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Bwrdd Iechyd Prifysgol
Abertawe Bro Morgannwg
University Health Board



Meeting Date	15 th November 2018	Agenda Item	3d
Report Title	Pharmacy goods received not invoiced (GRNI) accrual release from the balance sheet.		
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Report Sponsor	Lynne Hamilton, Director of Finance		
Presented by	Andrew Biston, Head of Accounting & Financial Governance		
Freedom of Information	Closed		
Purpose of the Report	To update the Audit Committee on the release of the Pharmacy goods received not invoiced (GRNI) accrual from the balance sheet and the associated impact of the release on the health board's financial position.		
Key Issues	<p>The month end Pharmacy GRNI accrual increased significantly during the 2017/18 financial year, leading to a full review of the process for generating the accrual following completion of the 2017/18 year end accounts.</p> <p>The process review identified issues with how rebates and off contract credits were being treated within the month end reconciliation process between the JAC Pharmacy system and the Oracle financial ledger.</p> <p>The overstatement of the GRNI accrual identified through this process review amounts to £4.103m. The accrual which is held on the balance sheet will now be released into the health board's financial position in November (month 8).</p> <p>A revised month end process which has been signed off by finance and pharmacy staff has now implemented which takes account all rebates and off contract adjustments in producing the GRNI accrual.</p>		
Specific Action Required (please ✓ one only)	Information	Discussion	Assurance
			✓
Recommendations	<p>Members are asked to:</p> <ul style="list-style-type: none"> NOTE the revised process for the calculation of the month end Pharmacy GRNI accrual and the release of £4.103m from the balance sheet to the health board's financial position in November (month 8) 		

PHARMACY GOODS RECEIVED NOT INVOICED (GRNI) ACCRUAL RELEASE FROM THE BALANCE SHEET.

1. INTRODUCTION

- 1.1. The ABMU Health Board operates the JAC pharmacy system as its stock control system across all pharmacies. All orders for drugs, vaccines and consumables such as bottles and containers are placed through the system, all goods received are receipted through the system, all drugs invoices are recorded and processed for payment on the system and all pharmacy issues to wards and departments and external pharmacies are recorded through the system.
- 1.2. Whilst JAC is not a finance system (as the health board is repeatedly told by JAC), the system is a key feeder system into the Oracle financial ledger. Monthly reconciliations are completed to reconcile the closing stock balances for each pharmacy as reported by the JAC system to the stock figures held within the health board's balance sheet; manual journals are prepared to charge the pharmacy issues to the relevant ward and department cost centre within the financial ledger and invoices are raised to external organisations to recover the costs of pharmacy items issued to those organisations using the issues reports generated from the JAC system. There is also a feeder file of invoices processed within the JAC system which is sent to NWSSP Accounts Payable to enable these invoices to be paid through Oracle and reported in the financial ledger.

2. BACKGROUND

- 2.1. On a monthly basis reports from the JAC system identify as part of the JAC balance sheet movement, goods received into stock classified between invoiced and uninvoiced. The report also details returns to suppliers for which credit notes will have been received. This report does not, however, detail whether or not the invoices have been paid by NWSSP Accounts Payable via the JAC interface file or have been sent to NWSSP Accounts Payable for processing.
- 2.2. All pharmacy invoices paid and credit notes taken are charged to the pharmacy budget and all issues recharged from the pharmacy budget to the wards and departments receiving the issues. A manual stock adjustment journal is also processed to the pharmacy budget to reflect the stock movement in month, reconciled back to the stock reported through the JAC system. The invoices paid through NWSSP Accounts Payable and reported in the financial ledger will differ from the invoiced and uninvoiced goods recorded in the JAC system. This will be due to the payment interface files from the JAC system not having been processed by NWSSP Accounts Payable as well as where invoices for goods received and recorded on the JAC system have yet to be received or processed.

