



Year-end survey 2017/18

Survey report



Background

In June 2018, just after NHS bodies submitted their 2017/18 annual accounts and reports, 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 three new accounting standards.

The results of this survey have been shared with the Department of Health and Social Care, NHS Improvement, NHS England 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 2018/19 as well as to develop the 2019 pre-accounts planning conference programme.

Overall results

In total, one hundred and twenty (2016/17: 109) responses were received from:

- twenty-six (2016/17: 31) CCGs
- three (2016/17: 4) CSUs
- forty-nine (2016/17: 40) NHS foundation trusts
- twenty-nine (2016/17: 27) NHS trusts
- thirteen (2016/17: 7) others.

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:

- forty-nine personal responses
- twenty-five responses on behalf of their organisation
- forty-five responses were a combination of both.

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:

- 2017/18 was another business as usual year so most of the issues raised were due to particular circumstances at individual NHS bodies
- some bodies reported difficulties with their audit - auditors raising issues at the last minute, as well as some auditors seeming to be unprepared
- in previous years, information from third parties has been an issue. This year, it was the senior management pensions information which was raised as an issue most often – some organisations reported difficulty resolving queries
- asset valuation remains a significant issue raised by auditors
- generally, respondents reported that the agreement of balances exercise was as smooth or better than previous years
- looking ahead, the same five issues as last year have been identified by respondents as areas where they want further help/ guidance:
 - IFRS 16 *Leases*
 - IFRS 15 *Revenue from contracts with customers*
 - IFRS 9 *Financial instruments*
 - remuneration report disclosures
 - agreement of balances
- the state of readiness for the adoption of the three new accounting standards in 2018/19 and 2019/20 has improved since last year:
 - a small minority expect to change their recognition of impairments of receivables as a result of the implementation of IFRS 9
 - few expect the income that they recognise to change as a result of IFRS 15 although some are concerned about income from CQUIN, research and development contracts and the maternity pathway
 - IFRS 16 is expected to have a much bigger impact. The majority of respondents have a lease register but many of these are not comprehensive or up to date. Respondents are concerned that there is a lot of work to do which they have not yet started due to other pressures on their time.

Preparing for the year-end

NHS bodies

Seventy-six respondents (67%) felt that their organisations were well prepared for the 2017/18 year-end. Another twenty-two (19%) implemented new arrangements:

- by necessity, due to new staff members, changes in staff responsibilities or unexpected absences. For one foundation trust, '*financial restrictions lead to reduced resources available.*'

- to improve processes:
'We implemented a new fixed asset register to support the year end with associated new processes. We also implemented new processes to support the closer links between monthly monitoring and year end submissions.'
'We had ... a process review to improve ... agreement of balances (AOB) which proved successful.'
- as a result of changes to structures – an in-year acquisition or the establishment of a new subsidiary

Of the sixteen remaining respondents, half had a single issue that needed to be resolved while the other half had more than one material issue to be resolved:

- due to changes to the approach to asset valuation – for some this was as a result of the NHS body's decision to amend the approach, for others a change in indices had an unexpected impact on the financial position which had to be managed. In one case, the audit approach to the asset valuation changed *'Auditors placed a significant reliance upon checking floor areas which is something we hadn't expected.'*
- as a result of a worsening in the financial position:
'More technical accounting issues in support of improving the position which needed audit negotiation.'
'Year end risk share agreement of £2m which didn't get resolved with commissioners.'
'Trust was in deficit which makes closedown much more difficult.'
- due to other changes:
'We had to include Local Government Pension balances for the first time this year which had a material impact on the accounts and the information from actuaries was not available until mid-April.'
'We moved onto a new ledger in December ... which meant year end was not as smooth as it could have been due to bedding in issues.'

Centrally produced guidance

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

	From the DHSC	From NHS England	From NHS Improvement	From the auditor
Everything was available when needed	46 (51%)	42 (61%)	36 (49%)	40 (49%)
Everything except one thing was available	10 (11%)	4 (6%)	9 (12%)	6 (7%)
Most of the information was there	25 (28%)	19 (28%)	19 (26%)	28 (34%)
There were a lot of unanswered questions at a late stage	9 (10%)	4 (6%)	10 (14%)	8 (10%)

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. The reasons given include:

- in relation to the DHSC:

