

# International Financial Reporting Standards



Presenter: Neil Gibson

# What will we cover?

---

- Background to IFRS
- Lessons from the NHS
- Managing the project
- Key technical issues
  - 2009/10 – preparing for IFRS
  - 2010/11 – implementing IFRS
- Assessing risks
- Support from the Audit Commission
- Critical success factors

# What does IFRS mean?

---

Collective expression embracing:

- 29 International Accounting Standards (IAS)
- 8 International Financial Reporting Standards (IFRS)
- International Accounting Standards Board Framework
- Interpretation Committee Statements



# Why IFRS?

---

- Public sector moved toward full compliance with UK GAAP
- UK GAAP converging with IFRS
- Single set of public sector-wide standards

# Application to UK public sector

---

- Central government and NHS
  - originally from 2008/09
  - postponed to 2009/10
- Local Government bodies
  - WGA 2009/10
  - PFI and similar contracts 2009/10
  - full implementation 2010/2011

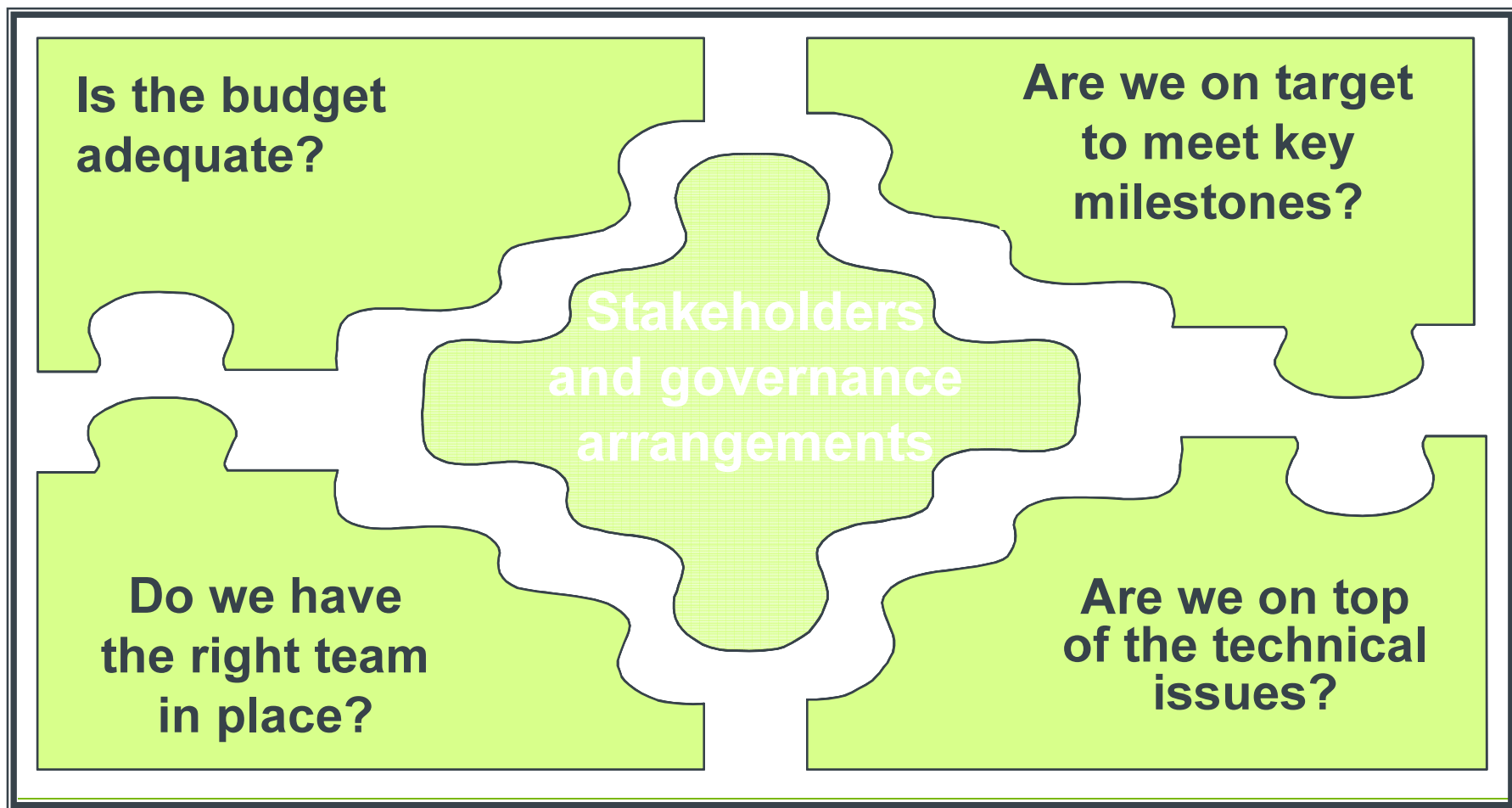


# Lessons from the NHS

---

- Start early
- Engage key stakeholders:
  - senior management
  - non-executives
  - non-finance staff
- Talk to the auditors
- Get a plan
  - risk assessed
  - resourced
- Implement the plan
  - Governance arrangements

# Management arrangements



# Technical issues for 2009/10 - preparing for IFRS

---

- PFI and similar contracts
  - effectively early adoption of one element of IFRS
  - IFRIC 12 principles
  - full retrospective adoption (i.e. as though always accounted for under these rules)
  - Prior period adjustment



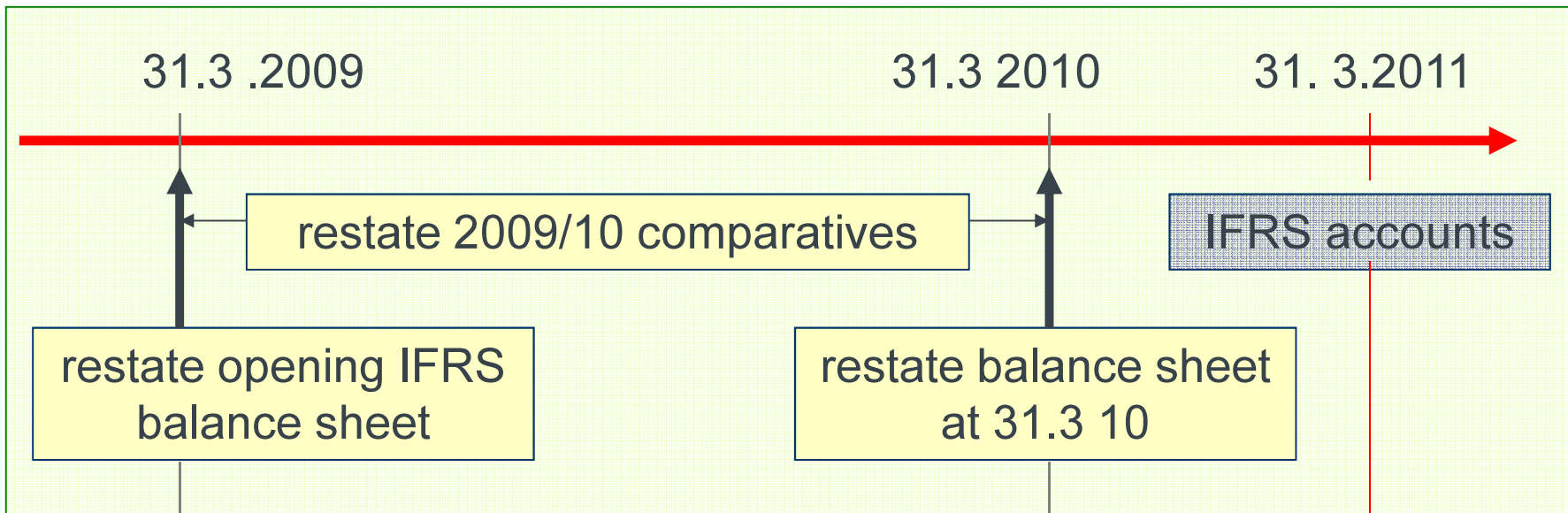
# Top 5 technical issues for 2010/11 - implementing IFRS

