IFRS 9 *financial instruments* and IFRS 15 *revenue from contracts with customers* was time consuming to implement but had not had a material impact on the financial position of NHS bodies
- there was some frustration expressed at the lack of central guidance on the change to the RICS valuation guidance in January 2019
- we specifically asked questions about the audit process and around a third of respondents indicated that the process in 2018/19 was worse than in previous years. The main issues being identified were late sign-off of audits and a lack of experience/ NHS knowledge of audit teams
- over 20% of respondents said that going concern, accruals and provisions, asset valuations and agreement of balances had been raised by their auditors in their reports to audit committees
- many of the issues raised by in the survey are not new, such as issues with pension disclosures, lack of engagement with agreement of balances and difficulties getting information from local authorities
- looking ahead, respondents are most concerned about the implementation of IFRS 16 *leases*. Worryingly, around a third of respondents have not yet started to work on the implementation of this standard.

Preparing for the year-end

Centrally produced guidance

We asked whether respondents felt well prepared in terms of centrally produced guidance, templates and other information – see **table 1**. It is pleasing to see that for around half of those for whom this question was applicable had the information that they wanted when they needed it.

Table 1: Did you feel well prepared for the 2018/19 year-end in terms of centrally prepared guidance, templates and other information?

	From the DHSC	From NHS England	From NHS Improvement	From the auditor
Everything was available when needed	40 (63%)	33 (62%)	29 (57%)	35 (49%)
Everything except one thing was available	6 (9%)	2 (4%)	6 (12%)	4 (6%)
Most of the information was there	16 (25%)	17 (32%)	14 (27%)	21 (30%)
There were a lot of unanswered questions at a late stage	2 (3%)	1 (2%)	2 (4%)	3 (15%)

However, it is a concern that around a third of respondents who thought this question was applicable only had most of the information available when they needed it, and some had unanswered questions at a late stage.

There were two key issues in 2018/19¹ and these, perhaps understandably, caused some difficulty:

- the application of IFRS 9 *financial instruments* and 15 *revenue from contracts with customers*
- the clarification of the Royal Institution of Chartered Surveyors (RICS) valuation guidance published in January 2019

As these issues were recurring themes in the survey, they are discussed in more length later in this report.

Some comments were specific to particular organisations:

- in relation to the DHSC:
 - *'The late communication on public dividend capital (PDC) dividend calculation resulted in us needing to make a very late change to the accounts.'*
- in relation to NHS England the comments were around agreement of balances (AoB):
 - *'Clarification and follow up was required during the AoB exercise with regards to the NHSE entities and which invoices related to each'*
- in relation to NHS Improvement, the main comments were in relation to timeliness of guidance:
 - *'Foundation trust annual reporting manual (FT ARM) still a little late in coming out, particularly in relation to pay disclosures.'*
 - *'Late information on accountable officer's statement and auditor's statement.'*
 - *'Templates were late.'*
- in relation to auditors, respondents were concerned about the timeliness of audit queries as well as advance notice. This issue was identified through specific questions in the survey and is discussed later in this report.

One respondent reported an issue in relation to cash equivalent transfer value (CETV) guidance:

'We were advised by our auditors at a late stage that CETV factors used for any individuals with benefits in the 2015 Scheme were incorrect.'

NHS Pensions confirmed that on the online system 'pensions on line (POL)' start of year CETVs were amended prior to this exercise to reflect the transfer value at 31 March 2018 using the correct CETV factors.

It would have been useful if this had been flagged earlier via NHS Improvement/NHS Pensions directly.'

¹ HFMA, *Year-end reminders 2018/19*, May 2019

Third party information

We asked whether the third-party information that respondents need to prepare their annual report and accounts was available on a timely basis. **Table 2** shows only those respondents for whom the question was applicable.

Table 2: Did you feel well prepared for the 2018/19 year-end in terms of information from third parties?

