hpc health professions council

Audit Committee Meeting – 10 December 2008

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) TIMETABLE

Executive summary and recommendations

Introduction

This is a paper to update the Committee on the forthcoming changes to IFRS reporting at the HPC.

Decision

The Committee is asked to review and approve the paper, subject to any changes.

Background information

At the Audit Committee on 26 June 2008, Annex J of the NAO Audit Findings Report referred to the introduction at the HPC of International Financial Reporting Standards, including those relating to financial instruments.

HM Treasury have provided a series of milestones (trigger points) for IFRS adoption by bodies such as the HPC. These include the following :

- Trigger Point One by 30 September, completing the restatement of your 31 March 2008 balances onto an IFRS basis and identifying for 2008-09 reliable estimates of the impact of FRS 26 Financial Instruments: Measurement,
- Trigger Point Two by 31 December, completion of the NAO audit of your 31 March balances onto an IFRS basis and audit on financial instruments and informing your spending team and HM Treasury by 30 January 2009 of the audit report and any actions you intend to take in response to the NAO's recommendations,
- Trigger Point Three by 10 September 2009, completing your shadow accounts and submitting them to the NAO,
- Trigger Point Four by 31 December 2009, the date by which the NAO will complete its audit of the 2008-09 shadow accounts.

Following discussion with Baker Tilly, we engaged the services of an experienced IFRS contractor to restate the 2008 Balance Sheet, policies and notes under IFRS. Baker Tilly will audit the results in early/mid December 2008. The audit results will then be reported to the Accounting Officer/Chief Executive, HM Treasury will be informed and audit results presented to the Audit Committee at their February meeting.

In our planning, we have also completed a draft of the IFRS Readiness Toolkit, that was usefully provided to us by the NAO. The report is attached for your consideration – refer Appendix Two.

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Resource implications

Five days work by an external contractor on the Balance Restatement and policy and note disclosures.

Further work in July and August 2009 to prepare shadow financial statements for the year ending 2008-09. This will be done using internal Finance resources, subject to completion of the Finance work plan for the forthcoming year.

Financial implications

Cost of external contractor to restate 2008 Balance Sheet, policies and notes to the accounts, approx £7.5k

Cost to audit 2008 Balance sheet, policies and notes to the accounts, approx £2k

Cost to separately audit the 2009 shadow financial statements under IFRS, approx £7k.

Appendices

Appendix One - HM Treasury letter on trigger points

Appendix Two – NAO IFRS Revised Readiness Toolkit

Date of paper

28 November 2008

APPENDIX ONE

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28 April 2008

Dear Richard

MOVE TO INTERNATIONAL FINANCIAL REPORTING STANDARDS: TRIGGER POINTS AND KEY DATES AND ACTIVITIES

This letter announces the Trigger Points and key dates and activities that reporting entities should follow in moving to International Financial Reporting Standards (IFRS).

Background

2. In their letter of 12 March, Director Public Spending and Director Government Reporting drew your attention to the announcement in the 2008 Budget that the move to IFRS has been postponed until 2009-10. The letter also announced that the Treasury intends to:

- implement the financial instruments standards (FRS 25, FRS 26 and FRS 29) in the 2008-09 edition of the FReM. The Financial Reporting Advisory Board agreed the text at its meeting on 17 April 2008;
- require all departments, executive agencies, non-departmental public bodies and trading funds to prepare shadow IFRS-based accounts for 2008-09 except where the entity can demonstrate, exceptionally, to the Treasury that it is unable to prepare full IFRS-based accounts for that year; and
- make any necessary changes to budgets as a result of the switch to IFRS in Winter Supplementary Estimates 2009. To prepare for this, departments will need to complete the work previously requested to establish the scale of any changes to accounts as a result of the move to IFRS and the implications for Estimates and budgets.

3. This letter provides the guidance on timetables and processes promised in that letter. The guidance applies to Whitehall reporting entities; the Devolved Administrations will agree timetables with their auditors. Charitable NDPBs will continue to follow the requirements of the Charities SORP and so are not covered by this guidance.

4. The Trigger Point dates are the latest dates by which you should have achieved the actions. You are encouraged to plan to deliver in advance of those dates – in consultation with your audit team, where necessary. The dates and actions associated with those dates are summarised in the Annex to this letter and have been agreed with the National Audit Office. Where the Treasury gives you a dispensation, you will still need to agree with your auditors a timetable for the preparation and dry-run audit of the comparatives for your 2009-10 IFRS-based accounts.

5. As you start the work you need to do to meet the Trigger Points set out below, please get in touch with the Financial Reporting Policy (FRP) team where you think that there are areas where we can arrange seminars or other types of event to assist in implementing IFRS.

Trigger Point One: 30 September 2008

6. Trigger Point One is in two parts. It relates to implementing the financial instruments standards for 2008-09 and to restating your 31 March 2008 balances.

a) By 30 September 2008, you should have identified, for 2008-09, reliable estimates of the balance sheet and operating cost statement impact of FRS 26 *Financial Instruments: Measurement* and notified your spending team about the impact on budgets and Estimates. You do not need to restate the 2007 comparatives. The SCOA codes for financial instruments will be available by 30 May 2008 and go live on 31 August 2008 in time for the impact of the changes in accounting for financial instruments to be included in the 2008-09 Winter Supplementary Estimates presented in November 2008 (which will be prepared on a UK GAAP basis).

b) By 30 September 2008, you should have completed the restatement of your 31 March 2008 balances onto an IFRS basis and submitted the restatement to the National Audit Office (NAO). The draft IFRS-based SCOA will be available by 31 October 2008.

Trigger Point Two: 31 December 2008

7. Trigger Point Two, 31 December 2008, marks the completion of the NAO's dry-run audit of your 31 March 2008 balances, including reporting initial results to you. You will copy the NAO report, together with any actions you intend to take in response to the NAO's recommendations, to your spending team and to the in the Treasury by 30 January 2009.

8. You should ensure that you inform your spending team and FRP of the indicative impact of IFRS on your budgets, Estimates and accounts by 13 March 2009, based on the work you have done on the 31 March 2008 balance sheet. On the basis of this information, the IFRS-based SCOA will be finalised and will be available by 29 May 2009.

9. As part of Trigger Point Two, the NAO will also audit your work on financial instruments. If you need to make any adjustments to your initial assessment of the impact of financial instruments, you will be able to do so in the 2008-09 Spring Supplementary Estimates in February 2009. Main Estimates for 2009-10 will be presented on a UK GAAP basis.

Trigger Point Three: 10 September 2009

10. Trigger Point Three is in two parts. It relates to the completion of your shadow accounts and to the submission of IFRS-based data to COINS for 2009-10.

a) By 10 September 2009, you must have completed your 2008-09 shadow accounts and passed them to the NAO. You should also send to your spending teams and FRP any update of your assessment of the impact of IFRS on your budgets by that date.

b) The IFRS-based SCOA will go live on 31 August 2009. You will submit 2009-10 IFRS-based data onto COINS in your September 2009 returns. The eighth working day in September is 10 September 2009.

