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IN ENGLAND AND WALES

CIPFA

**IFRS FORUM, 17 MARCH 2008**

**PLANNING TO SUCCEED THROUGH  
SHARED EXPERIENCE**

**INTERESTED IN JOINING A NETWORK OF IFRS  
PRACTITIONERS? PLEASE CONTACT CIPFA:**

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# **IFRS FORUM, 17 MARCH 2008**

## **PLANNING TO SUCCEED THROUGH SHARED EXPERIENCE**

### **Introduction**

1. CIPFA and ICAEW held a Forum on 17 March to debate issues arising from the government's decision to adopt International Financial Reporting Standards (IFRS) in the government sector. The event brought together case studies from the public and private sectors, with a focus on project planning and management. The forum was chaired by Janet Eilbeck (Partner at PricewaterhouseCoopers, a member of the Public Audit Forum working group and of the APB's Public Sector Committee), with speakers forming panels to discuss issues raised by delegates. Russell Frith summarised the overall picture and timetable, from his position on CIPFA/LASAAC and the Financial Reporting Advisory Board, as well as Director of Audit Strategy at Audit Scotland.
2. The programme for the day is at Annex A.

### **The Case Studies**

3. Case studies were presented from: the Department for Work and Pensions, the Environment Agency, Monitor, Network Rail, Royal Mint, the National Audit office and the Audit Commission, and ICAEW. Details of the presenters are at Annex B. Information on any future events will be available at: [CIPFA IFRS home page](#) and [ICAEW IFRS home page](#) or [UK Regulation home page](#).

### **Revised timetable**

4. In the Budget the week before the Forum, a delay was announced in the timetable for Central Government and the NHS, as well as for Whole of Government Accounts (WGA). The first year of implementation for Central Government, the NHS and WGA is 2009-10; for Local Government the date remains 2010-11:

	2008/09	2009/10	2010/11
<b>Central Government</b>	Comparatives	<b>IFRS</b>	<b>IFRS</b>
<b>NHS</b>	Comparatives	<b>IFRS</b>	<b>IFRS</b>
<b>Whole of Government Accounts</b>		<b>IFRS</b>	<b>IFRS</b>
<b>Local Government</b>		Comparatives & WGA	<b>IFRS</b>

5. A key message from the forum was that the delay should not cause the momentum to be lost. It was expected that Central Government and Health entities would be required to produce dry run accounts for 2008-09 (the original implementation date) and these would be reviewed by the national audit agencies (effectively a normal audit). There would, however, be no requirement to produce prior year comparatives for 2007-08, thus the dry run accounts would be the basis for (and hopefully the actual version of) the comparative data published with the 2009-10 accounts, with opening balances restated as at 1 April 2008. To allow time to complete the dry run accounts after the UK GAAP based accounts have been finalised, the NAO has said that its audit review would be completed by 31 December 2009. The opening balances would be restated and reviewed by 31 December 2008.
6. Whole of Government Accounts will be published a year ahead of the adoption by local government, but the delay in the central government and health timetable has the advantage that the work needed from local government for WGA will coincide with its comparator year restatements.
7. The Financial Instrument standards were being implemented for Central Government and Health in 2008-09 (for Local Government already in 2007-08).

#### **Key Issues**

8. Many interesting issues arose during the course of the day and these are summarised below.

## The Project Plan

9. There was no doubt of the need for a robust project plan and the features were as would be expected for most project plans. The details varied depending on the size and nature of the organisation, but the common features were:

<ul style="list-style-type: none"><li>• Identify a project implementation leader or leaders and establish a 'steering group';</li><li>• identify project team;</li><li>• break down the project into manageable parts and set a timeline and key milestones;</li><li>• identify key internal stakeholders (including, boards, committees, estates, facilities, procurement, contract management, business and budget managers);</li><li>• identify key external stakeholders (including accounts' readers, tax payers, sponsors);</li><li>• identify the different parts of the group – including executive agencies, NDPBs, charities, government owned companies, shared services, corporate functions etc (depending on the nature of the organisation)</li><li>• recognise that this is not just for the finance function, but includes other parts of the organisation, such as Estates, Facilities and HR;</li><li>• identify internal training and development needs;</li><li>• identify need for external resource and its role (including accounting and valuation expertise);</li><li>• liaise with external auditors;</li></ul>	<ul style="list-style-type: none"><li>• identify and seek funding for the incremental costs of adopting IFRS;</li><li>• review all the standards for their implications, for accounting and budgeting;</li><li>• identify and act on material issues – eg the new disclosure regime and accounting for financial instruments, PFI projects, property, plant and equipment or holiday pay accruals may be particularly important;</li><li>• identify and act on implications for how the 'business' is managed;</li><li>• identify data and systems gaps and take action to fill them;</li><li>• identify gaps in the chart of accounts and take action to fill them;</li><li>• identify and respond to communication gaps – how to report the meaning of the changes, both in numbers and procedures, to internal boards and committees, senior executives and to external stakeholders, including budget providers and the readers of the financial reports;</li><li>• align management and financial reporting;</li><li>• establish and monitor a risk register;</li><li>• hold regular progress meetings;</li><li>• prepare shadow IFRS accounts and related narrative reporting;</li><li>• prepare final IFRS accounts and related narrative reporting.</li></ul>
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## Project Management and Governance

10. Particular aspects of project management were highlighted. There was a need for a dedicated project management team. This might mean that a key member of the finance team devotes 100% of their time to managing the project, without any distractions from current work. Again, the need for this will depend on the organisation, but it was clear that responsibilities need to be well defined, as for any project. Again, this would extend beyond the finance function.

11. Successful implementation will require the 'buy-in' of the governing parts of the organisation. There may be a Steering Committee for the project and the Board will need to monitor the implementation and understand the impact of changes on the business. In particular, the Audit Committee will monitor the project and make recommendations on accounting policies, just as they already do under UK GAAP. There will be a need for staff training and development and thus HR will need to be part of the process, at board level and in the relevant parts of the HR department.

12. Financial reporting to the Chief Executive (or equivalent), to the Audit Committee, Finance Committee and the Board will need to be adapted to take account of the new information. This means not only that existing reporting formats may need to be amended, but that there should be specific reporting on the impact of IFRS on the organisation's business.
13. It is also important to understand what the numbers mean and how they are derived, particularly for complex calculations for financial instruments. An example given was of auditor's adjustments not being fully understood, which would make it difficult for the organisation to get it right the following year.
14. A feature of one project was to hold two workshops with the external auditors at key points in the project implementation.

### **Costs of Adoption**

15. It was clear that there would be additional costs in adopting IFRS for the first time; this is true for both organisations and their auditors. Network Rail suggested its incremental external costs were in the region of £150k, with the total time taken internally to complete the task being 250 staff days. Depending on the nature of the organisation, this will clearly vary, and there will also be opportunity costs throughout the organisation in additional work required during the adoption process.

### **Implementation Resources**

16. It was generally accepted that the requisite skills and knowledge about IFRS were likely to be either absent or require considerable development of existing staff. External advisors may be engaged to help organisations through the implementation phase, but experience suggests that existing staff will still need to read and understand the standards themselves.
17. A theme common to the presentations was the extent to which external advisors are essential to implementing the IFRS project. Advice from some speakers was to minimise the use of external help, recognising in particular that there will be an ongoing need for IFRS expertise and that internal staff should be developed to ensure the requisite expertise is maintained in-house.
18. A key point was that non-finance staff are key to successful implementation and ongoing use of IFRS. Such staff already have a significant role in the financial management of organisations and thus the adoption of IFRS requires this to be maintained and extended. As well as the need to ensure non-finance staff generally have the right knowledge and skills, they need to be brought into the project process for specific aspects. This might include: Estates management for Property, Plant and Equipment (IAS 16), Leases (IAS 17) and PFI (reflecting IFRIC 12), Facilities and commercial contracting departments also for Leases, Treasury Management for Financial Instruments (IAS 32, 39 and IFRS 7), IT department for Intangible Assets (IAS 38) and HR for holiday pay accruals (IAS 19).