---

- First time adoption and presentation of statements
- Leases
- Employee benefits - compensated absences
- Segmental reporting
- Property plant & equipment



# First time adoption (IFRS1)



- Applied retrospectively (with a few exceptions)

# Leases - practical issues

---

- Identification (completeness)
  - embedded leases;
  - peppercorn leases
  - systems & documentation
- Assessing materiality individually & collectively
  - de minimis limits
- Classification & measurement
  - input from valuer
- Evidencing the process
- Budget & capital financing implications



# Compensated absences- practical issues

---

- Measurement of unused entitlement c/fwd
  - leave year
  - policy on carry-forward - leave & other absences
  - contractual provisions
- Variations between staff groups
- Availability of information
  - how is the information recorded?
  - implications for HR /other systems
- Estimation procedures



# Segmental reporting

---

- Net cost of services - objective analysis (BVACoP)
- Segmental reporting - subjective analysis
- Reportable segments
  - based on internal reporting
  - 10% or more of gross expenditure/income
  - cover at least 75% of expenditure (NCS)
  - combining segments



# Property plant & equipment

---

- Valuation/revaluation
  - measurement base
  - frequency
  - recognition of revaluation gains/losses
- Subsequent expenditure - recognition criteria
- Depreciation
  - component accounting (from 1.4.10)
- Classification
  - IFRS 5



# Assessing risks

---

|               |            |                  |                  |
|---------------|------------|------------------|------------------|
| <b>Impact</b> | Monitor    | Mild peril       | Panic zone       |
|               | Monitor    | Mild peril       | Mild peril       |
|               | Chill zone | Collect evidence | Collect evidence |
|               |            |                  | <b>Risk</b>      |

---

# IFRS and leases – stage 1 (realisation)

---

|        |  |  |                               |
|--------|--|--|-------------------------------|
| Impact |  |  | 100s of leases to be reviewed |
|        |  |  |                               |
|        |  |  |                               |

**Risk**



# IFRS and leases – stage 2 (rationalise)

---

|        |  |                                   |                                       |
|--------|--|-----------------------------------|---------------------------------------|
| Impact |  | 15 material leases                |                                       |
|        |  | Group of leases might be material |                                       |
|        |  |                                   | Remainder cannot possibly be material |

---

**Risk**

# IFRS and leases – stage 3 (implement)

---

|               |                              |  |                                       |
|---------------|------------------------------|--|---------------------------------------|
| <b>Impact</b> | All material leases restated |  |                                       |
|               | Group of leases restated     |  |                                       |
|               |                              |  | Other leases assessed as not material |

**Risk**

---

# IFRS and leases – stage 4 (audit)

---

|               |                            |  |                           |
|---------------|----------------------------|--|---------------------------|
| <b>Impact</b> | Restatement not challenged |  |                           |
|               | Restatement not challenged |  |                           |
|               |                            |  | Assessment not challenged |

**Risk**

# Help from the Audit Commission - at a national level

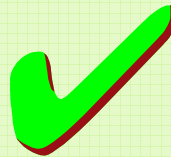
---

- Briefing papers
- Local Government Workshops
  - January and February 2010
- IFRS survey
  - Data collection
  - Detailed field work
  - National reports (March/April 2010)
  - Possible follow up report (October 2010)

# Role of the auditor

## The auditor can...

- Discuss the implications of IFRS
- Undertake an early review of accounting proposals
- Discuss presentation and measurement issues
- Review and discuss processes and systems



## Cannot...

- Recommend accounting policies
- Calculate entries required
- Recommend disclosures or presentation of item
- Advise on or implement systems



# Critical success factors

---

- Start early
  - Engage
    - members
    - senior management
  - Get a plan and commitment to deliver
    - budget
    - systems
    - members and senior managers
    - your finance team
    - non-finance colleagues (property, HR others)
  - Work with your auditor
-

# International Financial Reporting Standards

Any Questions??