	Everything was available when needed		Everything except one thing was available		There were a lot of issues which needed to be resolved	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
NHS BA (pensions information)	57 (80%)	61 (65%)	10 (14%)	23 (21%)	4 (6%)	14 (10%)
<p><i>'Q4 invoice for calculating pre 1995 retirement pensions provision was not available at the year-end.'</i></p> <p><i>'We received a letter from BSA, via our pensions manager on 16 April which was supposedly emailed on 13 March which required a provision to be made. The late notice didn't help with trying to close down our position.'</i></p> <p><i>'The auditors asked us if we had any changes in prior year (17/18) Greenbury figures as a result of a data cleanse exercise. We did have some changes, but this hadn't been brought to our attention that it might even be an issue. This caused reworking of the annual report disclosures on senior manager remuneration at a late stage in the process.'</i></p> <p><i>'Pensions Agency better this year (to what it should be).'</i></p>						
Co-commissioning information	19 (73%)	31 (70%)	4 (15%)	9 (20%)	3(12%)	4 (9%)
Information from valuers	38 (76%)	47 (71%)	7 (14%)	14 (21%)	5 (10%)	5 (8%)
<p><i>'There were ongoing discussions with management in relation to the large increase in asset values, which the District Valuer was not able to explain.'</i></p> <p><i>'There was a lot of confusion around changes in RICS guidance and we couldn't get straight answers from NHSI, or our valuer.'</i></p> <p><i>'Feedback from auditors on valuation was long winded.'</i></p>						
Information from local authorities	22 (85%)	32 (62%)	4 (15%)	13 (25%)		7 (13%)
<p><i>'Continual issues with pooled budget information.'</i></p> <p><i>'An issue with the final better care fund (BCF) info not being available until after draft submission.'</i></p>						
Shared service assurance reports	36 (92%)	34 (81%)	3 (8%)	6 (14%)		2 (5%)
<p><i>'SBS assurance report: this appeared to be received late during the process - it could have been done at interim.'</i></p>						

	Everything was available when needed		Everything except one thing was available		There were a lot of issues which needed to be resolved	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
Sickness date and ill health retirement information	56 (84%)	60 (79%)	10 (15%)	11 (14%)	1 (1%)	5 (7%)
<p><i>'Sickness data and ill health retirements: received late during the process, so required a further amendment to the accounts.'</i></p> <p><i>'Sickness data is never available until after draft submission.'</i></p> <p><i>'Sickness data and ill health was very late.'</i></p>						
Provider sustainability fund (PSF) information from NHS Improvement	38 (78%)	03 (56%)	10 (20%)	17 (31%)	1 (2%)	7 (13%)
<p><i>'PSF information: received late in the process, so required material adjustments to the draft accounts.'</i></p> <p><i>'It was good to get the additional PSF monies, even better if it was not right up against the accounts submission deadline.'</i></p> <p><i>'PSF information - would have been good to agree this earlier but I understand that a certain amount of time is needed to go through all the calculations. It is quite pressured to make all the changes at the end.'</i></p>						

Preparing the annual report and accounts

We wanted to understand whether any particular issues had had an impact on the preparation of the draft annual report and accounts and the financial outturn. The list of issues selected was based on the issues discussed at the Pre-accounts Planning conferences in January 2019 and in subsequent Accounting and Standards Committee meetings.

Most of the issues listed did not have an impact on the financial position of the NHS body but did make the preparation of the annual report and accounts more difficult (see **table 3**).

Table 3: Did any of the following impact on the preparation of the draft annual report and accounts?

	The issue impacted on the preparation of the annual accounts		The issue impacted on our financial position	
	Making it more straightforward	Making it more difficult	No impact	Yes, there was an impact
IFRS 9 <i>Financial instruments</i>	4 (5%)	20 (35%)	42 (53%)	7 (9%)
IFRS 15 <i>Income from contracts with customers</i>	2 (3%)	27 (34%)	40 (51%)	4 (5%)

	The issue impacted on the preparation of the annual accounts		The issue impacted on our financial position	
	Making it more straightforward	Making it more difficult	No impact	Yes, there was an impact
Clarification of the RICS valuation guidance	4 (6%)	8 (12%)	27 (39%)	2 (3%)
Impact of Brexit		1 (1%)	34 (49%)	5 (7%)
New year-end processes	4 (6%)	4 (6%)	25 (38%)	1 (2%)
New auditor	2 (3%)	3 (4%)	5 (7%)	
A specific issue we already knew about		6 (9%)	9 (13%)	2 (3%)
Something completely unexpected		7 (10%)	2 (3%)	1 (2%)

Other issues identified by respondents that are not discussed elsewhere in the findings included:

'Approach adopted by external audit. New general ledger and North East Patches (NEP) Assurance Level change requested and provided from their external auditors.'

'Release of prescribing NHS BSA data just before audit committee, resulted in very late change to their report to those charged with governance.'

'Auditors wanting original emails from other providers and not just the backup. This was a new policy that was not mentioned before the audit. Not all emails are kept due to the size of nhs.net mailboxes.'

'The guidance appeared contradictory on whether payment of the AfC lump sum in month 1 was an 18/19 cost or a 19/20 cost.'

'Contractual legal issue.'

'Capital commitments being miscalculated by estates' colleagues.'

'Clarification about commitments note due to interpretation of meaning.'

'Internally - stocktakes were late in some areas.'

'Remuneration report was complex - many changes and difference of opinion re treatment of salary sacrifice.'

Agreement of balances

The AoB process has remained relatively unchanged in the past few years. We therefore asked whether respondents had found that was better, worse or about the same as last year. This year, most respondents felt that the process was about the same before – see **table 4**. This is unlike the

previous two years, when the majority of respondents thought that the process was better than the previous year.