- late changes to guidance – in particular the trade union time guidance
- worryingly, one respondent said *‘DHSC guidance criticised as incorrect by the NAO.’*
- but on a positive note, one trust said *‘DHSC were extremely helpful with everything as were the auditors.’*
- in relation to NHS England
 - queries over deadlines – one CCG noted *‘Would be helpful if everything went in at the same time on submission day.’*
 - formula errors in the final accounts template – one CCG noted *‘Normal issues with templates. There were for example a couple of areas where our auditors highlighted where the templates did not align to the GAM, which caused work (probably for a good number of organisations) which should have been correct from the start. In addition, the accounting directions could possibly have been published quicker.’*
 - another CCG noted that *‘getting info to reassure auditors about delegated commissioning was worse this year*
- in relation to NHS Improvement:
 - the lateness of the sustainability and transformation fund (STF) confirmation and the additional tranches of STF
 - changes to the templates which meant that they were released later than respondents would have liked. One trust respondent noted *‘The accounts template wasn’t as good as that provided in previous years in terms of being able to hide notes easily and creating PDF easily.’*
 - one foundation trusted noted *‘Information on the preferred approach to accounting for transactions linked to the set-up of wholly owned subsidiaries was lacking’*
 - on a positive note, one NHS trust said the *‘end of year checklist was a good additional source from NHSI’*
- in relation to auditors:
 - several organisations had new auditors¹ so there were more questions to answer and, in some cases, adjustments to be made
 - of more concern, some NHS bodies reported that their auditor seemed unprepared – *‘audit requirements list was provided a bit late with missing information’* - or did not understand the sector - *‘a lack of understanding of key principles in our accounting mechanism i.e. non-cash revenue resource limit, revenue resource limit funding’*
 - a number of respondents complained that issues were left unresolved until the end of the audit:
 - ‘We ended up answering queries on information supplied on the 1st week of the audit in the days preceding the signing of the accounts rather than at the commencement of the audit.’*
 - ‘Auditor left it until a week into final audit to raise challenge on valuation approach which they had known about since January!’*
 - ‘Audit opinion and VFM/ going concern judgement was very late following ‘national moderation’.’*
 - ‘They were still auditing journals after the final audit committee.’*
 - ‘The day the Board met to discuss and approve the accounts which had been recommended to them by the Trust’s Audit Committee from the day before, the auditors raised an issue which they advised could delay the issuing of the audit opinion if the Trust did not respond asap. The issue was related to the change of finance system mid-year and had apparently been flagged as a high-risk area by the auditors, but they had failed to do the required work or make the appropriate enquiries until the very end of the audit.’*

¹ This is not unexpected as 2017/18 was the first year that NHS trusts and CCGs appointed their own auditors.

- On a positive note, one CCG stated ‘Our audit team did a useful comparison between the templates and the GAM. It would seem sensible if this was done at the NAO level so that the templates are approved as being aligned with the GAM.’

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. The table below shows only those respondents for whom the question was applicable.

	Everything was available when needed	Everything except one thing was available	There were a lot of issues which needed to be resolved
NHS BA (pensions information)	61 (65%)	23 (21%)	14 (10%)
<p>‘Some of the pensions information was received with errors and had to be returned and queried, revised figures were received in time for the final submission but was later than previous years. despite submitting the requirements on the 1st available day.’</p> <p>‘NHS England had to intervene to expedite receipt of pensions information and to provide answers to queries.’</p> <p>‘The one exception would be the Greenbury information from the pensions agency. My understanding of this was that the previous dedicated Greenbury team has been restructured, which from our point of view has meant a marked reduction.’</p> <p>‘Issues with LGPS info & Greenbury requests:</p> <ul style="list-style-type: none"> the aim of Greenbury is to provide transparency on total remuneration packages however the current guidance and application has the real risk of causing confusion and misrepresentation disclosure of pension contributions should be limited to the direct in year financial contributions made by the CCG in the financial years relevant to this set of accounts.’ 			
Co-commissioning information	31 (70%)	9 (20%)	4 (9%)
<p>‘Still need clarity on information CCG should provide auditors for testing.’</p>			
Information from valuers	47 (71%)	14 (21%)	5 (8%)
<p>‘The valuation information came in later than planned due to the valuer’s delays. This delayed our input to the ledger. It was still ready for year end but the plan was not adhered to.’</p>			
Information from local authorities	32 (62%)	13 (25%)	7 (13%)
<p>‘Local authorities providing information on time to manage year positions? What a joke! Everything closed on quarter 3 estimates (ie still not invoiced for q3 and 4 at the end of June).’</p>			
Shared service assurance reports	34 (81%)	6 (14%)	2 (5%)
<p>‘It would be useful if the shared service assurance reports could be made available slightly earlier although it does not actually hold up the year end process.’</p> <p>‘Dental contractual information is remarkably weak as are governance arrangements.’</p>			
Sickness date and ill health retirement information	60 (79%)	11 (14%)	5 (7%)