## **Disclosures**

19. A key feature of IFRS is the increased disclosure requirements. Systems amendments will be needed to identify the disclosures on many areas, including: property, plant and equipment, leases, embedded derivatives, other financial instruments, intangible assets, segment reporting and others. Experience in the private sector has revealed examples of spreadsheets being used to capture information in the first year, only finding that these have to be constructed from scratch in year 2 because the underlying systems have not been updated. Such an approach may not be surprising and it was noted that system changes may not be fully in place for the first year, although clearly they should be. In any case, the project plan needs to ensure they are made before the second year.

## **Business Impact**

20. One issue that arose was whether IFRS would change behaviour and key drivers in the organisation. We know from the adoption of FRS 17 that accounting standards can have such an impact. As examples, both Network Rail and Royal Mint reviewed their debt management following changes to accounting for Financial Instruments.

21. Management Accounts may also need to change to ensure consistent reporting throughout the process. For segment reporting purposes, management accounts may well need to identify additional information, such as asset allocations, and be reconcilable to the financial accounts, depending on the extent to which they are compatible.

## **Segment Reporting**

22. For many parts of the public sector reporting segments are likely to be prescribed, such as 'departmental strategic objectives' for central government departments. A particular point raised was that Monitor was seeking Foundation Trusts' views on this subject.

## **Benchmarking**

23. One of the issues raised was the possibility of benchmarking the impacts against other organisations. Clearly, with no public information available on how other public sector organisations have dealt with the standards this is difficult. To this end, it was suggested that a network be formed of finance people throughout government (see Next Steps). There may also be a case for workshops on specific themes applying to similar organisations.

## **Componentisation of Property, Plant and Equipment**

24. IAS 16 requires components of assets with significant costs relative to the total for an asset to be depreciated separately. Componentisation already exists under UK GAAP, for example with specialised buildings and large military equipment, but separate accounting for many components is not usual. The example given was of a roof being replaced and being unable to remove the existing roof's value from the accounts, as it was not identified separately in the first place. One piece of advice was not to try and identify all existing components, but to account for

material components going forward as they are replaced. Again, discussion about what is material will be needed.

### **PFI**

25. As well as the general need to review PFI schemes against the various accounting manuals' criteria for control and residual interest (reflecting IFRIC 12), there will be a need to assess the ongoing budgeting impacts of accounting for interest payments and depreciation for projects coming on balance sheet. A specific point was made about the impact on the bottom line for NHS foundation Trusts; there may be an improved EBITDA margin as depreciation and interest will go below the line.

### **Budgeting**

26. If you are accounting on an IFRS basis, clearly budgets at some stage will need to be brought into line, both because you may be accounting publicly against the budget, as for government departments, and because it does not work to budget on one basis and account on another. For central government supply procedures, the intention is that estimates will be brought into line by the autumn 2009 supplementaries (under the revised timetable).

### **Complexity**

27. There was a discussion about whether IFRS were more complex than UK GAAP. Certainly, more needs to be disclosed and depending on an organisation's activities there may be more complex accounting. This is linked to the question about whether more disclosure necessarily means more 'transparency' and understanding by readers of accounts about the activities of the organisation. This is also characterised as the distinction between principles and rules in accounting, a debate which will continue at the International Accounting Standards Board and elsewhere.

### **Guidance**

28. There was a discussion about the extent of guidance available, particularly from HM Treasury. It was clear that the main guidance is to be found in the standards themselves, but the Treasury's I-FReM also contains its interpretations and its financial reporting website has some guidance on leases and financial instruments. The Treasury also uses 'RABIG' and 'FD' letters to issue guidance and consult on issues, for example recently on accounting for PFI schemes. The need for any further common guidance was likely to depend on the demand for it. The approach to guidance will also differ by government sector.