Table 4: In 2018/19 there were no major changes to the AoB exercise. Was the whole exercise better, about the same or worse than last year?

	CCGs and CSUs	Provider bodies	Other	2018/19 Total	2017/18 Total
About the same	13	34	1	48 (71%)	31 (30%)
Better than last year	4	6		10 (15%)	55 (63%)
Worse than last year	4	6		10 (15%)	7 (7%)

Several respondents commented that agreeing balances with NHS England and NHS Property Service Ltd is difficult:

'We continue to struggle to identify the correct point of contact at NHSE, with this year getting opposing advice regarding a balance from two different NHSE offices.'

'Combined AoB Toolkits (CAT) has greatly improved the process; still residual issue in agreeing balances with NHSE.'

'NHS England still cause issues as they will only tell you of Invoicing errors at AoB time, not throughout the year if you raise an invoice to the wrong area team.'

'Still major difficulties with NHSE counterparties/lack of consistency from year to year or even quarters within years as to which arm deals/pays with which services.'

'NHS Property Services didn't appear to take part creating mismatches. Need to be clearer communication around this entity to the rest of NHS & auditors if this is to continue.'

'NHS Property Services do not appear to understand the process statements were issued that included invoices that had been paid months ago & in some cases years, they would not engage when we tried to contact them & then submitted figures that didn't agree to the statements issued or inform us of how these figures were arrived at!'

'We need absolute clarity as to whether NHSPS are included or excluded from AoB and if they are included, they need to follow the rules like all other organisations - NHSPS seem to have no understanding of the AoB rules and timescales. Another issue is NHSE regional offices not providing any clear guidance as to which organisation code invoices to and from them relate to - this leads to mismatches.'

Some respondents reported specific issues:

'Entities failed update systems for merged CCGs.'

'The CCG had more mismatches this year due to STP hosting. The CCG treated STP transactions as gross to ensure transparency, other orgs netted off which caused mismatches due to different use of A2 codes, central guidance would have been useful to ensure consistency.'

'The issue with deferred income is still a problem. Organisations such as the HEE issue funding late in the year accompanied by letters saying that carry forward of funding is not permitted but correct accounting under IFRS 15 will require recognition of deferred income where there are outstanding performance obligations. The HEE appear to have no acceptance of this concept and will not agree any deferred income balances.'

'Had better processes than last year, but had problems agreeing GP income with CCGs as they were directed to report it against the GP practice instead of against the trust.'

'No clear guidance so how one trust treats recharges is different from another. Should be a checklist stating whether particular items are in or out.'

Many respondents seem resigned to the fact that this process will not be straightforward.:

'Whilst the exercise was similar to last year, it did feel as if there was slightly less engagement from our counterparts. It was difficult to resolve issues.'

'M9 process dragged on too long, and it needs to be recognised that we will never get this as close as at year end as positions are still under discussion and accruals will vary between parties.'

'Made difficult by our main provider FT - unable to reconcile their statements to CCG records. Audit could not place assurance on AoB agreement as a result.'

'The engagement from providers in issuing & trying to address mismatches was worse than in other years.'

'As always time consuming and too much emphasis on this process in the timetable.'

'My preference would be for the accrual statement to be delivered much earlier, especially if we could nationally agree to fair and reasonable estimates for M12.'

On a positive note one respondent reported improvement:

'Our local processes were better.'

We asked whether respondents had used a commercial package to help with the AoB exercise. Only four said that they had, of these, two (50%) said it was cost effective and only one said that it was complete.

The two packages named were AOB Financial Solutions Ltd or Assista AoB.

'We noted that there seemed to be reduced usage of the AOB Portal by other local and national organisations, probably following DHSC guidance that organisations would have to supply statements through normal AOB routes and not refer others to the Portal, which we had more of previously.'

'A local trust did, and they could not get statements out. AoB doesn't need this if the trust has appropriate systems.'

'Exercise was assisted considerably by the AOB software we used (AOB Financial solutions Ltd).'

'We used the AoB Assista tool but lost an element of control by doing so and experienced more issues due to data quality.'

'From returns received from other organisations using commercial packages they are not working correctly with some items being duplicated making agreement more difficult.'

Seven NHS bodies indicated that they are considering using a commercial package in 2019/20:

'System being presented to the Trust this week.'

'Depending on the price, we may move to Assista's AOB software but needs sign up by other NHS organisations in the local area to get the most out of it. Looks expensive for what it does.'

Others do not consider it necessary:

'Our view is the focus should be on resolving the reasons why invoices are not paid or cleared. If standard invoice flow was achieved, IAB would not be an issue. We don't need lots of effort on reporting systems, we just need to resolve the issues!'

'CAT works just fine!'

