Journal Entry and Balance Sheet Reconciliations Policy

Contents

1. Policy Statement

This document defines the policies and procedures that ensure **all** manual journal entries recorded in the general ledger are properly prepared, reviewed, approved, recorded in accordance with accounting standards, and stored in a uniform and consistent manner for easy accessibility.

Additionally, this document aims to provide a framework for a standard and consistent approach to balance sheet reconciliations across the HSE.

This policy represents the minimum requirements in this area. Some additional controls may be determined to be required for certain specific journal entry processes.

This applies to all pre-IFMS systems, and also to existing journal entry arrangements, whether localised or centralised. An updated policy statement, applicable to IFMS, will be devised as part of the Process Council and IFMS design activities.

The effective date of this policy is **01 April 2023**. Prior to this date the requirements are advisory for all areas.

2. Scope

This policy applies to all staff involved in

i. the creation, processing, approval, and recording of manual journal entries e.g. manual accruals, cost centre reclassifications etc.

ii. the initiation, completion, and approval of balance sheet account reconciliations including the processing of all associated adjusting journal entries to the general ledger

This policy defines:

1) approval guidelines
2) support documentation requirements, and
3) documentation storage rules.

3. Definitions

General

General Ledger – The General Ledger contains the HSE's financial transactions. Information from the General Ledger is used to analyse, report and monitor the financial performance of the HSE. Currently, the HSE operates multiple general ledgers that are supported by disparate finance applications across multiple geographic locations. Under the Finance Reform Program, a single integrated financial management system (IFMS) is being introduced and areas will migrate to IFMS on a phased basis.

Local - refers to outside the centre of the HSE i.e. within community services, CHOs, hospitals, Primary Care Reimbursement Service (PCRS), National Ambulance Service (NAS), providers funded under sections 38 (s.38) and relevant providers funded under sections 39 (s.39).

Local Finance – Includes the following groups

i. CFOs of Hospital Groups and their teams
ii. HOFs of Community Healthcare Organisations and their teams
iii. Finance support teams to National and Corporate Services[1]

Central refers to within the centre of the HSE i.e. Shared Services, NFD or other national entity as appropriate.

Supporting Documentation - Supporting documentation consists of source documents, supportive calculations, and/or other items necessary to substantiate the accuracy and appropriateness of a journal entry. **All journal entries and balance sheet reconciliations are required to have supporting documentation subject to the requirements in section 4.1**. Supporting documentation must be stored electronically (e.g. in a designated folder on a shared drive using a relevant name and reference) and be available at the time the preparer submits the journal entry for approval. Adequate support would include at least some of the following

i. Independent external confirmation
ii. Source reports from supporting systems
iii. Legal documents e.g. signed contracts
iv. Manual workings showing underlying assumptions and including adequate audit trail

[1] For cost centres outside of CHO/HG's (e.g. Shared Services, NAS, HR) this refers to dedicated finance support which will vary depending on the nature of service.

Some examples of supporting documents include, but are not limited to, general ledger reports, worksheets with supportive calculations, copies of source documents, purchase requisitions, travel expense reports, or third party reports/statements (See Appendix D for additional guidance).

An internal request to process a manual journal entry, without backup, is not adequate support.

For balance sheet reconciliations, supporting documentation substantiates the general ledger account balance being reconciled. Supporting documentation should be detailed enough so that a person without extensive knowledge of the account can review the reconciliation and understand the nature of the balance. In practice, the nature of the supporting documentation will vary depending on the type of balance sheet account being reconciled e.g. patient debtors, trade creditors, fixed assets etc. would be supported by subledger listings, whereas prepayments may be supported by a prepayments lead schedule.

Journal Entry Specific

Journal Entry – A journal entry records financial transactions in the general ledger. The double entry accounting system means that the total debits must equal the total credits.

Currently, journal entries take various forms depending on location and system used.

- Manual Journal Entry – Typically, excel templates, with an excel add-in to upload the journal, are used. In IFMS, standardised templates will be used to upload the journal entry.

- Automated/System Generated Entry – A journal entry that is generated and submitted to the general ledger through an interface with a subsidiary application/ledger (e.g. Human Resources, Accounts Payable, Payroll, etc.). Also, includes journal entries generated as a result of automated rules created and approved in the General Ledger (e.g. allocations, recurring charges etc.).