<i>'Sickness data always seems to be later than expected.'</i>			
STF information from NHS Improvement	30 (56%)	17 (31%)	7 (13%)
<i>'STF data is a bit last minute, but it is hard to see how else to do this.'</i>			
<i>'There was a welcome but very late last disbursement of STF, which required some last minute adjustments to our month 12 figures.'</i>			

Last year, our survey identified that respondents were frustrated by the number of different sources of guidance and they reported difficulty identifying changes to guidance. We asked whether this year was better or worse?

In all cases, over 95% of respondents felt that this year was better or about the same. Comments from foundation trusts included:

'Incorporating the accounts and NHS Improvement return into one was really helpful.'

'Better than last year but still too many 'fixers'.'

However, some felt that it was worse:

	Foundation trusts	NHS trusts	CCGs/ CSUs	Other trusts
Too many places to look for guidance	1 (2%)	1 (4%)	1 (4%)	
Difficulty identifying changes to guidance		1 (4%)	1 (4%)	
Difficulty finding new guidance		3 (12%)	2 (8%)	
Guidance was issued too late		1 (4%)		

Comments from trusts include:

'Need one guidance, with summary of changes. Notifications of any new guidance issued would be useful.'

'At times it does feel like there are too many sources of guidance and they can even appear to be contradicting each other due to the way they are written.'

From CCGs/ CSUs:

'Changes and key dates highlighted on the front page of SharePoint was useful as was the e-mail to show that something had changed. Not always easy to identify what has changed if not on front page. The date that the action was added to the website would be useful on the table on the front page.'

'FAQ's - lack of proper version control. It wasn't obvious which items were new. Loss of faith in reports when we queried an answer to another organisation's question, when we received the answer (only a few days before the audited submission!) the updated was added to the original question, but how many people would have seen this? You check for new lines added, you don't have the time to compare all the previous entries for any changes.'

'A CCG specific issue was that we found that documentation, guidance etc being shared on SharePoint was in a number of locations (minor but annoying all the same).'

'It would be a good idea to highlight (in yellow) changes from last year in new guidance.'

Although no national bodies said things had deteriorated, they still commented:

'Although there are still multiple sources of guidance we tried to ensure that for CCGs we provided links to relevant sources to avoid them having to look in multiple places.'

'We had issues of being referred to civil service guidance around staff and pensions and were told applied to us. But we had never heard of before.'

Preparing the annual report and accounts

We asked whether any unexpected issues had occurred during the preparation of the draft annual report and accounts. Eighty-seven (85%), compared to 2016/17 when eighty-four (80%), of respondents said that nothing had occurred. The numbers who had encountered difficulties were slightly higher in percentage terms for providers and it was only providers whose bottom line was affected by the issue:

- three (14%) commissioners encountered unexpected difficulties
- ten (28%) providers encountered issues, for five of them the resolution of that issue affected their financial position.

For commissioners there were specific issues around interpretation of guidance:

'Our interpretation of the requirements for the financial performance table were incorrect and we had to change the methodology and restate the prior year although they had previously been signed off by audit. The disclosure now complies with the GAM but no-where in the formal accounts is the headline surplus/deficit or breakeven clearly shown.'

'NHSE guidance in FAQs on off-payroll staff reporting stating that seconded staff from other NHS organisations should be treated as off-payroll (which we did not agree with and the FAQ response was eventually changed very late in the day).'

For providers, some of the issues related to late notification of STF funding – this was expected but did result in last minute, in some cases very welcome, changes to the financial position. For others, there were specific accounting/ reporting:

'A late concern on the going concern statement and VFM position.'

'Audit had a differing view regarding our valuation of wholly owned subsidiary.'

'Group accounts - new to us this year.'

'Internal ownership of the Annual Report.'