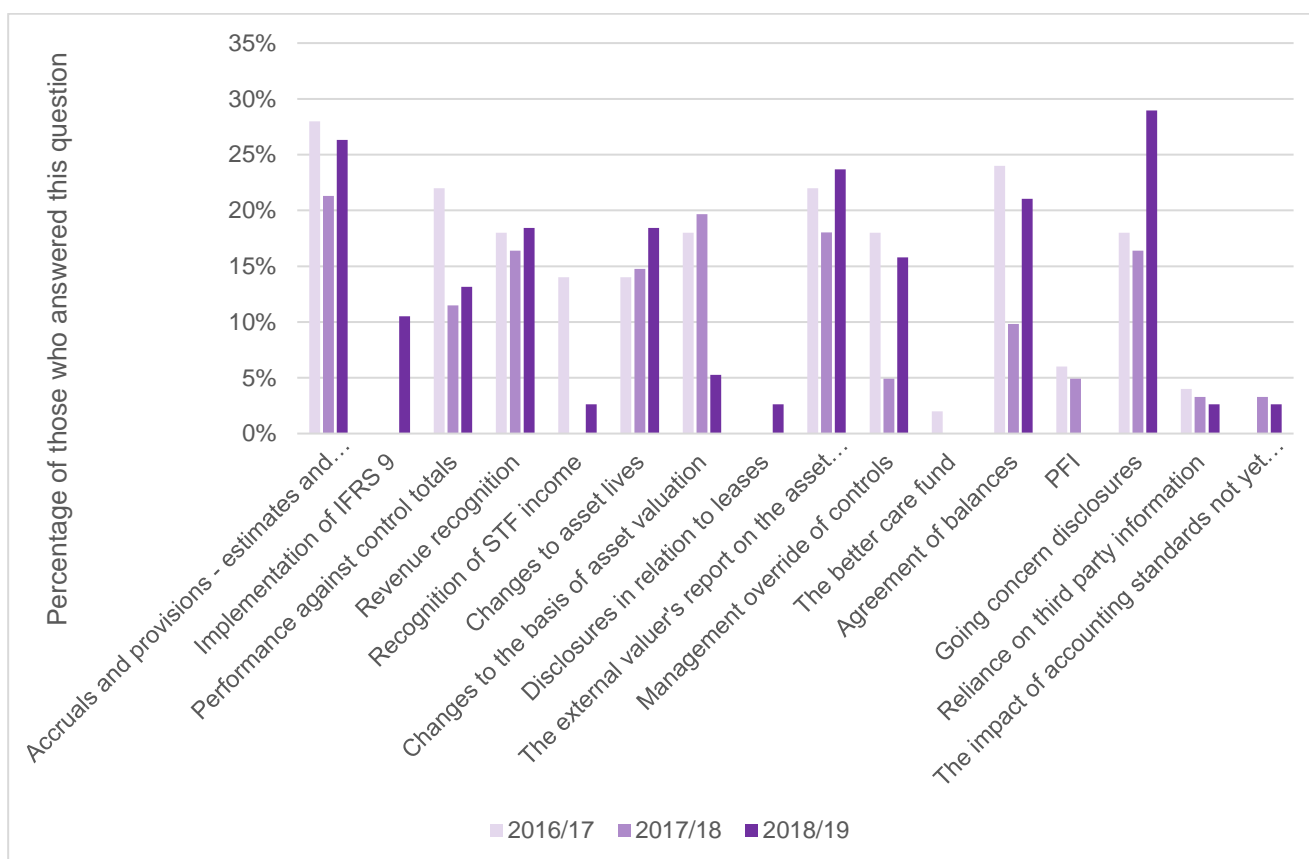
'We have used an internally designed workbook for the past five years.'

Significant issues

Auditors are required to discuss significant issues in their report to those charged with governance (also known as ISA 260 reports). **Graph 1** shows the issues that were raised by auditors as significant in 2018/19 compared to the past two years.

This year, the external valuer's report and going concern was highlighted as an issue by more respondents than previously. Interestingly, the implementation of IFRS 15 did not have a greater impact than revenue recognition in previous years. However, this may be due to the focus that auditing standards have always put on revenue recognition.

Graph 1: Significant issues raised by auditors



Other issues identified by respondents included:

- the number of manual journals
- arrangements for securing economy, efficiency and effectiveness in its use of resources
- amendments to the example accounting policies in relation to
 - expenditure on goods and services
 - parliamentary funding
 - critical judgements

- accounting for listed company shares received
- potential material misstatements of reporting expenditure due to fraud
- completeness of non-pay and non-depreciation expenditure.

Audit

Responses to the 2017/18 survey identified issues relating to the audit of the accounts. This year, we asked how the audit process compared to last year (see **table 5**). Worryingly, 31% of respondents said their audit was worse than last year. For commissioners, the audit was about the same as last year - however, this is an issue for them.