### **External Auditors**

29. It was made clear that whilst many external auditors have been trained in IFRS, they have not had to use it in practice, and many others have no such training. Thus it was accepted that auditors are learning too and this mirrors the experience in the private sector when IFRS was adopted for group accounts for listed companies in 2005.

30. The auditors made it clear that their approach would be proportionate to the assessed risk. This will require (and is requiring) detailed discussions with each client about the issues affecting them. As with all accounting, materiality is relevant, but sometimes there will be a need to prove to the auditors that something is not material under IFRS, which in itself may require significant work; examples included embedded derivatives in leases and holiday pay accruals.
31. As always, auditors will need to be careful to draw a line beyond which assistance to clients may compromise their independence. This is of course nothing new and applies in all external audit relations with clients. Auditors do intend, however, to be helpful.
32. From the clients' perspective, it is important to engage the auditors at an early stage where key judgements have to be made, to avoid the risk of decisions being challenged by auditors at too late a stage, but then this should be part of the normal process anyway.
33. The auditors also talked about how they were basing their training around client groupings with similar issues. Some of the key issues auditors had identified to date were: ensuring access to data on PFI projects (which may not be with the grantor organisation); identifying derivatives and embedded derivatives and deciding on policies going forward for financial instruments; the impact on group structures of the 'control' criteria under IFRS and whether the 'intention' to control, notwithstanding the funding relationship, means that group accounts are needed or need to be amended; the vast number of potential intangible assets, which may not satisfy IAS 38 requirements and hence the need to be careful in analysing them; whether there are lease arrangements in substance (IFRIC 4); whether financial guarantees are accounted for properly.
34. Key project planning issues from the auditors' perspective were: the impact of statutory charges (eg Council Tax); the need to engage the Audit Committee and non executive directors; the need to engage contractors in identifying derivatives, hidden leases and other items; the need to engage with the whole organisation, not just the finance department, and accordingly identifying the key players.

### **IFRS Adoption in the EU**

35. ICAEW presented the results of its study for the European Commission of the adoption of IFRS by the private sector in the EU, which resulted in the production of 7,000 listed group annual reports and accounts. The advantages were set out as improving comparability and basing accounting on best international practice to facilitate decision making, encouraging cross-border and international securities trading and capital-raising and to creating a liquid and efficient EU capital market. The study identified the extent to which this 'vision' had been successful, under the headings: Quality, Competitor comparisons, Cross-industry comparisons, Cross-country comparisons and Capital market efficiency, and the results were generally favourable.

## **Summary of the Day**

36. The chair summarised the key themes as:

- i. Don't delay in implementing project plans and IFRS adoption.
- ii. Include all relevant internal and external stakeholders in the project.
- iii. Don't just accept revised calculations, but understand the numbers and their implications for the organisation.
- iv. Avoid preconceptions; for example, do not assume something is immaterial or that a body does not need to be consolidated in group accounts.
- v. The complex area of Financial Instruments was being introduced under UK GAAP from 2008-09 (for Local Government already for 2007-08) and this will reduce the pressure on 2009-10.

## **Next Steps**

37. The main suggestion for what happens next was to establish a network for central government and health practitioners to debate and identify solutions to key issues. This could include local government or there could be a separate network for this sector; CIPFA's existing Finance Advisory Network may already provide a vehicle for this. Anyone interested in participating in such a network may contact CIPFA: [chris.wobschall@cipfa.org](mailto:chris.wobschall@cipfa.org) .

38. There may be a demand for a further Forum event and also for thematic workshops/seminars; the latter may arise from the network(s).