Manual Journal Initiator – The individual who requests the journal entry and is responsible for providing the supporting documentation. The initiator is typically responsible for completing the journal entry request template, if relevant, for submission to Local/Central Finance.

Manual Journal Preparer – Member of Local/Central Finance team who performs initial review on the journal entry request template and populates the journal entry to be uploaded. They review all fields and check adequacy of supporting documentation. Initiator and Preparer can be the same person if they are a member of Local/Central Finance.

Manual Journal Approver – Member of Local/Central Finance team who is responsible for the final review of the journal entry and supporting documentation for validity, accuracy, and completeness prior to approving for posting it into the General Ledger. Impacted cost centres should be within their area of responsibility.

Intra Company - Transactions are between two or more entities within the same company code. In the case of intra-company journals, counterparty approval is required prior to posting. Where the transaction is recurring, and therefore expected (e.g. a secondment), counterparty approval is only required once, at the outset.

Cross Company - Transactions are between two or more company codes. For cross-company, or where the journal preparer does not have posting access to the counterparty ledger, counterparty approval will be required.

Reconciliation Specific

Balance Sheet Account Reconciliation - A balance sheet account reconciliation is the comparison of an account's general ledger balance to a sub-ledger balance, bank or other third party statement, or additional documentation that appropriately supports the account's balance. Reconciliations are, at a minimum, performed monthly, quarterly or annually based on the risk profile of the accounts in question. Typical high risk accounts include cash, trade payables and trade receivables (see Appendix C).

Balance Sheet Account Reconciliation Types – Typically there are three types of balance sheet reconciliation.

1. Reconciliation to third-party statement
2. Sub-ledger reconciliations
3. Balance composition analysis

Reconciliation to Third Party Statements – The reconciliation process used for general ledger accounts where activity is also recorded by an external third-party. The third-party typically provides a statement that serves as supporting documentation for the general ledger balance e.g. bank account.

Sub-ledger Reconciliation – The reconciliation process used for general ledger accounts that consist primarily of activity contained in a sub-ledger. A sub-ledger is a data source that contains a sufficient level of detail to properly support the individual items/transactions that make up the balance of the general ledger account e.g. Accounts Payable or Account Receivable.

Balance Composition Analysis – The reconciliation process used for general ledger accounts that are typically supported by workbooks using internal and/or external support schedules through the application of management estimates, calculations, and assertions e.g. accruals.

Reconciliation Preparer - The individual who creates the reconciliation and compiles the supporting documentation.

Reconciliation Approver - The individual who is responsible for reviewing the reconciliation and supporting documentation for validity, accuracy, and completeness.

Reconciling Item – A transaction(s) or item(s) that represents a difference between the general ledger balance and the subsidiary ledger or other supporting schedule(s) balance. All reconciling items should be explained and have supporting documentation.

Open Item – Similar to a reconciling item, but an open item is where the substance of the difference between the general ledger and supporting documentation is unknown and/or the remedial action required to correct it is unclear e.g. unknown bank receipt prior to month end.

4. Policy

4.1 Manual Journal Entries

a) In IFMS, all manual journal entries will be required to have sufficient back-up documentation prior to posting (refer to section 3 for guidance on what constitutes sufficient support). For pre-IFMS systems, manual journal entries over €10k must have appropriate back-up documentation prior to posting.

- Supporting documentation is defined in section 3 above. Sufficient supporting documentation means that a person with accounting experience but without extensive knowledge of the transaction can review and understand the nature of the transaction. In practice, what constitutes 'sufficient back-up' can vary depending on the nature of the journal and value. For example, a high value accrual posting would require a higher standard of support than a low risk, low value entry. For certain low value transactions, a one line explanation with a simple calculation (X*Y=Z) may suffice. For these type of journals, further guidance on what is considered 'sufficient' support is contained in Appendix B.
- Supporting documentation must be stored electronically (e.g. in a designated folder on a shared drive) and should accompany a journal entry for approval. If this is not possible (due to size restrictions or other technical issues), journal entries and supporting documents should be archived and stored electronically by the preparer in a designated storage location for easy accessibility by local and central finance as part of quality assurance and analysis work. In such circumstances, the inclusion of a link to supporting file location will suffice.
- Sensitive supporting documentation must be anonymised. Users must remain cognisant of their GDPR obligations, in particular the inclusion of personal data in supporting documents should be avoided when saving to a central repository. If this is not possible, and the document is deemed confidential, then a brief description (including a named point of contact) should be included in lieu of supporting documentation. Such scenarios would be expected to be very rare.