11. Final adjustments will be made, as necessary, to budgets and the 2009-10 Winter Supplementary Estimates in November 2009 will take Estimates onto an IFRS-basis.

Trigger Point Four: 31 December 2009

12. The final Trigger Point in the move to IFRS is 31 December 2009, the date by which the NAO will complete its dry-run audit of the 2008-09 shadow accounts, including reporting initial results to you. You will copy the NAO report, together with any actions you intend to take in response to the NAO's recommendations, to your spending team and to FRP in the Treasury by 29 January 2010.

13. I should be grateful if you would ensure that you copy this letter to your agencies, NDPBs and trading funds.

14. If you have any questions about the timetable, please contact me in the first instance.

Yours sincerely

David Watkins
Financial Reporting Policy Team

APPENDIX TWO

International Financial Reporting Standards: Revised Readiness Toolkit

October 2008

This is the revised word version of the published International Financial Reporting Standards: readiness toolkit, which is available on our website, www.nao.org.uk. This revised toolkit takes into account the finalised IFReM produced by HM Treasury in July 2008 and details the main IFReM developments since the first toolkit was produced: accounting for Public Private Partnership (PPP) and Private Finance Initiatives (PFI); intangible assets; infrastructure assets; and IFRS 8 Operating Segments.

This version has expandable word tables that will enable clients to complete the document electronically and share the results within their organisation and with their NAO audit teams.

The questions and issues raised in the document are directly comparable to the published version.

If you have any queries about your use of this document, then please contact the NAO.

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INTRODUCTION

The transition from UK Accounting standards to International Financial Reporting Standards (IFRS) and the IFRS version of the Treasury's Financial Reporting Manual (IFReM) is the largest change to UK public sector financial reporting since the introduction of resource accounting. HM Treasury set the revised timetable for the transition in FD Letter 08/12, including Trigger Point dates for key actions in order to achieve IFRS-compliant financial statements for the year to 31 March 2010. Awareness of the key issues and a planned approach will ensure that the transition is managed effectively and that the timetable is achieved.

The NAO have developed this 'readiness toolkit' to help our clients consider the work they need to do in advance of the first set of audited IFRS accounts and establish the key financial reporting issues for their organisation. We have also included an Annex outlining the key impacts of the transition to Financial Instrument Standards for the 2008-09 financial year, which entities may find useful.

The toolkit is designed to be used by client staff to assess the impact of the transition on their business and financial statements. The toolkit:

- Outlines each applicable standard, and any relevant Treasury adaptations or interpretations for the central government sector;
- Details the key areas of each of the applicable standards, where they differ from current UK GAAP and the FREM; and
- Suggests a series of questions and actions which management should consider in defining their approach to the transition

We have designed the document to be as comprehensive as possible and to address the majority of the issues in implementing IFRS. However, it is not intended to replace the need for detailed knowledge of the standards and the IFReM adaptations. It is important that the issues are considered by the business as a whole, not just finance staff in isolation, as implementation in the private sector suggests that in many cases, the detailed knowledge required to successfully introduce IFRS lies outside the finance function.

The guide has three sections:

- Section A is designed to pull together the key issues and processes that management need to take into account;
- Section B considers the individual International Financial Reporting Standards and the areas of impact;
- Section C notes some of the key lessons from the private sector from implementation of IFRS.
- Annex 1 details some of the considerations around the implementation of the financial instrument standards for FRS, to be implemented in 2008-09.

NAO Audit teams will be available to discuss the process of transition and timetable with clients as required and will audit the restatement of figures required by IFRS 1 – First Time Adoption of IFRS, in line with the requirements of Treasury's trigger points.

Note – Due to current legislative restrictions within the Charities Act, charitable NDPBs will continue to prepare their accounts in accordance with the Charities SORP, which draws from current UK GAAP. This checklist should therefore not be used for charities, unless IFRS-compliant consolidation schedules are required for Resource Accounts or Whole of Government Accounts purposes.

SECTION A - OVERALL SUMMARY OF MANAGEMENT ACTIONS

Background

This section summarises the management actions that are required to implement IFRS successfully. In completing this section you will want to draw on information gathered in Section B.

Management will need to ensure that sufficient steps are taken to successfully implement IFRS and the IFReM. In particular, management will wish to review their activities and their organisation so that they are aware of the impact of the transition to the new standards and that they have sufficient resources and knowledge to ensure a successful transition.

PREPARATION – RESOURCES AND KNOWLEDGE	Comment
1. What are the key impacts on the organisation and its financial reporting arising from the implementation of IFRS?	Employee holiday pay accrued. Annual land and buildings valuations. Investments e.g. Bank interest accrued basis, not interest received basis. Specific provision for bad debts. Tax charge adjustments to general funds. Changes to disclosures in Notes to the Accounts e.g. for non property assets carried at fair value with depreciated historic cost used as a proxy for fair value.
2. What are the key changes to accounting policies?	Tangible Assets – properties valued at market value on an annual basis. Intangible Assets – separate disclosure for computer application software (Registry system) Investments – bank deposit interest recognised on an accruals basis not a received basis.
3. What level of resource is required to successfully manage the transition?	One experienced IFRS contractor to restate the 31 March 2008 balances, policies and associated notes to the accounts, with help from HPC employees in gathering the information. Several Finance employees working during the July-August 2009 period to prepare shadow accounts under IFRS, including disclosures, for the financial year ending 31 March 2009.
4. What IFRS staff training is required? *Note – Consideration should be given to training finance and non-finance staff (such as procurement staff and business managers) in the impacts of IFRS.*	The Finance Director (FD) and Financial Controller (FC) attended a one day ACCA familiarisation course in July 2008 titled "IFRS in the Public Sector". Monitoring of website guidelines including HM Treasury & NAO websites. Finance dept to brief budget holders about IFRS requirements and budget adjustments for 2009/10 onwards. FD/FC to ensure financial statement contributors are aware of the relevant IFRS requirements for publishing the March 2009 financial statements and beyond.
5. What actions are required to ensure that bodies that are consolidated into the financial statements will successfully implement IFRS?	During the March 2008 balance restatement exercise, the subsidiary company 22-26 Stannary St Ltd balances, relevant policies & notes will be restated under IFRS for consolidation purposes. We will generate IFRS shadow financial