Table 5: Was the audit process better, about the same or worse than last year?

	CCGs and CSUs	Provider bodies	2018/19 Total
Better than last year	3 (14%)	10 (22%)	13 (19%)
About the same as last year which is fine	7 (33%)	19 (41%)	26 (39%)
About the same as last year but that is an issue	5 (24%)	2 (4%)	7 (10%)
Worse than last year	6 (29%)	15 (33%)	21 (31%)

There were two main issues raised by respondents in their comments. The first was the timeliness of audit work which resulted in late audit queries and/ or delays to the sign-off of the audit. The other issue was the experience of the audit team – several respondents commented that the team seemed to include more junior staff or staff with less NHS specific expertise.

‘The planning of the audit needs refining, we were given assurances throughout the process that everything is ok and on track, only to be given last minute queries and further testing requirements right up to the audit committee deadline.’

‘Timeliness in feedback from the external auditor central review teams.’

‘Audit were late in giving us dates for interim and final audit. We were given no working paper requirements.’

‘Auditor required changes to the accounts 30 minutes before audit committee with no prior warning of the issues raised.’

‘Auditors changed ISA 260 between audit committee and board sign off to a late issue that wasn't resolved.’

‘In my view audit teams are currently not resourced appropriately both in terms of headcount and experience. This invariably means when the audit manager and/ or partner reviews, a deluge of questions/ issues are raised. These could and should be raised earlier which would help everyone, but this isn't possible due to the size and experience of teams on-site.’

‘It was not a new auditor but a new team with little NHS experience which caused additional work and delayed our internal timetable.’

‘Our audit team also had to complete another CCG's audit which put them under pressure, and they did not have the off-site support to compensate. Also, the juniors were 'juniors', with less than 18 months audit experience between them. Audit is always 'busy' but this put undue pressure on the CCG team.’

'Lack of information about progress. Limited knowledge of auditors on NHS accounts/ terminology. Over-auditing of non-sensitive disclosures.'

'But noted considerable pressures that the auditors seemed to be under this year compared to last.'

'Auditors need to be better prepared. They raised issues right at the last minute. For example, required additional testing on payroll - should have completed some of this at interim.'

Some reported specific issues:

'Not risk based, and the lack of NHS understanding was significant. It felt like a lot of box ticking exercises.'

'Issue re CCG's use of hyperlinks in the annual report to make it more interactive for readers but auditors had major issue with their inclusion saying that they needed to check the content of every website that was hyperlinked which was unfeasible - compromise was reached and some were removed but not aware has been an issue for anyone else - we would welcome NHSE comment on their usage.'

'The one contentious issue we had come up was a request by audit to amend two of our accounting policies. We were not happy to do so, as we had used the template policies issued by NHSE and did not agree the rationale for changing. Subsequently, on discussing with other local CCGs, it was apparent that some audit teams (same firm) were asking for this change or a variation and some were not asking for any change, despite the principle applying to all CCGs. NHSE had not been advised that a change was necessary and had only heard of one other CCG being asked to make an amendment. The result was that we and one other CCG did not change, despite being asked to, one CCG changed to the wording audit requested, one CCG changed to partially reflect audit wording and about 8 CCGs did not have the issue raised by their audit teams, meaning there was an inconsistent approach across several local CCGs.'

'We have a very large list of items to be reported back to our auditor at the debrief meeting. These include: not making appointments to see CCG staff and expecting them to always be available; appearing to backload their work to the final week and not being finished for the closure meeting; lack of understanding by some audit staff regarding recharge invoices; additional items requested during audit that could have been on the prepared by client list from the beginning; closure meeting agenda identified issues that should have been raised following interim as based on M9 audit (when we were told there were no issues from interim); draft ISA 260 identified areas where changes had been made to the accounts as requested by audit - which was not the case. These were removed but only minutes before audit committee meeting and an addendum had to be tabled by audit rather than issuing in advance.'

'Auditors change of audit approach to a more substantive approach.'

'Because audit team were subject to a NAO review and the going concern issue within the Trust, the detail required increased significantly as did the pedantic nature of questions asked. Not sure that it added any value to the review process.'

'Most issues around asset valuation report. Spent significant time looking into the basis of the calculations behind the valuation.'

'Also spent a lot of time focusing on pay costs and requested large samples of info to look at.'

'Poor communication by on-site audit team. We were unsure what areas they had looked at and what was outstanding at any point in time. Methodology of audit process had changed and the volume of transaction level information required after the start of the audit was very time consuming. More prescriptive 'Prepared by Client' document has been requested for the coming year. Trust also incurred additional audit fees which were notified at the end of the audit.'