b) All manual journal entries must be approved

- The journal entry preparer is required to submit the completed journal entry and supporting documentation to an approver for approval
- Journal entries are required to have an Approver that is different from the Preparer, unless it has been determined locally[2] that self-approval is permitted based on that user's grade/experience.
- Journal entries must be approved **prior to posting** to general ledger.
- Where journals are uploaded by Finance Shared Services, all relevant approvals must be obtained prior to sending to FSS for processing

[2] When designating journal approver roles organisations should, at a minimum, consider the following

i. Segregation of duties
ii. Experience of approvers
iii. Structure of Finance Team
iv. Audit and regulatory requirements

- Designation of journal approver roles to be determined within respective organisations[2].
- Evidence of journal entry approval should preferably be in electronic form. If this is not feasible, then written approval is acceptable and approver name and approval date recorded on the journal.

c) Journal entries, along with supporting documentation and evidence of approval, should be stored electronically by the preparer in a designated shared network folder (or within the Financial Management System) for easy accessibility.

d) Journal entries should use the most appropriate journal type e.g. accrual, cash receipts, write off etc. and should specify whether journal is reversing or permanent.

4.2 Balance Sheet Reconciliations

a) All balance sheet accounts are required to be reconciled on a regular basis. See Appendix C for indicative frequencies. Frequency of reconciliation will depend on the nature of the balance and the relative risk.

b) Balance sheet reconciliations are conducted at the account balance level for HG/CHO/Corp where sub-ledger, third-party statements, or similar supporting documentation is available for substantiation.

c) In situations where multiple balance sheet accounts are supported by a single set of documentation, the accounts may be grouped in meaningful reconciliation groups for completion.

d) All components of reconciliations to be aged appropriately. Ageing should begin from the month end in which they were first identified. Aged analysis should be a key control measure[3].

e) All balance sheet account reconciliations are required to be signed off on by an appropriate preparer and approver on a periodic basis. The preparer and approver cannot be the same person. Additional levels of certification (i.e. by an accounting GM, or HOF/CFO) may be required on some accounts. Designation of reconciliation approver roles to be determined within respective organisations[4].

f) Supporting documentation is required for all reconciliations. See the definition of supporting documentation in Section 3 above. The following are acceptable methods of including support documentation

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[3] Until such time that all areas are on IFMS, it is recognised that existing legacy finance systems have varying degrees of capability for capturing age details on journals. It is expected however, that such information will be captured to the greatest extent possible as allowed by legacy systems.

[4] When designating reconciliation approver roles organisations should, at a minimum, consider the following

i. Segregation of duties
ii. Experience of approvers
iii. Structure of Finance Team
iv. Audit and regulatory requirements

i. Attach to the reconciliation (preferably in electronic format where possible e.g. as an additional tab on the excel file)
ii. Include a link to a shared file location where the support is saved
iii. Include a unique reference to a journal entry that has support attached

g) All reconciling items:-

- Are required to be identified and have appropriate supporting documentation
- Begin aging the first calendar day following month-end. Reconciling items should be categorized into the following aging groups by number of calendar days: for example "0-30", "31-60", "61-90", "91-180" and ">180."
- Aged items greater than 180 days must have a documented plan for resolution, including a target resolution date. A detailed review of material reconciling items should take place at year-end.
- Open items aged greater than 180 days should be escalated to relevant Hospital Group CFO, Community Health Organisation HOF or designated party for Corporate & National Services

h) Hospital Group CFO, Community Health Organisation HOF or designated party for Corporate & National Services are required to sign off on a bi-annual basis that all necessary reconciliations for balances within their area of accountability are complete and in line with this policy.

4.3 Point of Contact

For technical guidance on implementing this policy, please contact AFS-Team@hse.ie.

5. Additional Guidance Notes for Specific Areas

5.1 ACCRUALS

In addition to the policy requirements in section 4, the following are requirements for accruals and provisions

- Accruals & Provisions must be identified as either an accrual OR a provision
  - See Section 5.1.2 of this document – Determining Classification
  - Where possible, separate balance sheet general ledger accounts should be used to distinguish accruals and provisions for control, review and analysis purposes
- Accruals & Provisions must be aged (see 5.1.1)
- Manual journal initiators of accruals and provisions journals must include a declaration confirming the following
  - I confirm that the amounts included in this request represent goods and/or services that have been received prior to the end of the month in question. Expenditure committed to, but where the good/service has not yet received/provided, should not be accrued (unless meets the criteria of a provision per section 5.2.1 of Journal Entry and Balance Sheet Reconciliation Policy).
  - I confirm that detailed support (e.g. source documents, system reports etc.) are available upon request if selected for audit
- Supporting documentation – as per 4.1(a) above, manual journal entries (including accruals and provisions) must have sufficient back-up documentation prior to posting. See section 5.1.3 for additional accruals specific requirements.