	statements for 22-26 Stannary St Ltd for the year ended 31 March 2009.
6. What role do internal audit have in aiding the transition?	Review of the IFRS audit findings. Adaptation of the internal audit plan, as required.
7. What is the potential impact on the accounts preparation timetable as a result of the transition to IFRS?	Following a conferral meeting with NAO and Baker Tilly auditors on 7 November 2008, the process for preparing the IFRS shadow accounts will occur after completion of the financial statements under UK GAAP for the year ending March 2009 (final steps in July-August period).
8. How is management planning to keep the Audit Committee informed of the timetable and progress being made towards adoption of the revised standards?	An audit findings paper and audit certificate/letter of comfort on HPC's restated balances will go to the Audit Committee at their meeting in February 2009. Future Audit Committee meetings will receive an update on adopting IRFS reporting. The financial statements including audit certificates, will be presented at future Audit Committee meetings.
9. What is the potential budgetary impact of the move to IFRS?	Recognition of Employee holiday expense liability at 31 March 2009. This will likely reduce the reported surplus before investments by approximately £37k. Other financial impacts are yet to be confirmed. Market valuation of land and buildings, valuation change unknown. A one time cost to restate the 2008 Balance Sheet of £7.5K, unbudgeted. The auditor cost to audit those restated balances is approx £2k, unbudgeted. Further one off audit costs (to audit financial statements under IFRS) in 2009/10. Future budgets to be prepared under IFRS.
10. How and when will engagement with the external auditor take place?	By arrangement, in early/mid December 2008 Baker Tilly will audit the restated 2008 Balance Sheet, policies & notes. A modified audit certificate/letter of comfort will then be prepared by Baker Tilly & NAO by the end of December 2008. The audit certificate and restated Balance Sheet will be presented to the Accounting Officer/Chief Executive, with a subsequent briefing paper also going to the February 2009 Audit Committee meeting. External audit of the March 2009 IFRS shadow financial statements, planned for September 2009, date to be confirmed. NB: The 2009 financial statements restated under IFRS are not required to be tabled in Parliament. Subsequent year's financial statements prepared under IFRS will be tabled.
11. Will the 2008-09 Accounts include a statement on preparedness and the potential impact of the transition to IFRS?	Statement from auditors, HPC's Accounting Officer or NAO? NAO to clarify.
PREPARATIONS – SYSTEMS AND DATA	

12. What implications to the configuration of financial systems arise as a result of the transition to IFRS?	No changes expected for the process of calculating accrued holiday pay (will use HRInfo system, employee salary records & MS Excel spreadsheet). Additional spreadsheet calculations e.g. to create bank interest accrued and reporting on specific bad debts, as necessary. Some formatting and labelling changes will be made to the formatting of the final management accounts (published in MS Excel) with similar nominal account changes in the SAGE financial system, as necessary.
13. For what balances and disclosures is there a need to capture new and revised data with regard to IFRS? *Note – Areas such as leases, financial instruments and fixed assets may require additional data capture.*	Employee holiday pay liability. Land and buildings annual market valuations. Interest income accrual. Specific provision for bad debts (Registrants).
14. How do management accounting processes need to be re-engineered to ensure they are compatible with IFRS?	Firstly, creation of a new spreadsheet showing the changes from UK GAAP to IFRS will occur during the 2008 restated Balance Sheet exercise and be extended for the full 2009 financial statements, showing where differences arise. The Budget for 2009/10 will need to be adjusted to an IFRS-compliant format before submission to the March Council meeting. Monthly Reporting will be aligned to an IFRS-compliant format for the start of the new financial year reporting, including interest income accruals, holiday pay accruals and separation of tangible and intangible assets & depreciation. The Five Year Plan will be adjusted to an IFRS-compliant format when it is next updated - around October.
15. Has the accounts format been altered to ensure it is line with the new requirements of the IFReM? *Note – The format should agree with IFRS Department Yellow, IFRS Agency Pink, IFRS **NDPB Green** and IFRS Magenta Pension Scheme Accounts, as appropriate. (http://www.financial-reporting.gov.uk/proformas.htm)*	Not yet.
16. Are parallel systems needed for 2008-09, for IFRS and FRS based information, to ensure that comparative information can be accurately produced?	No significant issues identified to date that highlight the need for parallel systems to be set up. Will reassess, pending a review of the results of the 2008 Balance Sheet restatement, should it highlight major differences and measurement difficulties for IFRS reporting at the HPC.

SECTION B – ACCOUNTING CHANGES

FIRST TIME ADOPTION

Background

In April 2008 the Treasury announced the Trigger Points for the implementation of IFRS in the lead up to the first set of IFRS compliant accounts for the year ending 31 March 2010. IFRS shadow accounts for 2008-09 will also be produced.

Key dates are now as follows:

- 30 September 2008 – reporting entities should have completed the restatement of 31 March 2008 balances into an IFRS basis;
- 31 December 2008 – completion of NAO audit of 31 March 2008 balance sheet restatement;
- 10 September 2009 – reporting entities should have completed their 2008-09 shadow accounts and passed to the NAO; and
- 31 December 2009 – the NAO should have completed its dry-run audit of the 2008-09 shadow accounts.

Management will need to ensure that they are able to produce financial reporting information on an IFRS basis to feed into restated comparatives. Until 31 March 2009 management will also need to produce information on the current UK GAAP basis for their 2008-09 published financial statements. In overview there is a need for organisations to:

- Assess the areas of impact on their accounts;
- Capture the required data for the restatement figures required by the trigger points;
- Assess the impact of the revised standards on the format of their financial statements; and
- Review their accounting policies to identify any required revisions.

Entities will need to consider the following standards in their first time adoption review process:

- IFRS 1 - First Time Adoption of IFRS;
- IAS 1 – Format of the Accounts;
- IAS 8 – Accounting Policies

FIRST TIME ADOPTION OF IFRS – IFRS 1

Background

IFRS 1 sets out detailed rules that entities must follow when adopting IFRS for the first time.

The standard also sets out a number of exemptions that may be applied when adopting IFRS. However, for UK Government implementation Treasury have clearly stated that adjustments should only be made if they are material.

If an entity wishes to apply either of these exemptions a full audit trail must be produced to outline the assessment and sufficient evidence must be provided to evidence that the application of the exemption is appropriate.

The main issues that bodies need to be aware of when adopting IFRS 1 are:

- A full audit trail for all adjustments from UK GAAP to IFRS will be required;
- Additional reconciliations and disclosures will need to be produced, see detailed sections below;
- **A significant amount of analysis and documented evidence will be required even when proving 'nil' adjustments;**
- Key issues need to be flagged early and discussed with auditors to ensure there is timely agreement on accounting treatment;
- **The length of disclosures within the accounts as a result of IFRS will be increased**;
- Early engagement with Audit Committees is essential to ensure they are aware of the process and the impact of the change to IFRS; and
- Significant investments in terms of time and resources are likely to be required to ensure that all issues with IFRS are resolved, especially for more complex accounts.

The Treasury has adapted the rules of IFRS 1 in the IFReM. This section reflects these adaptations and interpretations.