- 2.3. Therefore in order to account for the goods received as per the JAC system but not yet processed in the Oracle financial ledger, a GRNI accrual journal is processed to accrue for items identified as received in the JAC system but not yet processed within the Oracle financial system. This journal forms part of the income and expenditure reconciliation which reconciles the costs expected to remain in pharmacy after all goods have been received and issues processed as compared to the actual balance on the Oracle financial ledger as costs to pharmacy.
- 2.4. During the 2017/18 financial year, the value of the manual GRNI journal increased significantly. Given this increase during the year a review of the process and the reason for the increase in the GRNI accrual each month was instigated to commence after the year end accounts audit was completed.
- 2.5. A detailed review of the month end process has been completed and an issue has been identified which has meant that the previous process for calculating the GRNI accrual has overstated the accrual, with there being a cumulative effect month on month over a period of time. The issue relate to the treatment of credits which are reflected in the pharmacy budget within the Oracle financial ledger but which do not flow through the JAC pharmacy system. This has resulted in an incorrect comparison between the Oracle financial ledger balance used in the reconciliation (which includes the credits not reflected in the JAC system) and the expected costs to be charged to pharmacy from the invoiced amounts within the JAC system resulting in the GRNI accrual being overstated.
- 2.6. These credits arise in situations where there are subsequent rebates linked to drug purchases for which credits are received after the invoices have been paid, with these credits often being in the form of payments back to the health board rather than formal credit notes. These receipts are recorded in the financial ledger but cannot be put back through the JAC system. Areas where this occurs are:
- a) Rebates for high cost drugs
 - b) Off contract credits – where the supplier refunds the health board for the price differential where a drug which is on contract may not be available and the health board has had to purchase a more expensive “off contract” drug.
 - c) Rebates linked to patient access schemes
- 2.7. The month end reconciliation process has now been amended to take into account these credits and this has resulted in a reduction in the GRNI accrual required each month. The revised process has identified that the cumulative effect of the GRNI overstatement is £4.103m and therefore this sum which is currently held as a balance sheet item can be released providing a credit to the financial position of the health board. This will be released into the month 8 financial position following this report to the Audit Committee.

3. GOVERNANCE AND RISK ISSUES

- 3.1. The review of the process has confirmed that whilst the reconciliation process for the stock balance between the JAC system and the Oracle financial system is robust and correct that there have been weaknesses in the methodology used in determining the GRNI accrual required as a result of gaps in the understanding of how items which do not feed through the JAC system are dealt with. The JAC system is a complex system and whilst it produces information that feeds the financial ledger it is not in itself a finance system. The review of the process used at month end has therefore not only involved finance staff but also staff within pharmacy, including the JAC System Manager and other pharmacy staff.
- 3.2. The revised process is now fully embedded in the month end pharmacy reconciliation process and the desk instructions have been updated to reflect the revised GRNI accrual process so that clear guidance is in place in the event of staff turnover. Work has also been undertaken to produce an interface file of pharmacy issues directly into the Oracle financial system, from the JAC system rather than through the process of manual journals. This has freed up time at month end for the updated and more detailed reconciliation process to be undertaken to produce the GRNI accrual.

4. FINANCIAL IMPLICATIONS

- 4.1. The review of the previous process for completing the pharmacy GRNI accrual and the implementation of the revised process will result in the release of £4.103m from the accrual value currently held on the balance sheet into the health board's financial position. This sum will be released into the reported financial position in November (month 8) in accordance with the Welsh Government expectation that the benefit of any balance sheet adjustments are taken in full as soon as they are identified

5. RECOMMENDATIONS

Members are asked to :

- **NOTE** the issue of the overstatement of the Pharmacy GRNI accrual identified as a result of the detailed review of the month end pharmacy system reconciliation process.
- **NOTE** that a revised month end reconciliation process has been put in place to address the issued identified which have caused the Pharmacy GRNI accrual to be overstated.

- **NOTE** that £4.103m will be released from the balance sheet into the health board's financial position in November (month 8) to clear the overstatement of the Pharmacy GRNI accrual.