5.1.1 AGEING

Since 2021, there is a new Department of Health requirement to provide a monthly Working Capital report including a full ageing of creditors. In order to age accruals, an accruals journal must now include the date the relevant good or service was received or the date of when the provision first arose[5].

SAP sites

A new report has been developed to age accruals. This has involved using a new field to record the date the accrual/provision first arose. This is expected to be rolled out to SAP sites on a phased basis in 2023. The report will then age the accrual under the following headings:

- Under 30 days
- 30 – 60 days
- 60 – 90 days
- 90 – 180 days
- Over 180 days

Note: This categorisation may be revisited to the below to enable the identification of accruals/provisions that have existed for over 1 Year:

[5] Until such time that all areas are on IFMS, it is recognised that existing legacy finance systems have varying degrees of capability for capturing age details on journals. It is expected however, that such information will be captured to the greatest extent possible as allowed by legacy systems.

- *Under 30 days*
- *30 – 90 days*
- *90 - 180 days*
- *180 - 365 days*
- *Over 1 Year*

A revised journal sheet including a new field for inclusion of the date has been developed. The new information required by the Preparer of the accruals journal is set out below:

- The preparer should identify the date when the particular accrual/provision was raised initially i.e. when the good or service was received or the date of when the provision first arose.
- The date should be entered in the format **YYMM** where YY represents the year to which the line item posting relates and MM being the relevant calendar month
- Compliance rules are embedded for validating the assignment field in the correct format.
- This new field will be mandatory for all automatic and manual "non-pay" accruals.

The new Ageing report will provide the information by GL line item and will balance back to the Creditors control account for accruals in the balance sheet.

Additional guidance on ageing accruals is contained in Appendix F.

Rule set for repetitive accruals

The rule set for repetitive accruals of the same nature, where the amounts only change from month to month to support the date capturing in a meaningful way are as follows.

Goods *= date of receipt of goods i.e. delivery date*
Services *= date of receipt of service i.e. date service provided*
Grants *= date grant became due for payment (per SLA)*

5.1.2 DETERMINING CLASSIFICATION – ACCRUAL or PROVISION?

From an accounting perspective, the difference between a provision and accrual is largely down to levels of uncertainty. While the accounting entries for accrual & provisions, generally make no difference to the bottom line reported, it is important that the correct classification is used, to ensure that the overall financial position is correctly reported. Accruals & Provisions need to be separately identifiable.

ACCRUAL - This is a liability (amounts owed) for Goods and Services that have been **received** or **supplied** but have not been paid, invoiced (the invoice has not been received) or formally agreed.

PROVISION – This is a liability (amounts owed) for something that has happened in the **past**, resulting in an **obligation** that will **be settled** in the **future**.

If this does not meet the criteria for an **accrual**, then a provision must be created **ONLY** if **ALL** of the following three criteria are satisfied:

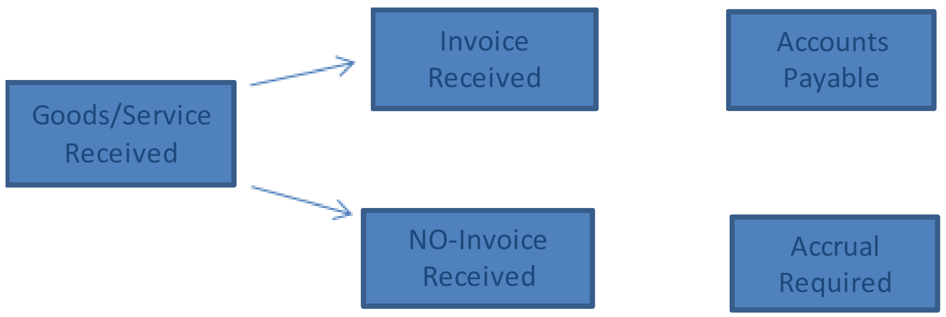
FRS102 – Section 21 (relevant extract): An entity shall recognize a provision when ALL of the following criteria are satisfied:

1. *The entity has an obligation at the reporting date as a result of a past event*
2. *It is probable (i.e. more likely than not) that the entity will be required to transfer economic benefits in settlement; and*
3. *The amount of the obligation can be estimated reliably.*

DECIDING ON THE CLASSIFICATION – Is it an ACCRUAL or a PROVISION? (See Appendix E for Specific Examples)

QUESTION – Has the good or service been received?