IFRS 1 – Areas of impact	Yes/No/Not applicable
Process	
17. Has full consideration been given to the key issues for applying full retrospective restatement of IFRS required by the Treasury's Trigger Points?	We believe so.
Restatement of Balances	
18. Has a restatement of the Balance Sheet as at 31 March 2008 been carried out and submitted to the NAO by 30/09/2008?	The restatement will be provided to the external auditors (Baker Tilly) to audit in early/mid December 2008.
19. Are plans in place for the production of a full set of shadow accounts for the 2008-09 financial year leading to the 10 September 2009 Trigger Point for the following:	
• Balance Sheet as at 31 March 2009	Yes
• OCS/Income Statement for the year ended 31 March 2009	Yes
• Cash Flow Statement for the year ended 31 March 2009	Yes
• Notes to the Accounts	Yes
• Statement of Operating Cost by Departmental Aim and Objective (resource accounts only)	n/a
Note – As stated in the new estimates manual, the Statement of Parliamentary Supply for Departments is not to be restated as a result of the adoption of IFRS.	
Disclosure of the Impact of IFRS	
20. Have plans been developed for producing additional disclosure notes outlining the effect of the adoption of IFRS, including the following, where the adjustments are material? • A reconciliation of equity (net assets) under FRS to equity under IFRS as at 1 April 2008. • A reconciliation between net operating costs for the year 2007-08 reported under UK GAAP and as reported under IFRS where this is not explained through the reconciliation of taxpayer's equity; • A disclosure note of any required impairment due to the adoption of IFRS.	Yes.
Note - Clients cannot use the adoption of IFRS to make corrections to inappropriate policies under UK GAAP, or the inappropriate application of legitimate policies. Where past errors are identified as part of the IFRS implementation, they should be disclosed separately; these reconciliations should clearly identify the impact of IFRS only.	

FORMAT OF THE ACCOUNTS - IAS 1

Background IAS 1 is less prescriptive than UK GAAP with regard to the structure and format of accounts. The IFReM sets out a prescribed format for government entities that must be applied and removes some of the options within IAS 1, for example the IFReM states that a Statement of Changes in Equity must be prepared, removing the option to produce a Statement of Recognised Income and Expenses. Entities should refer to the IFREM IFRS based Department Yellow, Agency Pink and **NDPB Green** for an indication of appropriate format of statements and accounts.

IAS 1 - Areas of impact	**Yes/No/Not applicable**
21. Has the format of the accounts, including accounting policies, significant judgements and disclosure notes, been considered to become IFRS compliant? *Note – The format should agree with IFRS Department Yellow, IFRS Agency Pink,* ***IFRS NDPB Green*** *and IFRS Magenta Pension Scheme Accounts, as appropriate. (http://www.financial-reporting.gov.uk/proformas.htm)*	Yes for Balance Sheet-related items. Further work to do to ensure the full financial statements are IFRS-compliant.
22. Has the format of accounts been discussed with the auditors? *(This should be considered in the audit of the 31/03/08 restatement of balances.)*	Initial discussion has taken place. Further discussion to follow at a later date.

ACCOUNTING POLICIES – IAS 8

Background
Accounting policies are defined in IAS 8 as the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. Some revisions to accounting policies will be required as a result of the adoption of IFRS and the private sector saw a significant increase in the length of accounting policy disclosures in the financial statements as a result of the transition to IFRS. This increase in length was largely due to the need to provide more explanation on application of the standards, but also due to the requirement to explain areas of judgement and an indication of uncertainties in accounting estimates.

The adoption of IFRS is an opportunity for clients to revisit their accounting policies and ensure that they comply with the guidance in all areas.

IAS 8 – Areas of impact	**Comment**
23. Is the entity reviewing its accounting policies to confirm that they are compliant with the requirements of IFRS and the IFReM? Areas that entities will commonly need to revise include: • Consolidation and boundary issues (for non-departments only). • The use of fair value for land and buildings fixed assets and the entity's approach to valuation of the assets. • The use of fair value or depreciated historic cost for non-property assets. • The approach used to valuing financial instruments. • The approach to valuing and depreciating intangible non-current assets. • The application of the revised inventories guidance (where applicable). • The calculation of employee benefits accruals. • The application of the revised related parties guidance. • The explanation of significant areas of judgement and uncertainties in accounting estimates. • The approach to recognising and accounting for PPP / PFI arrangements.	Yes. In progress i.e. has been done for Balance Sheet related items as follows: Annual market valuations will be adopted for land and buildings. Separate reporting and disclosure for Intangible Assets. Year end accruals for bank interest earned and holiday pay will be made. Updated pension scheme actuarial valuations will be disclosed in the financial statements. NB: Boundary issues (NDPB's are outside the accounting boundary), financial instruments, inventories and PPP/PFI are not relevant.
24. Are there any adjustments to existing policies which, whilst not strictly required for IFRS purposes, are proposed to aid the clarity and understanding of the financial statements?	In progress. Subject to obtaining approval at the February Finance & Resources Committee meeting, we plan to change the depreciation policy for computer hardware (4 years straight line to 3 years straight line) and introducing a separate asset class for the building lifts, with a 20 year life, depreciated on a straight line basis. This proposal has been discussed and cleared with the auditors already.

CONSOLIDATION AND BOUNDARY ISSUES

Background

In addition to the review of implementation procedures, policies and the format of the accounts, entities need to assess the impact of IFRS on their accounting boundary.

The IFReM states that the departmental boundary is different from the concept of a group under generally accepted accounting practice: it is based on in-year budgetary control and not on strategic control. The IFReM also gives details of bodies both inside and outside the departmental resource accounting boundary, with NDPBs specifically excluded.

However, there may be some impact on NDPBs and Trading Funds as they will be applying the consolidation and boundary standards in full.

The standards that entities need to consider in this area are:

- IAS 27 – Subsidiaries;
- IAS 28 - Associates; and
- IAS 31 - Joint Ventures.

IAS 27, 28, 31 – Areas of impact	Comment
25. What are the effects of IFRS on the accounting boundary?	IAS 28 and 31 have no impact. IAS 27 applies for the subsidiary company 22-26 Stannary St Ltd. The impact is in obtaining a market valuation of land and buildings, aligning the accounting policies and providing suitable disclosures in the notes to the subsidiary accounts.
SUBSIDIARIES – IAS 27	**Comment**
For those entities that are not specifically outlined in the IFReM as outside of the accounting boundary (see IFReM chapter 4.2.12), under IAS 27 all subsidiaries must be consolidated. Subsidiaries are defined in terms of control, defined as "the power to govern the financial and operating policies of an enterprise so as to obtain benefit from its activities".	
26. Are there relevant relationships which demonstrate the following factors that indicate control and may, as a result, impact on the financial statements? *(Note – one or more of these factors will be judged to indicate control and it is the theoretical ability to control, not the exercise of it which is relevant)*	No. The controlling party of 22-26 Stannary Street Ltd is the Health Professions Council. The HPC has the power to govern financial and operating policies for the subsidiary company. The HPC holds all of the shares, being 5000 Ordinary 'A' shares and 4251 Ordinary 'B' shares. There are 3 directors of the subsidiary company; the Chief Executive, President and Chairman of the Finance and Resources Committee for the HPC.

