

ICAEW REP 07/06

NHS FOUNDATION TRUST FINANCIAL REPORTING MANUAL 2005-06

Memorandum of comment submitted in January 2006 by the Institute of Chartered Accountants in England and Wales, in response to Monitor's draft NHS Foundation Trust Financial Reporting Manual 2005-06, published on 9 December 2005.

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INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales welcomes the opportunity to comment on the *draft NHS Foundation Trust Financial reporting Manual 2006-06*, published by the Consultative Committee of Accountancy Bodies on 9 December 2005.

WHO WE ARE

2. The Institute of Chartered Accountants in England and Wales (the 'Institute') is the largest accountancy body in Europe, with more than 127,000 members. Three thousand new members qualify each year. The prestigious qualifications offered by the Institute are recognised around the world and allow members to call themselves Chartered Accountants and to use the designatory letters ACA or FCA.
3. The Institute operates under a Royal Charter, working in the public interest. It is regulated by the Department of Trade and Industry (DTI) through the Financial Reporting Council. Its primary objectives are to educate and train Chartered Accountants, to maintain high standards for professional conduct among members, to provide services to its members and students, and to advance the theory and practice of accountancy.

MAJOR ISSUES

4. We welcome the change from the detailed prescription of the previous Manual for Accounting and Capital Accounting Manual to the more principles-orientated approach of the central government Financial Reporting Manual (FReM).
5. We welcome the move to fuller compliance with UK GAAP: for example, the inclusion of clinical work in progress (but see our comments in paragraph 10 below in response to question 4).

SPECIFIC QUESTIONS

Q1. Do you agree with the approach adopted in the draft FT FReM, which is to refer matters of detail to the relevant accounting standard except where there is a divergence?

6. We agree.

Q2. Do you consider that additional or more detailed guidance is required in any areas, and if so what in which areas?

7. The manual could more explicitly deal with the prior period adjustments required on movement from NHS Trust status: for example, the removal of any negative revaluation reserves created on assets coming into use.

8. We suggest that, in the present financial climate for NHS Foundation Trusts, the Manual could usefully emphasise the importance of the requirement in FRS 18 *Accounting policies* to assess whether there are significant doubts about the Trust's ability to continue as a going concern.

Q3. Do you agree with the change to full compliance with SSAP4 on Government Grants as adopted in the draft FT FReM?

9. We agree.

Q4. Do you agree with the proposed treatment of work-in-progress or have comments as to the practicality or technical feasibility of accounting for partial spells as work-in-progress as adopted in the draft FT FReM?

10. We are pleased that SSAP 9 will now be fully applicable. However, we question whether it is correct to account for partially completed patient spells as 'work in progress'. Following the publication of Urgent Issues Task Force Abstract 40 ('UITF 40') *Revenue recognition on service contracts*, we suggest that revenue should be recognised in line with the amount of activity carried out under the contract. This entails recognising accrued income on uncompleted contracts rather than reflecting costs incurred as work in progress.

Q5. Do you have any other general or specific comments on the draft FT FReM?

11. We do not agree with the omission of prior period comparatives in the first year of FT status. In both legal form and in substance FTs are continuing entities that have merely changed their constitutional status. The omission of comparative information reduces the value of the financial statements to readers.

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