ANSWER – If the good or service has been received, then this is an **ACCRUAL** and an accrual journal should be posted



NOTE – If the good or service has **NOT been received,** a **PROVISION** can be created only if the following **5 criteria** aforementioned/below are satisfied:

(1) Is this a CURRENT obligation arising from a past event?
(2) Is the obligation watertight/irrefutable?
(3) If the funding for this ceased immediately, would we still be obligated to purchase the service?
(4) Can it be reasonably calculated
(5) Will there be a transfer of payment?

The answer must be YES for all 5 questions to satisfy the FRS102 criteria for creating a provision.

In addition to the above, if the provision is PAY RELATED, references to specific 'HR Circulars' on pay awards granted **MUST** be included as part of the necessary back-up

A further determination must be made in relation to the obligation at (1) Is the obligation legal or constructive?

5.1.3 Support

In line with 4.1(a) of this policy, manual journal entries (including accruals/provisions) must have sufficient back-up documentation prior to posting. Respective Finance Teams should satisfy themselves that adequate support has been provided in line with the requirements of this policy. Further guidance, specific to accruals is provided in Appendix B.

If finance teams feel adequate back-up is not being provided, or an adequate explanation has not been provided in line with the guidance in Appendix B, then they should work with the Manual Journal Initiator to agree satisfactory support to accompany the journal upload. An example of a template that could be used, in the absence of other supporting information, is included in Appendix D.

Appendix A: Acronym Listing

CFO	Chief Financial Officer
CME	Continuing Medical Education
DOH	Department of Health
FRS 102	Financial Reporting Standard 102
FSS	Finance Shared Services
GL	General Ledger
GM	General Manager
GRIR	Goods Receipt/Invoice Receipt
GRNI	Goods Received, Not Invoiced
GRN	Goods Received Note
HOFs	Heads of Finance
HR	Human Resources
I&E	Income and Expenditure
IFMS	Integrated Financial Management System
JE	Journal Entry
NAS	National Ambulance Service
NMPDU	Nursing and Midwifery Planning and Development Unit
PCRS	Primary Care Reimbursement Service
SLA	Service Level Agreement

Appendix B: Supporting Documentation for Manual Journal Entries

Typical Examples

Scenario	Rationale	Adequate back-up
Annual Payments - A single payment to cover an annual cost resulting in accrued/prepaid balances mid-year	The period over which the good/service is to be received needs to be clear. If the payment is made in advance, then a prepaid balance should be recorded and the balance released to the I&E over the period covered. Similarly, if payment is made in arrears, then 1/12th should be accrued each month until payment is made to offset the balance.	Prepayment – amount paid and the period covered by the payment need to be clear. Invoice reference should be included if available. Accrual – An estimate of the full year cost x 1/12. This estimate could be based on a recent quotation, contract amount or even the previous payment/invoice. Evidence of same might include a scanned copy, a screenshot or a unique reference.
Deferred Income – An EU grant is received for a programme being run over a number of periods. This income is initially recorded as deferred income.	Release of deferred grant income each month should offset corresponding expenditure in I&E.	Report from finance system (in summary or detail form) showing expenditure for the programme cost centres in question for that period. Release of deferred income balance should correspond to this.
Reclass – Expenditure was posted to the I&E which subsequently needs to be reclassed to a revised account element and/or cost centre	A clear audit trail needs to be maintained. If a balance is reclassed from A to B to C, it can be difficult to identify the original transaction and what the substance of the balance is.	Need to be clear where the items to be reclassed currently reside. Typical support can be an exported report or a screenshot from the FMS showing current account/cost centre and document ID. The journal upload should indicate why the reclass is now required e.g. mis-posting, subsequent information etc.