• Ownership of more than 50% of the voting power. • Power over more than 50% of the voting rights. • Power to govern financial and operating policies. • Power to appoint or remove the majority of the members of the board of directors. • Power to cast the majority of votes at meetings of the board of directors.	
27. Are there changes to the entity's consolidation process as a result of IFRS?	No.
ASSOCIATES – IAS 28	**Comment**
Under IAS 28, investors must use the equity accounting method to account for all associates. Associates are classified as such if the investor has significant influence over the investee, being "the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies".	
28. Are there relevant relationships which demonstrate the following that indicate significant influence? *(Note – As for control, one or more or these factors will indicate significant influence)* • Representation on the board (greater than 20% of the voting power results in significant influence). • Participation in the policy making process. • Material transactions with the investee. • Interchange of managerial personnel. • Provision of essential technical information.	Not applicable.
29. Are there changes to the bodies which will be equity accounted as a result of the transition to IFRS?	
JOINT VENTURES – IAS 31	**Comment**
Joint ventures are defined in terms of a contractual arrangement, "whereby two or more parties undertake an economic activity that is subject to joint control". *Note – IAS 31 only applies when decisions require unanimous consent. Three types of joint ventures are identified, jointly controlled operations, jointly controlled assets and jointly controlled entities.*	
30. What contractual arrangements whereby two	Not applicable.

or more parties undertake an activity that is subject to joint control, and unanimous consent is required to take decisions, exist?	
31. If such arrangements exist then is the body accounting for them as follows, dependent on the nature of the arrangement? Jointly controlled operations: • The assets it controls and the liabilities it incurs. • The expenses it incurs. • Its share of the joint venture income. Jointly controlled assets: • Its share of the jointly controlled assets. • Any liabilities it has incurred directly. • Its share of any liabilities incurred jointly. • Its share of the joint venture income and expense. • Any expenses it has incurred. Jointly controlled entities – the venturer will need to apply one of the following treatments: • Proportional consolidation. • The equity method of accounting for the entity.	n/a

INVESTMENTS

Background

Generally the impact of IFRS on investments is restricted to the Financial Instruments standards, IAS 32 and 39 and IFRS 7, equivalent to FRS 25, 26 and 29 to be implemented in 2008-09 under UK GAAP and the FReM. However, there are two specific areas where other standards may affect the accounting for investments:

- Non-current assets held for sale – IFRS 5; and
- Investment property – IAS 40.

If an entity has any assets that it is planning to sell, or property that is held as an investment, then these standards will apply.

IFRS 5 applies to a disposal group (group of assets and associated liabilities to be disposed of by sale or otherwise together as a group in a single transaction) and non-current assets held for sale (that are not under the scope of financial instruments or IAS 40 Investment Property).

IAS 40 defines investment property as "property held to earn rentals or for capital appreciation or both, rather than for: use in the production or supply of goods and services; for administrative purposes; or sale in the ordinary course of business".

Note - There is no link between assets held for sale and discontinued operations. Discontinued operations will not have a significant impact in the public sector as the IFReM states that machinery of government transfers do not count as discontinued operations.

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS – IFRS 5	
IFRS 5 – Areas of impact	**Yes/No/Not applicable**
32. Are non-current assets held for sale classified appropriately and shown separately on the Balance Sheet?	Not applicable.
33. Are all such assets valued at the lower of carrying amount and fair value less costs to sell and not being depreciated?	n/a
34. Has any impairment as a result of the change in valuation to lower of carrying amount less costs to sell been recognised? *Note – The recognition of subsequent gains is allowed, but only to the extent that they reverse any impairment loss.*	n/a
INVESTMENT PROPERTY – IAS 40	
IAS 40 – Areas of impact	**Yes/No/Not applicable**
35. Is the entity holding investment properties at fair value and not depreciating them? *Note – The option to value investment property at depreciated historic cost has been removed by the IFReM.*	Not applicable. Property not held to earn rentals or for capital appreciation rather than for use in the production or supply of goods or services or for administration purposes.
36. Is the entity passing all revaluation gains/losses related to investment property through the OCS?	n/a

37. Is the entity classifying investment properties that they have developed for sale as stock?	n/a
38. Is investment property that is to be occupied by the entity being, correctly, classified as property, plant and equipment?	n/a

NON-CURRENT ASSETS

Background

The transition to IFRS with regard to non-current (fixed) assets will affect the majority of entities within the public sector. The international standards require some significant changes in accounting treatment that will result in adjustments for most entities.

The standards that impact on the accounting for non-current assets are:

- IAS 16 – Property, Plant and Equipment;
- IAS 38 – Intangible Assets;
- IAS 23 – Borrowing Costs;
- IAS 36 – Impairment.

Note – These standards do not apply to assets held for sale, biological agricultural assets, exploration and evaluation assets, mineral rights and reserves, or investment properties.

PROPERTY, PLANT AND EQUIPMENT – IAS 16

Background

IAS 16 is similar to the equivalent UK standard, FRS 15, in many respects though there are some changes in emphasis and new rules. These are highlighted below.

There is the opportunity for entities to revisit their accounting for non-current assets as a result of the adoption IFRS and introduce a more component based approach. This will require material components of non-current assets to be capitalised and depreciated separately, which will allow a more accurate reflection of the consumption of economic benefits and the recapitalisation of components when they are replaced. However, we advise entities to take a pragmatic approach to the recognition of components under IAS 16 and only recognise components if there is a clear case for doing so.

The applicability of IAS 16 to infrastructure and heritage assets is detailed in the IFReM in Chapter 6.

IAS 16 – Areas of impact	**Yes/No/Not applicable**
39. Is the entity valuing property fixed assets: • At valuation and not historic cost? • Using the most appropriate method? *Note - Options include: quinquennial valuation supplemented by indexation and no interim valuations, annual valuation, or a rolling programme of revaluation. The option given in IAS 16 to measure at cost has been withdrawn by the IFReM, as has the option to value only certain classes of assets.* • At fair value using a method determined by valuers? • As assets under construction as appropriate? • Using the most appropriate reserve to record the revaluation (revaluation reserve, donated asset reserve or government grant reserve)?	Yes. Going forward, property assets, including those under construction will be valued by a chartered surveyor (RICS) at fair value at the end of each financial year. A revaluation reserve is used to record the revaluation.
40. Is the entity recognising and valuing non-property fixed assets at fair value, or depreciated historic cost for assets with a short life or low value?	Depreciated historic cost with all items on the Fixed Asset register within an asset class depreciated individually. To elaborate, the most significant class of non property assets is computer application software such as enhancements to the bespoke* Netregulate

