

Embedding IFRS

As at 31st March 2010, Central Government completed the first financial year for which the outturn will be assessed against the new International Financial Reporting Standards (IFRS). Local Government is still ploughing on with restating opening balances, ready for live running from 1st April 2010.

For Central Government, now is the best time to move from the status of implementation to “business as usual” activity, changing the focus from the immediate to the longer-term. Although currently preoccupied with making sure we have everything correct, we are presented with a great opportunity to consider what process improvements we can begin incorporating into regular activity. There remains a temptation for too many practitioners and senior stakeholders to regard IFRS as purely a technical accounting issue, which can be done alongside the day-job, or by external advisors, and with detailed calculations done largely off-system. This mindset can be addressed by embedding a new way of working and thinking, which also embeds the requirements for Whole of Government Accounting (WGA), which will bring their own challenges!

To identify what process improvements need to occur, reflecting on lessons learned in implementing the IFRS way of working gives us a starting point. There are perennial problems that auditors will always indicate such as insufficient evidence to back up stated figures, so ensuring a good audit trail is factored into plans is essential. But other potential pitfalls that have been identified include:

- a failure to secure lasting senior executive sponsorship and engagement;
- failing to agree major accounting policies (such as on PFI);
- ambiguity over internal responsibilities (such as which activities shared services operational units should undertake);
- insufficient resource dedicated to the task;
- a lack of planning in timetable and underestimating the complexities, and;
- allowing the maintenance of “business as usual” to take precedence.

For embedding new ways of working following the transition to IFRS, it is necessary to examine people issues, systems and processes, as well as ensuring all technical accounting issues have been resolved.

People: If external advisors were used, it is vital to ensure a complete transfer of knowledge; this is also desirable for succession planning to future-proof ongoing activity. Those same staff who were involved in implementing will not always be there, and skills transfer needs also to occur internally, and not just within the finance fraternity, either. Training should be focussed on key areas, as well as bringing together IT and procurement colleagues with finance to understand strategic implications on decisions for consideration with senior stakeholders. This needs to be factored in on a regular basis to assess business risk implications.

Systems: If transition required a lot of manual activity, question how the system can be upgraded to take the strain, such as automating annual leave accrual or coping with newly capitalised finance lease assets, and recognise the need for adequate audit trails.

Processes: Have processes been revised to ensure contracts (especially new ones) are reviewed for embedded derivatives, leases and intangible assets? You should also review the close-down timetable for all additional activity or the extra time needed on particular areas.

Accounting; Assurance is required that everyone is familiar with the implications of financial instruments and embedded derivatives, a new terminology for many, alongside others emerging from IFRS. It is also necessary to ensure that a full review of contracts - not just the indicative review done at transition - takes place to ensure everyone understands why leases have been classified as operating or finance leases. Guidance on revised capitalisation policies, covering all potential spend, needs to be cascaded to all businesses so they know the implications for the accounts and for budgets, and what additional data is required.

Key reflections on lessons learned include reviewing the value added by the involvement of external audit, who can guide on robustness and effectiveness of process and systems for embedding purposes. Ongoing senior sponsorship is useful, to ensure that the importance of interpreting accounting standards accurately and remaining relevant for decision support activity continues to be seen as high priority. It is essential to gain wider understanding of IFRS – and the issue of accounting standards – amongst other areas of the business – for HR (holiday pay accrual); IT (re systems); procurement (re contracts); and others engaged in investment projects (re capitalisation and assets) to ensure that the opportunity presented by the implementation of new accounting standards is maximised, and that improved transparency of what financial reporting can tell the business is achieved.

These are still early days, but despite that, the opportunity to embed the change in accounting regime and its significant business implications into business as usual is too good to miss.

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Securing the Future in the Public Sector - An engine room view

*In this short article, which first appeared in the ICAEW Journal "Securing the Future of UK Public Finances", CIPFA Central Government Panel member **Christina Earls**, gives a front-line financial manager's perspective on the key drivers that will impact upon the public sector's ability to respond to the challenges of the public sector spending cuts that are likely to characterise the next Parliament.*



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In the three decades that I have been working in the public sector, I have seen changes that will continue into the last decade of my working life – and no doubt beyond. These centre on four main areas – technology, people power, affordability and skills to deliver whets required

Technology. Computer systems designed to do most of my job were new when I started out in the early eighties. As the speed of change in our lives at home and work that technology has brought, we need to exploit automation even more. That may mean we need to bring all citizens up to speed or risk further disenfranchisement of certain sectors – not only the financially challenged but those of my parents generation, who have yet to see how it works for them.

People power. Customers know what they don't want probably more than what they do. So what do we know about them? We need to improve our intelligence of customers' needs and wants, to target services. "Tell Us Once" is an example of a universal service that has been developed to support us all, but the developing concept of "Total Place" targeting the needs and wants of us who remain in the area we were born in appears to provide that opportunity for us to have an impact at the level we can relate to. This can give us the reason to want to get more involved and take ownership of the decisions we can influence.

Affordability. Quite rightly we expect more for our money – in quantity, choice and quality. With only a finite pot to replenish the public coffers, we need to respond by prioritising – what can be reduced or dropped AND at the same time produce more from less. Outsourcing or sharing services across organisations will only go so far. We need to agree what are acceptable standards for essential services, and stick to it. Standard processes will help us eliminate waste and duplication, and use of techniques such as Lean is providing us with the essential tools to deliver.

Skilled workforce. As employees we have to meet the skills required for tomorrow, not today. Even if we are specialists in our field, our skills are getting outdated quicker, and we may need the support of others maybe from a team environment to maximise every drop of output. Skills around stakeholder engagement, challenge, flexibility, problem solving alongside the willingness to deliver honest, even if unwelcome messages and to think out of the box will keep us needed and employed.