**IFRS FORUM - PROGRAMME  
17 MARCH 2008  
PLANNING TO SUCCEED THROUGH SHARED EXPERIENCE**

<b>Time</b>	<b>Presentation</b>	<b>Speaker</b>
9.30	Registration and coffee	
10.00	Introduction and Objective of the Forum	Janet Eilbeck, PricewaterhouseCoopers
10.05	Background and Context	Russell Frith, Audit Scotland
10.25	DWP Case Study	Christina Earls, Department for Works and Pensions Pat Barsby, Department for Works and Pensions
10.55	Environment Agency Case Study	Bob Branson, Environment Agency
<b>11.15</b>	<b>Coffee</b>	
11.40	Health Case Study	Miranda Carter, Monitor
12.05	Q & A with panel of morning speakers	
<b>12.40</b>	<b>Lunch</b>	
13.40	Network Rail Case Study	Peter Duff, Network Rail Liam Rattigan, Network Rail
14.00	Royal Mint Case Study	Peter Allred, Royal Mint
14.20	Audit Perspective	Andrew Baigent, National Audit Office Mike Langley, Audit Commission
14.50	ICAEW Case Study	Robin Fieth, ICAEW
15.05	IFRS Survey (private sector)	Nigel Sleigh-Johnson, ICAEW
15.20	Q & A with panel of afternoon speakers	
15.50	Next steps	Janet Eilbeck, PricewaterhouseCoopers
<b>16.00</b>	<b>Close and coffee</b>	

**PRESENTERS**

**IFRS FORUM  
PLANNING TO SUCCEED THROUGH SHARED EXPERIENCE**

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**Janet Eilbeck (Chair)**

Janet Eilbeck is an experienced auditor and adviser to public sector bodies. She chaired the ICAEW's Public Sector sub-committee of the Audit Faculty for 10 years and is a member of the Public Audit Forum working group and the APB's Public Sector sub-committee.

She works in both London and the North East and her clients cover central government bodies, health, local government, housing and charities. She is also the auditor of the States of Jersey, working to the C&AG for Jersey. Recently, she has been advising clients and speaking on IFRS and its consequences for the public sector both generally and, specifically, in relation to PFI.

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**Russell A J Frith**

Russell is the Director of Audit Strategy at Audit Scotland, responsible for oversight of the procurement and quality of audits and also leads the provision of technical support for auditors. He is a member of the Financial Reporting Advisory Board, the CIPFA/ LASAAC Local Authority SORP Board and the Auditing Practices Board's Public Sector Sub committee and has therefore been involved in the move to IFRS from the beginning. He is also a member of the audit committee of the Office of the Comptroller & Auditor General in Ireland.

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**Christina Earls**

Christina has worked in central and local government since 1981. She is currently Head of Finance Strategy, Business Management and Governance, working in London in the office of the Finance Director General at the DWP.

Christina Chairs the CIPFA South East Region's Personal and Professional Development Group, and is a member of the London Society Business Board and the CIPFA Financial Management Panel and the Central Government Panel.

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### **Pat Barsby**

Pat has been the Deputy Director, Finance Practices at DWP since December 2006. The key areas that she is involved with include Compliance, IFRS Implementation, Shared Services Commissioning, and Accounts Guidance and Practices.

Also qualified as a Chartered Accountant (SA) and CIMA, she has worked for Ernst & Young, Deloittes, Guinness, and Diageo. In particular, she has experience in the areas of risk management, audit, change management and capability development.

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### **Bob Branson**

Bob worked at PricewaterhouseCoopers for 17 years initially in audit and business advisory services before heading up the Forensic Accounting Service in Birmingham for 5 years. A change of career in 2000 led Bob to join the Environment Agency as one of 8 Regional Finance Managers. He has also had spells as an Operational Area Manager and even covered HR for a while, before becoming Head of Financial Management. This role includes responsibility for the preparation of the Annual Report & Accounts and hence Bob could not escape the advance of IFRS!

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### **Miranda Carter**

Miranda is Assessment Director in the Regulatory Operations Directorate at Monitor. In addition, she represents Monitor on the Department of Health's External Advisory Group for payment by results.

A qualified chartered accountant, Miranda started her career at Deloittes as an auditor in 1991, working in the UK and Hong Kong. In 1997 Miranda joined PricewaterhouseCoopers, and spent four years in the Transaction Services Department in London, focusing on due diligence assignments. She has advised the boards of corporate and private equity houses and her portfolio of financial experience is wide-ranging and includes mergers and acquisitions, due diligence and initial public offerings (IPOs).