	registration system. Because the system is bespoke for a UK health regulator of our size and range of professions regulated, obtaining a fair value would be problematic (no active market with willing buyers), hence depreciated historic cost is used. Software enhancement costs are depreciated (conservatively) over 3 years at present. Under IFRS, this valuation approach won't change, but as the software is not an integral part of the related hardware, we will report it as an intangible asset (an identifiable non-monetary asset without physical substance). The reported net book value at 31 March 2008 for this class of assets was £453k. Note that significant amounts will be spent in future years in this asset class, involving further enhancement to the Netregulate system. System impairment testing (for computer virus corruption etc) is carried out on an annual basis by external parties. The software is also backed up each day (to fix the asset impairment if one arose). The IT strategy involves extending and enhancing the Netregulate system for the foreseeable future. Regarding the asset class Computer Equipment, these items have a short life and are valued at depreciated historic cost. Items below £1000 are expensed with the exception of laptops & PC's. The net book value at 31 March 2008 for Computer Equipment was £173k. From 1 April, the intention is to shorten the life from 4 years to 3 years for IT hardware to better reflect its value and estimated useful life. Under IFRS, the valuation approach (depreciated historic cost) won't change. Regarding the asset class Office furniture and equipment, these items have a short life (4 years) and are valued at depreciated historic cost. Items below £1000 are expensed. The net book value of office furniture and equipment at 31 March 2008 was £40k. Future capex forecasts for this category involves very modest spending, in contrast to spending on additional buildings and computer application software. Under IFRS, the valuation approach won't change. * Netregulate is commercially available for other regulators to purchase, although was developed bespoke for the HPC.
41. Is the entity capitalising donated assets at fair value with the credit entry made to the donated asset reserve?	Not applicable.
42. Is the entity capitalising subsequent expenditure when it is probable economic benefits will flow and the costs can be measured reliably? *(Note - The requirement under FRS to extend the economic life of the asset has been removed)*	Yes.
43. Is the entity taking revaluation losses first to reserves then to the OCS for any loss in excess of previous revaluation gains?	Non property assets are not revalued, with the exception of impairment write downs.

(Note – The relevant reserve must be used, donated assets to the donated asset reserve, grant financed to government grant reserve)	
44. Do any of the entity's non-current assets have a residual value? *Note - If so then this residual value, where material, must be revisited at every Balance Sheet date with depreciation adjusted accordingly.*	No.
45. Is the entity valuing assets that have been purchased for non-monetary assets at fair value?	Not applicable.

INTANGIBLE FIXED ASSETS – IAS 38

Background
There are substantial differences between IAS 38 and the equivalent UK standard FRS 10, regarding the identification of assets and the capitalised costs of such assets. There is the potential for adjustments to be required on adoption of IAS 38 for some entities.

The Treasury have adapted the rules of IAS 38 in the IFReM and, as a result, we are not expecting significant additions or removals from entities' balance sheets. However, where there is a clear case for capitalisation of intellectual property and database type assets, they should be recognised.

IAS 38 – Areas of impact	Yes/No/Not applicable
46. Is the entity recognising intangible assets when they are separately identifiable from the business and meet the criteria of IAS 38 (as opposed to the requirement for assets to have an available market prior to recognition under FRS 10)? *Note - There is no presumption under IAS 38 that intangibles have a finite Expected Useful Life,, unlike under FRS 10. However, if the entity chooses an infinite life for an intangible asset then annual impairment reviews must be carried out.*	See comments under Computer software above (no 40). These assets are each separately identifiable by type and acquisition date. NB: The HPC has no intangible assets that are patents, copyrights, customer lists, franchises, customer or supplier relationships, market share or marketing rights that meet criteria of identifiably, resource control and existence of future economic benefits.
47. Is the entity holding intangible assets at the appropriate valuation? • On first time adoption, IAS 38 allows entities to elect to used deemed cost for initial recognition of the intangible asset where that asset meets the recognition criteria in IAS 38 and the revaluation criteria. That deemed cost may be fair value, **or cost** or depreciated replacement cost (DRC). Under IFRS 1 an entity can only elect to use these routes if the intangible asset meets both recognition criteria in IAS 38, including reliable measurement of original cost. Thus, an entity can only use retrospective capitalisation where it holds reliable original cost information in relation to the internally generated asset. • For subsequent measurement IAS 38 allows the use of either the cost or revaluation model for each class of intangible asset. The IFReM has withdrawn the option to value intangible assets at cost. Where an active market exists intangible assets should be measured at fair value and where it does not, intangible assets should be measured using indices or some suitable alternative to assess the DRC of intangible assets which is a proxy for fair value. *Note – Intangibles will have to be retrospectively valued at the date of adoption of IFRS.*	On first time adoption, we elect to use deemed cost (historic cost option) for initial recognition of the intangible assets. For each asset, a reliable measurement of the original cost is held on record, and it is extremely probable that future economic benefits will flow to the HPC from using these assets. Computer software is valued at depreciated historic cost with regular impairment reviews. Further details outlined in question no 40.
48. Is the entity capitalising development costs (they must be capitalised under IAS 38, unlike	Yes, where they meet the criteria outlined, including future economic benefits beyond

under FRS where this was optional)? To do so, has the entity been able to demonstrate the following: • the technical feasibility of completing the intangible asset so that it will be available for use or sale; • its intention to complete the intangible asset and use or sell it; • its ability to use or sell the intangible asset; • how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; • the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and • its ability to measure reliably the expenditure attributable to the intangible asset during its development.	current year. Project plans, project budgets and business case outlines are typically developed for development projects to highlight the benefits and costs.
49. Is the entity capitalising internally generated software as an intangible asset? *Note – Under the UK FReM internally generated software was capitalised as a tangible asset (chapter 7.4.40).*	No.
50. Is the entity expensing website costs rather than capitalising them, unless the entity can prove that the site is used to deliver future service potential? *Note – If the website is simply for the purpose of informing stakeholders of the services or objectives of the reporting entity the costs should not be capitalised.*	Yes, regarding website costs in the past, as no direct generation of future economic benefits. Regarding the online renewals project, the website costs will likely be capitalised, as are recognised in the business case as an integral aspect of customer self servicing with at least a three year life (enable registration renewals including income collection etc). Following an arm's length tender, development costs are equated to the fair value for the website asset, to be depreciated over a conservative useful life of three years.

BORROWING COSTS – IAS 23

Background
IAS 23 sets out the accounting treatment for borrowing costs. The standard requires borrowing costs to be capitalised when they relate to fixed assets, removing the option to capitalise under FRS 15.

The IFReM states that cost of capital is outside the scope of IAS 23 and, therefore, should not be capitalised.

IAS 23 – Area of impact	Yes/No/Not applicable
51. Is the entity capitalising any finance costs related to fixed assets while being prepared for intended use or sale (except cost of capital)?	Not applicable.