Agreement of balances

The agreement of balances process remained relatively unchanged this year, so we asked whether respondents had found that was better, worse or about the same as last year. It is pleasing to see that, for the second year running, the majority of respondents found that the process was better than last year:

	CCGs and CSUs	Provider bodies	Other	2017/18 Total	2016/17 Total
About the same	8	20	3	31 (30%)	29 (29%)
Better than last year	13	36	6	55 (63%)	64 (64%)

Worse than last year	2	4	1	7 (7%)	7 (7%)
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Many respondents seem resigned to the fact that this process will not be straightforward:

'Providers still not giving information in good time.'

'Still issues re AOB and subsidiaries.'

'Still struggle with specific organisations and engagement in the process. This includes NHS England accounts (various different accounts).'

'Two main problems - one was other organisations adding additional accruals that we hadn't notified, without telling us, leading to a mismatch at a late stage. The other is that the guidance still isn't adequate - over the last 25 years the "rules" have changed considerably but those of us who've been around a long time are possibly working on slightly different assumptions from those who have only the current guidance.'

'Internally we have better processes but when dealing with other trusts we encountered the same level of issues as in the past.'

For others there were specific issues:

'Timing issue around issue of AOB accrual statements on Friday in 16/17, made weekend available for further analysis. In 17/18 accruals fell on Monday, so that weekend time was lost.'

'CSU changed procedures, we found it harder to follow.'

'Late consolidation for Group accounts meant that these figures fell under AOB but the LLP isn't a NHS organisation. Conflicting requirements.'

But there were some positive comments:

'Seemed to be an improvement with NHS England. We had very few mis-matches.'

'We undertook a full internal review of the process and this paid dividends with no mention of AOB in our ISA260. However, we still had issues with Property Services and our main commissioners who stated different values from pre agreed and weren't forthcoming with explanations despite requests and was resolved late in the audit.'

'More organisations seemed to have a better understanding of the process.'