On a positive note, some reported a better experience:

'More work done at interim audit. Better communication. Knowledge of the organisation/NHS generally. Different audit team.'

'The on-site team this year were more organised, more communicative and more personable.'

'We had a new auditor, but the audit went very smoothly. However, with it being a first year there was inevitably more work than in previous years.'

RICS guidance

In November, the Royal Institution of Chartered Surveyors (RICS) updated and clarified their [supplementary UK material on the RICS valuation professional standards](#) and published a guidance note on undertaking [DRC valuations for financial reports](#). The guidance stated that it was effective from 14 January 2019 which caused many NHS bodies difficulties at the year-end, respondents commented on this issue in response to the questions about the availability of guidance from the centre and from third parties and the process of preparing the draft annual report and accounts:

'The clarification of the RICS guidance. There was no guidance available centrally on the impact of the RICS guidance that was issued with an effective date of Jan 19. We assumed that the impact was effective from that date but were advised by our auditors that the agreed position was that it was an error on the prior year and therefore affected the full 18/19 year. Another NHS trust, I note from their accounts took it as effective from January. There was different treatment because there was no central guidance.'

'Clarification/guidance on RICS issue wasn't forthcoming on a timely basis.'

'There was a lot of confusion around changes in RICS guidance and we couldn't get straight answers from NHSI, or our valuer.'

'Guidance wasn't forthcoming on how Trusts/FTs should have treated the RICS issue.'

'RICS issue created additional work for valuers.'

'Feedback from auditors on valuation was long winded.'

'RICS valuation issue created an additional delay.'

'Long discussions re asset lives with little information from the regulator and inconsistent discussions with auditors.'

'There was no guidance received for clarification of the RICS valuation.'

'RICS was not well understood by anyone.'

'RICS guidance so late and very confusing so could be interpreted different ways.'

'Most issues with the audit were around the asset valuation report. They spent significant time looking into the basis of the calculations behind the valuation.'

IFRSs 9 and 15

For the first time in a long time, two new accounting standards were applicable in the NHS in 2018/19:

- IFRS 9 *financial instruments*
- IFRS 15 *revenue from contracts with customers*

We therefore included questions in the survey to understand what the impact was on the preparation and audit of the 2018/19. This is partly to learn lessons for 2020/21 when IFRS 16 *leases* is applicable in the NHS for the first time.

We asked about respondents' expectations:

- 26 (41%) of respondents were affected by the implementation of both accounting standards as they had expected
- 7 (11%) were expecting to be affected by IFRS 9 and were affected by it
- 2 (3%) were expecting to be affected by the implementation of IFRS 15 and were.

The impact of the accounting standards was not material to financial position of the NHS body for most respondents. No respondents reported unexpected changes to their annual report and accounts as a result of adopting these standards or the first audit of them – only one respondent indicated that the impact of IFRS 15 on their disclosures was identified during the audit.

Instead, the impact was the time and resource taken to understand the standard and assess its likely impact:

'The main issue was obtaining engagement from senior management to commit finance team staff resource outside my control to analysing contract agreements.'

'A high level review identified that the impact would be immaterial, therefore it has proved difficult to acquire sufficient staff time commitment from other areas to carry out a detailed assessment.'

'Time commitment to understand standards and any possible impact. Given materiality neither affected position but created added disclosure & recoding work.'

'No major impacts, but necessary to assess the new standards and explain these and their impact to the audit committee.'

'The template provided by NHSI assisted with our understanding of what changes needed to be made and to work through if anything impacted upon the bottom line - which it didn't. This was much appreciated.'

'IFRS 15 complicated the comparators for review by the Board and adds very little benefit. Not a major issue.'

'The change in the processing of deferred income, made year end processes more complicated, especially try to explain to the managers involved.'

'IFRS 9 and IFRS 15: required further work, though was good to review these areas.'

'The disclosure changes needed due to IFRS 9 and 15 were fairly extensive but the template accounts that were supplied were extremely helpful.'

The main impact that IFRS 9 had on the annual report and accounts was in relation to disclosures and the impairment of receivables.

As expected, auditors focused on these new standards but, for most, the work had been done ahead of the audit, so limited additional information was required during the audit.

Only 14 (23%) of respondents were asked for additional information about IFRS 9 during the audit. For IFRS 15, the impact was slightly more – 18 (29%) of respondents were asked for additional information during the audit. The information requested included:

'Details of revenue contracts.'

'Approach to calculating the credit provision, and the details of our income recognition assessment for IFRS15.'

'But they asked for more detailed disclosures in relation to them - in particular I had to include the previous year's accounting policies to cover the comparators at a very late stage although having since reviewed other sets of accounts no-one else seems to have been required to do this.'

'Audit requested a paper on how we implemented IFRS 9 and IFRS 15, including what considerations we had made and the decisions we came to.'