Accruals Specific - Supporting Documentation Examples

Valid Accruals & Provisions Supporting Documentation Checklist:

- Actual Invoices
- Relevant parts of the GRNI (GRIR) Report
- Payment Reports
- Signed Payment Authorisation sheets
- Signed Agreements/contracts
- Payment batch with invoice no's and delivery notes
- If the provision is PAY RELATED, references to specific 'HR Circulars' on pay awards granted **MUST** be included as part of the necessary back-up

- Many accruals are for **services** like audit, professional fees, lab testing etc. So for services, estimates based on previous month's invoices can be used to accrue in the current month when an invoice is not yet received but service has been provided.

SUFFICIENT BACK-UP DOCUMENTATION INCLUDES:

- ***Invoice or/and proof of payment is required to validate an accrual where possible.***

- ***Signed & authorized contract/documentation proving the obligation is required to validate a provision***

- ***Where back-up is a soft copy file, a summary page must be provided behind the template with:***

  (1) a description of the back-up and explanation/narrative of the accrual
  (2) references to locations of soft copy back-up files
  (3) Name of accrual contact & e-mail address

- ***For year-end, back-up must be readily available for audit purposes with dedicated accrual and provision folders containing all journal templates, with the above back-up (e.g. Actual invoices/contracts & proof of payment where applicable for the audit)***

- ***For proof of payment (where payment has been made for all year end accruals and provisions) a SAP vendor screenshot or Payment batch reference is required[6].***

Low Value/Low Risk Accruals Journals – 3 typical examples of what does and doesn't constitute adequate support

	Accruals based on:		
	(1) O/S invoices	**(2) Estimate based on run rate**	**(3) Service/Patient Specific**
Inadequate explanation	Drugs accrual	Electricity Accrual	Residential Accrual
	Drugs accrual – unrecorded invoices	ESB Accrual	Residential Accrual 2022
	Drugs accrual – 3 unrecorded invoices	Electricity Accrual – increase in prices versus last year	
Adequate explanation	Drugs accrual – 3 unrecorded invoices (vendor x €x, vendor y €y)	Electricity Accrual – 2 months o/s x approx. €10k p/month	Residential Accrual – XYZ Care Facility, Patient reference[7]
	Drugs accrual – 3 unrecorded invoices (inv. #s A123, B456 and C789)	Electricity Accrual – avg. monthly cost for last 12 months €10k x 2 months x 150% due to increased prices	Residential Accrual – XYZ Care Facility, 2 months x 3 patients x €5k p/month

[6] Accruals/provisions can be created based on best estimates during the month end process, where invoice/payment information is not yet available. It is accepted that there can be a tolerable error where invoices are subsequently received and/or payments subsequently made.

[7] Need to ensure any such reference does not contravene data protection requirements

Appendix C: Balance Sheet Reconciliation Groupings (for illustration only)

	Rec Frequency			
BS Category	**Monthly**	**Quarterly**	**Annual**	**Rec type[8]**
FA - PP&E		Y		Rec to sub-ledger
Intangible Assets		Y		Balance composition
Financial Assets		Y		Rec to 3rd party statements
Cash/bank	Y			Rec to 3rd party statements[9]
Inventories	Y			Rec to sub-ledger
Receivables - patient debtors	Y			Rec to sub-ledger
Other receivables - non-pay related	Y			Balance composition
Other receivables - income accruals	Y			Balance composition
Other receivables - pay related	Y			Balance composition
Prepayments	Y			Balance composition
Interagency payables/receivables	Y			Balance composition
Accruals – pay	Y			Balance composition
Accrual - non-pay	Y			Balance composition
Creditors - trade payables	Y			Rec to sub-ledger
Other payables - pay related	Y			Balance composition
Other payables - non-pay related	Y			Balance composition
Finance leases		Y		Balance composition
Deferred income		Y		Balance composition
Capitalisation a/c		Y		Rec to sub-ledger
Reserves – revenue			Y	Roll-forward
Reserves – capital			Y	Roll-forward

[8] This is a general guide only. Exceptions within each balance sheet category are likely. The exact composition to be analysed to determine the most appropriate reconciliation method.