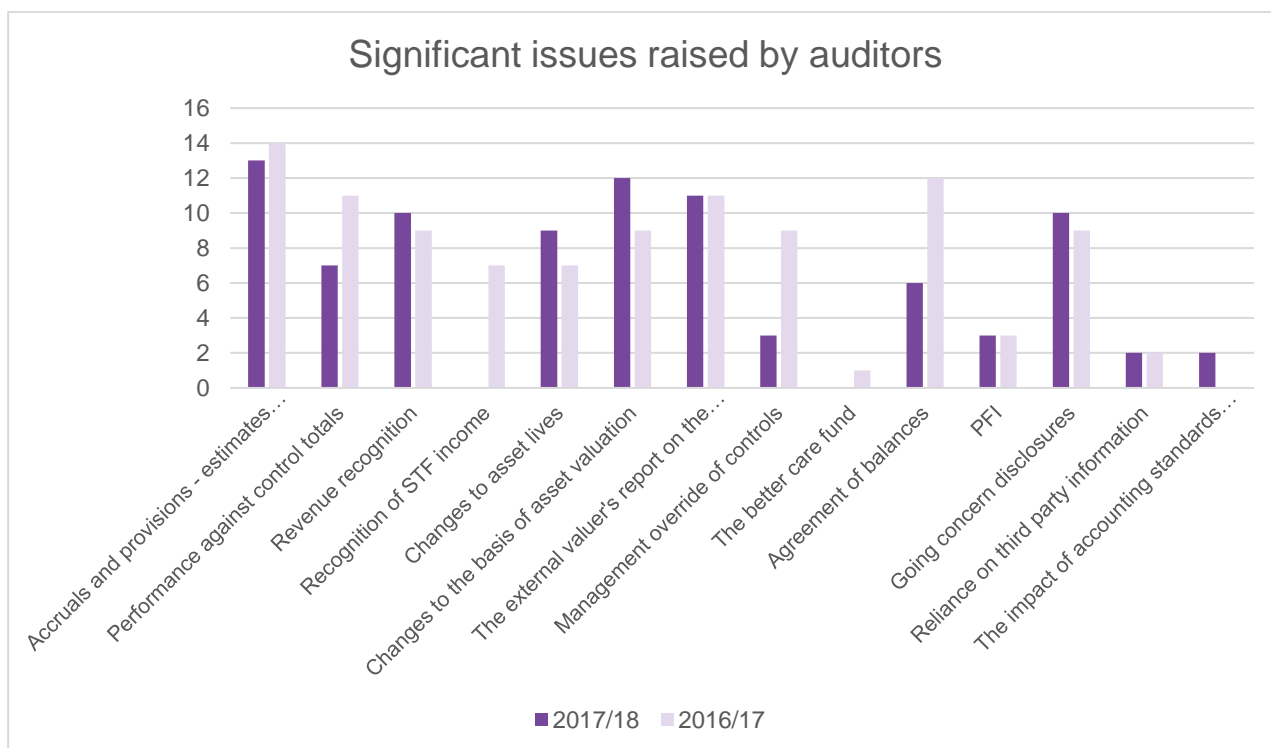
Significant issues

Auditors are required to discuss significant issues in their report to those charged with governance (also known as ISA 260 reports). The graph below shows the issues that were raised by auditors as significant in 2017/18 compared to 2016/17. Some respondents indicated that these issues had been raised by their auditors but not as significant ones.

There is little change between years in the topics although asset valuations and going concern have been highlighted more frequently. Interestingly, STF was not raised this year as a significant issue by any respondents although the revenue recognition has been identified by more respondents.

Other issues included:

- non-recognition of large invoice
- classification between creditors and accruals
- fraud
- group consolidation.



Looking forward to 2018/19

We asked respondents which issues they would like guidance on in 2018/19. The top 5 issues remain unchanged from last year and the comments emphasise how concerned respondents are about the new leasing standard and the impact on capital funding.

Rank		Total Score ²	Rank in 2016/17	Rank in 2015/16
1	New accounting standard on leases (IFRS 16)	1045	1	2
2	New accounting standards on revenue recognition (IFRS 15)	879	2	5
3	New accounting standard on financial instruments (IFRS 9)	822	3	9
4	Remuneration report disclosures	792	4	1
5	Agreement of balances	675	5	3
6	Governance statement	667	9	4
7	Going concern	625	8	10
8	Accounting for working together/ new working arrangements	541	10	
9	Judgements, estimates and prudence	540	11	7
10	Asset valuation best practice	490	12	
11	The impact of control totals and the STF on year-end accounts	479	6	6
12	Accounting for subsidiaries	377	NA	NA
13	Accounting for joint ventures	258	NA	NA

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.

Other areas included:

- changes to the pension discount rate
- VAT – making tax digital.

New accounting standards

For the second year running, we asked specific questions relating to the three new accounting standards to try to assess the preparedness of respondents for their implementation. We asked whether the new accounting standard would directly affect them – of those that responded to these questions 79% (2016/17, 81%) said that the new leasing standard would affect them, 46% (2016/17, 52%) said the revenue standard would have an impact and only 42% (2016/17, 43%) thought that they would be impacted by the financial instruments standard.

Most respondents are still relying on courses/ events to provide them with information on the standard – this has not changed since last year. When we asked the question in 2016/7, only three people had read IFRS 9 and IFRS 15 and four had read IFRS 16. Of these, only one person had read the full version of the standard with the appendices and basis for conclusions. It is pleasing to note that these numbers have increased:

- IFRS 9 – twenty-six, of which nine have read the full version
- IFRS 15 – also twenty-six, of which eleven have read the full version
- IFR 16 – thirty-six, of which fifteen have read the full version.

We are pleased to note that almost a quarter of those who responded to this question have read our financial reporting briefing which covers the development of each standard.

The percentage of respondents who have not yet started to consider the impact these standards might have on their financial statements has dropped since last year – however, 38% of respondents have not started to consider the impact of IFRS 9 and this only falls to 33% for IFRSs 15 and 16.

Last year, only two respondents were ready for the impact of IFRS 9 and one for IFRSs 15 and 16. This is now five respondents for IFRSs 9 and 15 and two for IFRS 16.

We asked whether respondents have started to discuss these standards with their auditors – perhaps surprisingly, the majority (over 60%) have yet to do so.

	IFRS 9	IFRS 15	IFRS 16
The auditor has raised the standards in its audit plan	6	5	7
Our auditor looked in detail at the disclosures we made in relation to these standards in our 2017/18 accounts	11	12	10
We've had detailed discussions about the impact of these standards on our accounts	5	7	6
We have yet to discuss the new standards	54	52	53
We are changing our auditors between years	7	7	7

IFRS 9 *financial instruments*

IFRS 9 will be implemented in 2018/19. The DHSC issued the 2018/19 *Group accounting manual (GAM)*³ on 29 April 2018, the GAM sets out how the standard will be implemented in the NHS.