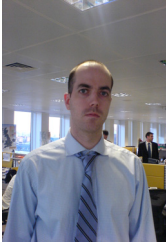
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### **Peter Duff**

Peter duff left Cambridge University in 1992 with a degree in English. He trained with Deloitte and remained with them until January 2002 having spent 3 years as group manager of one of its 4 main audit and advisory groups. He joined Railtrack in 2002 with the challenge of heading up the accounting function whilst they were in administration and joined network rail on the successful takeover of the Railtrack business. As group chief accountant he is responsible for all financial reporting (internal, external and regulatory - annual turnover £6billion), financial control of all corporate services (including engineering, IM, HR, Finance and planning and regulation), the investment authorisation process (annual budget £4billion), group financial stewardship (including balance sheet reviews and the world class reporting initiative), group business planning and the treasury back office function (net debt c£20billion).

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### **Liam Rattigan**

Liam Rattigan, ACA: Qualified with PwC London in 2002, auditing mainly construction, manufacturing and retail companies. Employed by a UK subsidiary of a US house-builder, his responsibilities included implementing Sarbanes-Oxley compliant internal control procedures, production of statutory accounts under UK GAAP and management reporting pack under US GAAP. Liam joined Network Rail in June 2006, and was involved in the production of statutory accounts under IAS and regulatory accounts. He also assists with treasury back office functions including implementing hedging strategy and management accounting for £19bn debt programme.



### **Peter J Allred**

Peter J Allred is currently Interim Finance Director of the Royal Mint, a Government Trading fund operated on commercial lines, with a turnover of £140m. Having been in the role since April 2006, he rationalised the finance & procurement departments and supported the CEO in developing business competitiveness and profitability; in 2006-7 the Royal Mint delivered its highest operating profit in nine years.

He is also a member of the business improvement steering group responsible for developing enhanced financial systems, implementing the results of a brand strategy review, developing efficient working practices and lowering operational costs. He identified & implemented £4m pa savings; restructured manufacturing, sales, finance & procurement; managed 150 headcount reduction, and planned & controlled £6.4m of restructuring costs.

Prior to that he was an Interim Manager for four years; at Low & Bonar plc a company which specialises in materials & flooring manufacturer.



### **Andrew Baigent**

Andrew Baigent is a Director at the National Audit Office. He is a qualified ACA and currently sits on the ICAEW council. He is also Chair of the Public Sector Financial Reporting Committee of the Financial Reporting Faculty. Previously he has been a member of several other Institute groups.

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### **Mike Langley**

Mike joined the then District Audit service directly from school in 1974, completing his CIPFA qualifications in 1981. During his 23 years as an auditor, he has audited the full range of local government and NHS bodies, including a spell at the GLC in the period up to its demise.

He transferred to the Commission's technical support section (now APP) in 1997. He is currently Senior Technical Manager – Professional Developments, with responsibility for the provision of advice to auditors on accounting and governance issues. This involves liaison with a range of government departments and other agencies on a wide range of subjects. He also co-ordinates the Commission's responses to consultations on accounting. Currently, Mike is leading for the Audit Commission on its approach to the introduction of international financial reporting standards.



### **Robin Fieth**

Robin Fieth joined the ICAEW as finance director in 2002. Robin has overall responsibility for the ICAEW's financial management, information technology, marketing, human resources and corporate services and is also involved in strategic and commercial issues.

Robin qualified as a chartered accountant with PricewaterhouseCoopers where he practised in both its London and Bristol offices. He subsequently joined GiroVend Cashless Systems as finance director where amongst his achievements was the public listing of the company. He became group finance director in 2000 when the business re-listed on AiM as Transacsys plc.



### **Nigel Sleigh-Johnson**

Nigel Sleigh-Johnson is a Chartered Accountant and is Head of the ICAEW's Financial Reporting Faculty. Nigel also manages the Faculty's Financial Reporting Committee. He is a member of the CBI Financial Reporting Reporting Panel and the Fédération des Experts Comptables Européens (FEE) Accounting Working Party. His Ph.D was awarded by University College London in 1989.

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