'A review of whether our income was 'point in time' or 'over time'.'

'Just to add a working paper stating how we had approached our review.'

'IFRS 9 - more detailed analysis and rationale for the provision matrix. IFRS 15 - more detailed analysis and rationale for main contract/grant accounting decisions.'

'Working papers were sufficient & we have prepared working papers for review at M09 specifically to get audit to review in advance of Y/E.'

'Further information to support our recognition of income view.'

'Papers to conclude that both standards had no impact.'

In terms of IFRS 15, 14 (22%) of respondents had completed their review of contracts by 31 December 2018, this rose to 32 (50%) of respondents by 31 March 2019 and a further 5 (8%) finished the review during the closedown period. Worryingly, 2 (3%) respondents reported that their review was still not complete when they filled in the survey.

The main impact was on income recognition from research and development contracts (8, 57% respondents).

The DHSC and NHS Improvement issued guidance on IFRS 15. This was used by 33 (53%) respondents to assess all contracts and a further 12 (19%) to assess only the NHS standard contract. All respondents, except one, who used the guidance found it useful.

'Welcomed the later guidance relating to the new standards however would have preferred it earlier to make best use of it.'

'Guidance on IFRS15 a little vague - needed more interpretation with auditors.'

'More insight into what exactly the auditors were expecting to receive in respect of IFRS9 and 15 would have helped.'

'Unhelpful re research...'

'This has caused a lot of angst and dismay amongst the R&D consultant body.'

Looking forward to 2019/20

We asked respondents which issues they would like guidance on in 2019/20 – the full list is shown in **table 6**. The main issue of concern remains IFRS 16 followed by remuneration reporting. Guidance on judgements, estimates and prudence have gone up in the list of priorities – this may be due to uncertainties around staffing costs as well as IFRS 16.

Table 6: Looking forward, what are the areas where you think guidance is needed in 2019/20 and beyond?

Rank		Total Score ²	Rank in 2017/18	Rank in 2016/17	Rank in 2015/16
1	New accounting standard on leases (IFRS 16)	753	1	1	2
2	Remuneration report disclosures	552	4	4	1
3	Agreement of balances	479	5	5	3
4	Judgements, estimates and prudence	449	9	11	7

² Score is a weighted calculation. Items ranked first are valued higher than the following ranks, the score is a sum of all weighted rank counts.

Rank		Total Score ²	Rank in 2017/18	Rank in 2016/17	Rank in 2015/16
5	Going concern	396	7	8	10
6	Governance statement	396	6	9	4
7	Asset valuation best practice	392	10	12	
8	Accounting for working together/ new working arrangements	383	8	10	
9	The impact of control totals and the STF on year-end accounts	371	11	6	6
10	Capital accounting	345			
11	Accounting for subsidiaries	210	12	NA	NA
12	Accounting for joint ventures	188	13	NA	NA
	New accounting standards on revenue recognition (IFRS 15)	NA	2	2	5
	New accounting standard on financial instruments (IFRS 9)	NA	3	3	9

Other areas included:

- audit working paper requirements
- more guidance on details because of shared staff across CCGs and ICS need more guidance on remuneration report.
- McCloud pensions implications³
- Flowers legal case⁴ and others relating to overtime and holiday pay
- guidance on pensions lifetime allowances
- pooled budgets, particularly S75

IFRS 16 leases

IFRS 16 will be implemented in 2020/21 so NHS bodies will need to have a detailed understanding of the standard's impact on their financial position when they prepare their financial plans in late 2019.

We asked whether respondents expected that the new leasing standard would affect them – of those that responded to these questions 91% of respondents (up from 79% in 2017/18 and 81% in 2016/17) thought that it would.

A third of respondents have yet to start to consider the impact of IFRS 16 – this is exactly the same as last year.

We asked how well respondents know the standard and where they are looking for guidance – see **table 7**.

³ On 20 December 2018, in [Lord Chancellor v McCloud and others](#), the Court of Appeal ruled in relation to two age, race and gender discrimination claims in relation to public sector pension schemes.

⁴ On Monday 10 June 2019, in [N Flowers and others v East of England Ambulance Trust](#), the Court of Appeal found that staff who regularly undertake overtime or work beyond their normal shifts should have these hours taken into account when calculating holiday pay. This is the latest in a number of cases relating to the calculation of holiday pay

Table 7: How well do you know the new standard?