IMPAIRMENT – IAS 36 (APPLIES TO LAND, BUILDINGS, MACHINERY AND EQUIPMENT, INTANGIBLES, AND ASSETS CARRIED AT REVALUED AMOUNTS UNDER IAS 16 AND IAS 36)

Background IAS 36 is similar to the equivalent UK standard, FRS 11, though there are some areas of difference with regard to the accounting and measurement of impairments.	
IAS 36 – Areas of impact	**Yes/No/Not applicable**
52. Are impairments allocated to a relevant revaluation reserve first, at all times, when an asset is found to be impaired? *Note - Unlike under FRS where impairment for a permanent diminution is taken to the OCS.*	Yes.
53. Is the entity assessing impaired assets by comparing the carrying value with the higher of fair value less costs to sell and value in use?	Yes. Land and building valuation at March 2008 was a recent case in point.
54. Where an asset is not held for the purpose of generating cash flows, is the entity calculating the value in use with reference to the cost of replacing the service potential provided by the asset?	Not applicable.
55. Where applicable, is the entity not depreciating goodwill and carrying out annual impairment reviews as required by IAS 36?	Not applicable.

ACCOUNTING FOR PPP ARRANGEMENTS, INCLUDING PFI CONTRACTS, UNDER IFRS

Background **Under IFReM most PPP / PFI assets will come onto the public sector balance sheet.** The accounting treatment under IFRS is determined by whether the PPP arrangement, including PFI contracts, meets the definition of a service concession arrangement under IFRIC 12 Service Concession Arrangements. If the definition is met, the asset will be on the grantor's balance sheet, valued in the same way as other assets of that generic type, with the liability valued accordingly with reference to the capital value of the contract. The standards that apply to PPP arrangements, including PFI contracts, are: • IFRIC 12 Service Concession Arrangements • IAS 17 Leases	
	Comment
56. Does the arrangement meet the definition of a service concession arrangement under IFRIC 12? A service concession arrangement is one which contractually obliges the private sector operator to provide the services related to the particular infrastructure to the public on behalf of the grantor (the public sector). In addition, the grantor must: • Control or regulate what services the operator must provide with the	Not applicable.

infrastructure, to whom and at what price; and • Controls, through beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement.	
57. Has the PPP / PFI contract been accounted for as on balance sheet when there has been a clear case that control and residual value have been transferred to the private sector operator?	n/a
58. Does the infrastructure asset meet the criteria for capitalisation? • Probability of future economic benefit? • Reliable measurement of cost? These should be recognised in accordance with IAS 16 and valued in the same way as other non-current assets of a similar type.	n/a
59. How is the arrangement to be accounted for? • Can separate arrangements within the contract relating solely to the infrastructure asset be identified? If so, then the asset will be measured as under IAS 17 Leases, with the service element and the interest charge recognised as incurred over the term of the engagement. • Is there a unitary payment stream that includes infrastructure and service elements that cannot be separated? In this case, the service element of the payment must be estimated. The fair value of the asset determines the amount to be recorded as an asset together with an offsetting contract liability payable. In both cases the liability is only for the capital element of the contract obligation. The interest charge and the service elements should be expensed in the OCS.	n/a
60. Has the correct interest rate implicit in the contract been used? • For contracts signed before 1 April 2008 the grantor should use the risk free market rate at the time the contract was signed as published by the Treasury on the FReM website (www.financial-reporting.gov.uk) • For contracts signed after 1 April 2008 the rate should be calculated using a formula based on the long-term nominal interest rate and the inflation rate, as published in the Treasury's Pocket Data Bank. There is guidance on this formula and a link to the Data bank on the FReM website. (www.financial-reporting.gov.uk)	n/a

61. Where the arrangement is on balance sheet whereas previously it was off balance sheet under UK GAAP: • Has the non-current asset been measured in the same way as other non-current assets of that generic type at the opening balance sheet date? • Has the liability been measured at its fair value with reference to the capital value of the contract?	n/a
62. Has the subsequent measurement of the non-current asset been done using an appropriate asset revaluation approach? Have liabilities been measured using the appropriate discount rate?	n/a
63. Has any revenue received under any revenue sharing provision in the service concession arrangement been recognised in line with IAS 18 Revenue?	n/a
64. Have any guarantees by the grantor to the operator made as a part of the arrangement been appropriately accounted for under IAS 32 and 39?	n/a

INVENTORIES

Background
The standards that apply to inventories are:

- IAS 2 – Inventories;
- IAS 11 – Construction Contracts
- IAS 41 - Agricultural Assets.

Inventories are defined as "assets held for sale in the ordinary course of business; or in the process of production for such sale; or in the form of materials or supplies to be consumed in the production process or in the rendering of services".

Entities that are inventory rich may need to review their accounting for their inventories against IAS 2 in detail to ensure that they are adopting the correct approach.

INVENTORIES – IAS 2 – FOR LONG TERM CONTRACT INVENTORY ISSUES SEE CONSTRUCTION CONTRACTS BELOW. EXCLUDES AGRICULTURAL AND FOREST PRODUCTS, MINERALS AND MINERAL COMPOUNDS.

Background
IAS 2 and SSAP 9 are similar standards in most respects though there are some minor adjustments to the accounting and the scope of the standards.

IAS 2 – Areas of impact	Yes/No/Not applicable
65. Is the entity accounting for all inventories of a similar nature and use consistently?	Not applicable.
66. Is the entity holding all inventories at current cost? *Note – as is required by the IFReM.*	n/a

67. Is the entity valuing inventories using a method other than Last In First Out (LIFO), as is specifically stated in IAS 2?	n/a
68. Is the entity applying the following detailed rules for inventories (as stated in the IFReM): • Stockpile goods (strategic materials held for use in national defence and emergencies) – split between fixed assets and other inventories and accounted for separately? • Confiscated, seized and forfeited property – classified as surrenderable to the consolidated fund? • Goods held under price support and stabilisation programmes (purchased by, for example, the Rural Payments Agency under order by the EU) – valued at cost adjusted by depreciation or revaluation as prescribed?	n/a

CONSTRUCTION CONTRACTS – IAS 11

Background

IAS 11 is similar to the equivalent standard, SSAP 9.

A construction contract is defined as "a contract specifically negotiated for the construction of an asset or a combination of assets that are closely inter-related or inter-dependent in terms of their design, technology and function or their ultimate purpose or use". There is no reference to a minimum duration for such a contract and the standard applies to all contracts that start in one reporting period and end in the next. IAS 11 applies to assets such as bridges, buildings, dams, machines built to customer order and specifications with a negotiated price and bespoke (though not minimally customised) software contracts.

Note – This standard applies only to entities that develop long term construction contracts for sale, IAS 2 or IAS 16 will apply to entities that are purchasing such assets.

IAS 11 – Area of impact	
69. Is the entity using one of the following methods to recognise assets: level of costs incurred, surveys of work performed, completion of a proportion of the contract and percentage completion (but only when the outcome of the contract can be estimated reliably)?	Yes. Percentage completion method, based on expert assessment.

AGRICULTURAL ASSETS – IAS 41

Background

There is no equivalent UK standard to IAS 41. The rules for the treatment of agricultural assets only apply up to the point of harvest, post harvest IAS 2 Inventories applies.

