



Prepayments Policy Directive

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Contents

1. Policy Statement	3
2. Roles and Responsibilities	3
2.1. Financial delegated approver	3
2.2. Financial Accounting, Finance	3
3. Policy Requirements	3
3.1. Prepayment recognition	3
3.1.1. Prepayment disclosure	4
3.2. Reconciliations	4
4. Implementation and Monitoring	4
5. National Safety and Quality Health Services Standards	4
6. Definitions	5
7. Associated Policy Directive/Policy Guidelines and Resources	5
8. Document Ownership and History	6

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Prepayments Policy Directive

1. Policy Statement

The objective of this policy directive is to prescribe the correct accounting treatment of prepayments. Prepayments must be correctly identified and reported in the financial statements within SA Health, in compliance with Treasurer's Instructions (TI), Accounting Standards and other regulatory requirements.

2. Roles and Responsibilities

This policy directive is applicable to all SA Health staff.

2.1. Financial delegated approver

Financial delegated approver is responsible for providing material prepayments (*refer to definitions*), and its corresponding supporting documentation to Financial Accounting; including the relevant expense account and responsibility index via email.

2.2. Financial Accounting, Finance

Financial Accounting is responsible for:

- > confirming, from the invoice and supporting documentation that comes from the Financial Delegation Approver, that the invoice is a legitimate prepayment
- > reconciling and updating the prepayment general ledger account monthly, to systematically reduce the prepayment throughout the year, and consequently increase the expense account
- > maintaining and updating the Amortisation Schedule for each public authority
- > performing a review of the prepayments general ledger account monthly, and
- > providing support and advice on the request of a financial delegated approver.

3. Policy Requirements

The preparation of the SA Health Annual Financial Statements is on an accrual accounting basis. Accordingly, all assets, liabilities, revenues and expenses of SA Health are required to be recognised in the reporting periods to which they relate; regardless of when cash is received or paid.

3.1. Prepayment recognition

In accordance with TI 11 *Payment of Creditor's Accounts*, public authorities, whether they are administrative units or not, are not permitted to make payment in advance for goods not received and services not rendered, unless:

- > payments are made in the ordinary course of business or
- > it is deemed by the Under Treasurer or the Under Treasurer's delegate to be a payment in 'the ordinary course of business' or
- > the payment represents a deposit of 10% or less of the total value of the goods or services to be received, or
- > the Treasurer has provided express approval for the payment to be made.

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Specifically relating to grant payments, it is understood that some small entities may have a heavy reliance on grant funding for their daily operations. Therefore, in order to streamline the efficiency and effectiveness of their cashflow requirements, and to meet best practice solutions in service deliverables, milestone grant payments may be made only one month in advance in circumstances where the total grant, as a percentage of their revenue turnover, is more than 20% of the total revenue¹ of the non-government organisation (NGO). Refer to the *Framework for the Management of SA Health Grants and Service Agreements with Non-Government Organisations Directive*.

If there is any uncertainty as to whether an invoice is a prepayment or not, advice must be sought from Financial Accounting to prevent a potential breach of compliance with TI 11.12 and 11.13.

3.1.1. Prepayment disclosure

When an expense has already been paid for, and it is expected the service will be rendered or goods received after the reporting date, the recognition criteria for a prepayment asset are met. Most payments in advance are in respect of services to be provided, or are a deposit for goods received in a future time period, and are therefore recognised as current assets; for example, software licensing may be paid in advance. Depending on their nature, prepayments may be disclosed as either current or non-current assets in the Statement of Financial Position.

3.2. Reconciliations

The prepayment general ledger account must be reconciled and updated monthly so that the prepayment is reduced during the year, and the corresponding expense account is increased.

An Amortisation schedule will be maintained and updated monthly for each public authority. The schedule is used to identify the finalisation of the prepayment allocations and for the financial year end review.

4. Implementation and Monitoring

Compliance with this policy directive will be met when the value of prepayments are reported accurately in the Annual Financial Statements, and in accordance with TI 11 *Payment of Creditor's Accounts*. Non-compliance with this policy directive may result in a breach of TI 11 *Payment of Creditor's Accounts*, and may also result in the value of prepayments being misstated in the financial statements and, if material will create inaccurate financial decision making information.

5. National Safety and Quality Health Services Standards

N/A

¹ Information required is available in grant application process requirements.

6. Definitions

In the context of this document:

- > **accounting period** for the purpose of this policy directive means the financial year, starting 1 July and ending 30 June.
- > **business unit** is a collective term which encompasses all Local Health Networks, the department and SAAS.
- > **material prepayments** are prepayments with a value equal to or greater than \$10 000 (GST exclusive), and spanning more than the current financial year, are deemed material. Financial Accounting must be informed of all material prepayments, by emailing a scan of the invoice certified for payment and supporting documentation to the relevant mailbox for each business.

There will be no splitting of purchase orders for identical goods or services in order to circumvent established authorities and approval processes.

- > **ordinary course of business** may be defined as activities that are necessary, normal and incidental to SA Health. In other words, they are activities that support good health and maintaining the highest quality health system for all South Australians. Some examples include: Program Support, Out of Hospital Health Care Services and the Community Nursing Program. As outlined in TI 11.14, payments in the ordinary course of business may include items such as: insurance, leases where the agreement states that payments must be made monthly in advance, motor vehicle registrations, subscriptions, telephone rental and water rates.
- > **prepayment** is a payment made for goods and/or services in the current accounting period that the entity expects to receive or consume fully or in part, in future periods.
- > **public authority** means a government department, or a statutory authority. (TI 1 para.1.6.7). Currently there are seven public authorities within SA Health:
 - > the Department for Health and Ageing (the department)
 - > Central Adelaide Local Health Network (CALHN)
 - > Southern Adelaide Local Health Network (SALHN)
 - > Northern Adelaide Local Health Network (NALHN)
 - > Country Health SA Local Health Network (CHSALHN)
 - > Women's and Children's Health Network (WCHN) and
 - > SA Ambulance Service (SAAS).

7. Associated Policy Directive/Policy Guidelines and Resources

- > [Framework for the Management of SA Health Grants and Service Agreements with Non-Government Organisations Policy Directive](#)
- > [Framework for the Preparation and Presentation of Financial Statements \(AASB\)](#)
- > [Treasurer's Instruction 2 Financial Management](#)
- > [Treasurer's Instruction 11 Payment of Creditor's Accounts](#)
- > [Treasurer's Instruction 28 Financial Management Compliance Program](#)

8. Document Ownership and History

Document developed by: Policy and Compliance Corporate Finance Services, Finance
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Does this policy amend or update an existing policy? **Y**
If so, which version? **V2.0**
Does this policy replace another policy with a different title? **N**

Approval Date	Version	Who approved New/Revised Version	Reason for Change
08/12/17	V2.1	SA Health Policy Committee	Grant funding additions
22/01/16	V2.0	Portfolio Executive	Scheduled review
15/11/12	V1.0	Portfolio Executive	

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