	2018/19	2017/18
I've read the free version of the standard	27 (11%)	25 (18%)
I've read the standard and its appendices and basis for conclusions (see appendix 1)	13 (5%)	15 (11%)
I've read the HM Treasury application guidance	30 (12%)	NA
I've read the DHSC application guidance	25 (10%)	NA
I attended pre accounts planning conference in January 2019 where it was summarised	38 (15%)	32 (23%)
I've attended a training event provided by one of the accountancy firms where the standard was covered	20 (8%)	15 (11%)
I've attended another training event	11 (4%)	13 (9%)
I listened to the HFMA webinar in November 2019	18 (7%)	NA
I plan to listen, or I have listened, to the HFMA webinar in July 2019	33 (13%)	NA
I've read the HFMA briefing	36 (14%)	39 (28%)

We asked whether respondents have started to discuss these standards with their auditors, **table 8** shows that the majority (over 60%) have yet to do so. Perhaps surprisingly, this is the same as last year.

Table 8: Have you discussed IFRS 16 with your auditors?

	2018/19	2017/18
The auditor has raised the standards in its audit plan	15 (23%)	7 (8%)
Our auditor looked in detail at the disclosures we made in relation to these standards in our 2018/19 accounts	5 (8%)	10 (12%)
We've had detailed discussions about the impact of the standard on our accounts	3 (5%)	6 (7%)
We have yet to discuss the new standards	39 (61%)	53 (64%)
We are changing our auditors between years	2 (3%)	7 (8%)

The majority of respondents (53%; 2017/18, 51%; 2016/17 56%) have a register of leases and contracts containing a lease but a sizeable minority (38%; 2017/18, 35%; 2016/17 31%) do not. Only

15 (38%) (27, 64% in 2017/18) of those who have a lease register are content that it is up to date and complete – worryingly this is a worse picture than last year. Comments indicate that this work is underway but is not necessarily straightforward.

‘Work is ongoing to identify and assess all contracts within the trust.’

‘We are currently putting together a lease register to start this process.’

‘Lease disclosures are prepared based on invoices charged to specific account codes. It is possible that some invoices get charged elsewhere and procurement do not hold a list of all leases.’

One of the areas of concern for many NHS bodies is that arrangements such as managed service contracts which are not currently being accounted for as a lease, could actually contain a lease and therefore fall under the new lease standard. Where current contracts have been reviewed against IAS 17 and IFRIC 4 and have been determined not to contain a lease, the new standard allows that assessment to stand. This dispensation has been mandated for all public sector bodies, making it more important that a full assessment under the current accounting standard is undertaken. We asked (**table 9**) whether respondents were satisfied that all contracts which involve the use of an asset have been assessed under IAS 17 and IFRIC 4.

It is a concern that the number of respondents who are satisfied that this is the case has fallen since last year. This may be due to the fact that different people have completed the survey or because the more work people have undertaken on implementing the system, the more difficulties they are encountering.

Table 9: Are you satisfied that all contracts which involve the use of an asset (including managed service contracts and CCG arrangements for continuing care) have been assessed under IFRIC 4 to determine whether they contain a lease?

	2018/19	2017/18	2016/17
Yes	11 (18%)	25 (31%)	10 (15%)
No	43 (71%)	40 (49%)	34 (52%)
Don't know	7 (12%)	16 (20%)	22 (33%)

As it is expected that the adoption of the new standard will involve considerable work for finance teams, experts are suggesting that the current lease disclosures should be reviewed in detail at an early stage. **Table 10** shows that the percentage of respondents that have done this has not really changed since 2017/18. However, this does mean that around half of respondents have not undertaken this review.

Table 10: Did you review your current lease disclosure in more detail in 2018/19 in order to prepare for this new accounting standard?

	2018/19	2017/18	2016/17
Yes	28 (49%)	37 (45%)	10 (15%)
No	24 (42%)	34 (42%)	48 (74%)
Don't know	5 (9%)	11 (13%)	7 (11%)

The key areas of concern are:

- arrangements with NHS Property Services and Community Health Partnerships

- identifying all leases
- salary sacrifice cars
- pathology.

On a positive note, some respondents have started to engage with colleagues outside of the finance department:

'We are creating an action plan and associated communication as this goes wider than finance.'

'An early training session has been held with procurement colleagues, but further work is needed in this area.'

'We have asked procurement, divisional managers and finance managers to identify any assets not currently purchased or leased by the trust. We are meeting with procurement to develop an approach to ensure we can identify all such assets.'

Appendix 1: access to accounting standards

Access to the unaccompanied IFRS standard and IFRIC interpretations is available through the [IFRS website](#).

The DHSC and [Technical Accounting Centre of Excellence](#) (TACoE) have procured access for public sector bodies to the full standards as well as other financial reporting guidance via the [EY Atlas Portal](#).

To gain access please email the central TACoE hub based in the MOD at the below email address cc'ing anyone else in your organisation that would value access to the portal.

DFinStrat-TechnicalAccountingCOE@mod.gov.uk

The hub will then arrange access with EY who will then forward on the necessary details to those who have registered for access such as user manuals, passwords, usernames and links to the portal sign in.