[9] Monthly bank reconciliations are mandatory per NFR 13 (section 13.22)

Appendix D: Journal Support Template

Journal Support
Template Example.xls:

Appendix E: Specific Accruals & Provisions Examples

Valid Accruals & Provisions Supporting Documentation Checklist:

- Actual Invoices
- Relevant parts of the GRNI (GRIR) Report
- Payment Reports
- Signed Payment Authorisation sheets
- Signed Agreements/contracts
- Payment batch with invoice no's and delivery notes

PROVISION EXAMPLE 1

Scenario

Provision created on the basis of contract (example; Irish Clinical Academic Training Programme) but training had not commenced by year end

Policy requirement

Ensure this is not accruing to budget. Ask the questions:

(1) Is this a CURRENT obligation?
(2) Is the obligation watertight/irrefutable?
(3) If the funding for this ceased immediately, would we still be obligated to provide the service?
(4) Can it be reasonably calculated?
(5) Will there be a transfer of payment in a short period of time?

If the answer is yes to ALL five questions, then a provision can be created.

PROVISION EXAMPLE 2

Scenario

Provision (AON; Assessment of Need) **based on a list of clients who had not been assessed at year end.** There were a number of delays with the plan including a delay in getting national agreement on an assessment SOP (standard operating procedure).

Policy requirement

Ensure this is not accruing to budget. Ask the questions:

(1) Is this a CURRENT obligation?
(2) Is the obligation watertight/irrefutable?
(3) If the funding for this ceased immediately, would we still be obligated to provide the service?
(4) Can it be reasonably calculated?
(5) Will there be a transfer of payment in a short period of time?

If then answer is yes to ALL five questions, then a provision can be created.

PROVISION EXAMPLE 3

Scenario

Maternity & Infant Accrual (Mother & Baby Scheme). This provision is calculated on the basis of birth number and amounts not claimed for this statutory scheme. The scheme transferred under PCRS in 2020 however the CHO remains liable for older claims. There is no time limit on GPs claiming same. There has not been advice to confirm if claims were submitted to PCRS for periods pre transfer and whether funding will be required to be transferred or whether costs will be invoiced to CHOs

Policy requirement

Ensure this is not accruing to budget. Ask the questions:

(1) Is this a CURRENT obligation?
(2) Is the obligation watertight/irrefutable?
(3) If the funding for this ceased immediately, would we still be obligated to provide the service?
(4) Can it be reasonably calculated?
(5) Will there be a transfer of payment in a short period of time?

If then answer is yes to ALL five questions, then a provision can be created.

PROVISION EXAMPLE 4

Scenario

GP Immunisation Fees/Bonus

Policy requirement

Ensure this is not accruing to budget as per questions above.

PROVISION EXAMPLE 5

Scenario

Aids and Appliances

Policy requirement

Ensure this is not accruing to budget as per questions above.

Sample of Accruals & Provisions not allowed:

- Accruing to budget
- Unspent funding at year end
- Historic accruals being carried each month to cover estimates; there should be a periodic review/investigation
- Overhead costs which are no longer valid
- Planned expenditure where the work has yet to commence/no contracts signed
- Guestimates of upcoming costs not validated
- CME being carried based on historic information
- NMPDU Allocations unspent at Year-end
- DOH funding transfers made late in the year, which are not permitted to be treated as “deferred Income”
- Construction related expenditure (see note 1 below)

Note 1 – Construction related expenditure

These accruals/provisions, tend to be for large amounts. The point that a contractual obligation exists at year end, doesn't in isolation, warrant inclusion in the financial statements. FRS 102 on provisions substantiates this view-

"*Obligations for future actions do not satisfy the condition (present obligation) no matter if contractual or how likely they are to occur"*

Construction Contract related provisions are dealt with separately, **(Sec-23)** outside of the general provision section **(Sec-21) of FRS 102.**

The relevant section of **FRS 102 (Sec 23.17)** that addresses recognition of Construction contract costs, reads as follows-

"Where the outcome of a Construction contract can be estimated reliably, an entity shall recognise contract costs associated with the construction contract as expenses respectively, <u>by reference to the stage of completion of the contract activity</u>, <u>at the end of the reporting period</u> (referred to as percentage of completion method)"

Appendix F: Accruals Ageing Examples

Scenario	Suggested Approach
Outstanding invoices received but GRN not posted, so expenditure not yet recorded	Ageing should be based on date of receipt/provision of good or service If this is not practical, these accruals can be aged as 'current'.
Rolling accruals across multiple months e.g. service contracts. There may be several service contracts with differing annual renewal dates.	Ageing should be based on date of receipt/provision of good or service to the greatest extent practicable e.g. grouping by ageing bucket (0-30 days, 30-60 days etc.) If this is not practical, these accruals can be aged as 'current'