³ DHSC, *Group accounting manual 2018/19*, April 2018

Only ten (11%, 2016/17 9%) respondents expected that the standard would change their identification and measurement of financial instruments. This is because most of the respondents hold a very limited range of financial instruments which are not affected by the change in classification set out in the new accounting standard. Of more concern is the fact that thirty-five respondents (39%, 2016/17 59%) did not know whether it would have an impact.

Sixteen (18%, 2016/17 21%) respondents expected the new standard to affect their impairment of receivables but thirty-two (36%, 2016/17 55%) did not know. Most comments indicated that as DHSC group bodies are not allowed to recognise stage-1 (12 month expected credit losses) and stage-2 (lifetime expected credit losses) with other bodies in the group, the impact is not expected to be material.

IFRS 15 revenue from customers

IFRS 15 will be implemented in 2018/19 as set out in the GAM.

Only four (5%, 2016/17 13%) expected this standard to change the amount of income recognised in the accounts. The majority, fifty-one respondents (59%, 2016/17 35%) expected that there would be no impact on the income they recognise in their accounts. There are some issues that provider bodies are still considering:

- maternity pathway
- CQUIN income
- research income.

Thirty-two respondents (37%, 2016/17 57%) did not know whether the standard would affect the amount of income they recognise in the accounts. Several respondents are expecting detailed guidance on the impact of this standard on NHS bodies.

Only twenty-five (30%) of respondents have reviewed their contracts to identify the likely impact of the standard. Given that the standard is now applicable, it is perhaps worrying that half of the respondents have not yet reviewed their contracts although some of these commented that they have started this work or are at an early stage.

We asked about contract types to see if any one type of contract is in use more than others. Our survey indicates that NHS bodies use a range of contracts with commissioners – the majority of respondents get less than 25% of their income from any one type of contract. As all of the different types of contracts will need to be reviewed, this means that the application of this standard is likely to be time consuming.

In terms of other contracts, only a small number of provider bodies have material contracts for non-NHS income:

- twenty-four respondents have education and training contracts
- nineteen have research and development contracts
- eleven receive material income from private patients or overseas patients
- eight have commercial contracts with patients and another five with third parties.

Given that most NHS bodies' income comes from NHS commissioners, we asked commissioners whether they expected this standard to affect the amount of expenditure they would expect to recognise with NHS bodies. Only four organisations (9%, 2016/17 9%) expected there to be some affect while nineteen (44%, 2016/17 17%) did not expect any change. Only twenty (47%, 2016/17 75%) respondents said that they did not know what the impact would be, which is a reduction since last year.

IFRS 16 leases

IFRS 16 is expected to be implemented in 2019/20 and HM Treasury issued an exposure draft⁴ on how it will be adapted or interpreted for the public sector in May 2018.

The majority of respondents (51%, 2016/17 56%) have a register of leases and contracts containing a lease but twenty-nine (35%, 2016/17 31%) do not. Twenty-seven (64%) of those who have a lease register are content that it is up to date and complete. Of those who do not yet have a lease register, many are developing one or have a partial register.

'Substantial review of transactions done to identify contracts. This master list is also used to identify financial commitments at year end. In place for year end and is being maintained monthly.'

'Although not signed as with Property Services which may cause complexity in accounting.'

'Work ongoing with procurement and estates teams to establish a complete register.'

One of the areas of concern for many NHS bodies is that 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 does allow that assessment to stand. The exposure draft indicates that applying this dispensation will be mandated for all public sector bodies. We asked whether respondents were satisfied that all contracts which involve the use of an asset have been assessed under IAS 17 and IFRIC 4:

	2017/18	2016/17
Yes	25 (31%)	10 (15%)
No	40 (49%)	34 (52%)
Don't know	16 (20%)	22 (33%)

Many of those who said no or don't know commented that the work is underway while others indicate that they plan to start this work soon.

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. The number of respondents who have done this has increased considerably since last year:

	2017/18	2016/17
Yes	37 (45%)	10 (15%)
No	34 (42%)	48 (74%)
Don't know	11 (13%)	7 (11%)

'A lot of leases relate to properties with NHS PS and there are numerous issues to be addressed in terms of obtaining from NHS PS the information needed to account for leases under IFRS 16,'

'Sadly not due to resourcing issues!'

⁴ HM Treasury, *IFRS 16 leases: exposure draft 18(01)*, May 2018