(Note – This is a specialist standard which will not apply to many entities. The IFReM clarifies that this standard only applies in the government sector to activities that are undertaken for commercial gain, which may, or may not, comprise the full entirety of a reporting entity's operations. IAS 41 does not apply to goods held under price stabilisation programmes.)

IAS 41 – Area of impact	**Yes/No/Not applicable**
70. Is the entity carrying all biological agriculture assets at fair value less estimated point of sale costs, with variations in the carrying amount reported as part of operating costs?	Not applicable.

DEBTORS

Background IAS 39 has one specific rule relating to bad debt provisions that may impact on the government sector.

DEBTORS - IAS 39	**Yes/No/Not applicable**
71. Is the entity, in general, only providing for specific bad debts (specifically stated in IAS 39)? *Note – Entities can make a bad debt provision providing it is based on evidence, with reference to the current economic environment.*	For the 31 March 2009 year end, Finance will run source reports in Netregulate and generate specific bad debt provisions. No provision previously made. A preliminary estimate of the likely magnitude of the year end provision (charges applied, but debts not collected) is about £15k.

CASH

Background IAS 7 sets out the format and details of the Cash Flow Statement. The IFReM contains a prescribed format for the cash flow statement that must be followed. There is, however, one additional rule within IAS 7 which may impact on some government entities.

CASH FLOW STATEMENT - IAS 7	**Yes/No/Not applicable**
72. Has the entity followed the format of the Cash Flow Statement as outlined in IAS 7? *Note – As is stated in the IFReM.*	In progress. Will likely adopt the direct method as outlined in Appendix A of IAS 7. NB: Cash flow from financing activities likely to be future grant funding from Dept of Health (as applicable).
73. Have departments included the additional note in Chapter 5 of the IFReM, reconciling cash and cash equivalents due to the consolidated fund, in the resource accounts format?	Not applicable.
74. Is the entity including cash equivalents in the Cash Flow Statement and the cash line of the Balance Sheet? *Note – Cash equivalents are defined as short term, highly liquid investments that are readily convertible to cash and are subject to a low risk of changes in value. This is a change in classification from UK GAAP.*	N/a. Not aware of anything at present that qualifies i.e. is not an investment, is not cash on hand/a demand deposit and with a short maturity (3 months or less). If a cash equivalent arises, will classify under IFRS accordingly.

LEASES

Background IAS 17 is similar in many respects to SSAP 21, but the focus on the assessment of the finance/operating lease split is based solely on the whether substantially all of the risks and rewards of ownership of the asset have been transferred to the lessee, removing the 90% test, of the present value of minimum lease payments as a proportion of the value of the asset, available in SSAP 21. In addition IAS 27 states that any land and building leases should be subject to separate assessments for the land and building elements. This is likely to lead to more buildings being included on public sector balance sheets. IFRIC 4 extends the scope of the lease based accounting treatment beyond the legal form or leases to "lease type arrangements", which will increase the disclosure and recognition requirements for some entities.

LEASES – IAS 17	**Yes/No/Not applicable**
75. Following a review of **material contracts**, are **extensive changes** required to ensure that the classification of operating/finance leases is correct? The organisation needs to pay special attention to any operating leases that are classified as such due to the strict application of the 90% test within SSAP 21, as they will need to be revisited to ensure that the classification is correct along the following terms. The lease classification test is based on the balance of risk and rewards of ownership. Indicators that a lease should be classified as a finance lease include: • The lease transfers ownership to the lessee at the end of the term. • The lease contains a bargain purchase option. • The present value of the minimum lease payments covers at least substantially all of the fair value of the asset. • The asset is specialised. • The lessee has an obligation to compensate for the lessor's losses. • The lessee is exposed to the residual value of the asset. • The lease can be extended at a rent substantially lower than the market rent.	Review in progress. HM Treasury Roundtable on IFRS on 24 and 27 September 2007 (reported by PWC) indicated that software licenses are not likely to be leases. The HPC has no property or major equipment leases.
76. Is the entity assessing any arrangements which do not take the legal form of a lease yet convey the right to use an asset in return for payment or a series of payments? If so IFRIC 4 may require the recognition of a lease (finance or operating) together with the appropriate disclosure. (Two criteria must be met: the arrangement must be based on the right to use a specific asset; and the arrangement must contain a right to control the use of an asset, for example an outsourcing arrangement or a telecoms contract that provides the right to capacity/bandwidth). If the arrangement falls	Review in progress.

under the scope of IFRIC 4 then the standard risk and rewards tests will need to be applied to assess the operating/finance lease split as detailed above.	
77. Is the entity reviewing all finance leases for land and buildings? Such leases will need to be revisited and reassessed using the above classifications as, under IAS 17, land elements must be separated from buildings elements in combined leases and classified as operating leases unless the land transfers to the lessee at the end of the lease term.	Not applicable.
78. Do any of the entity's leases include incentives such as rent free periods or minimum incremental increases? If so are they included in the classification assessment and accounted for appropriately within the finance/operating lease?	Not applicable.
79. Is the entity disclosing operating lease payments on the basis of the year they are paid rather than the year in which the commitment expires? *Note – This is a change to the SSAP 21 requirement.*	Yes.
80. Does the organisation act as a lessor in any lease transactions? If so the lease will need to be accounted for as follows: Finance lease: • Initially recognise the asset as a receivable at an amount equal to the net investment in the lease (gross investment discounted using the implicit interest rate). • Subsequently recognise income on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. Operating lease: • Present the asset as appropriate to its nature. • Recognise lease income in a straight line basis over the lease term. • Include the transaction expenses with the asset and depreciate in line with the entities policy.	Not applicable.

OTHER AREAS OF IMPACT

Background IAS 18, IAS 19, IAS 24 and IFRS 8 contain some areas of revised guidance that will impact on the entities when adopting IFRS.	
REVENUE – IAS 18 **(Tax and other revenue streams)**	**Comment**
81. Revenue is accounted for in line with the criteria set out in IAS 18 Revenue. The IFReM details the treatment of some specific types of income. SIC 31 Barter Transactions Involving Advertising Services also applies. IFReM Chapter 13 details the treatment of revenue from taxes and duties for HMRC and the DVLA, this chapter is substantially the same as the UK-based FReM chapter.	
EMPLOYEE BENEFITS – IAS 19	**Comment**
82. How will an assessment of the levels of unpaid leave or other accrued employment rights be determined for inclusion in the account, if material? The accrual should be based on the level of untaken leave at the end of the year, adjusted subsequently in following accounting periods. Entities need to ensure that they put in place processes to capture the data required for the accrual and develop a pragmatic but defensible approach to determining the accrual.	The HR Info system records each employee's annual leave position at a point in time. The HR Employee policy allows employees to carry over up to five annual leave days to the following year. A calculation was done to identify the unpaid leave liability based on pro-rata salary by employee. Initial estimates indicate value of approximately £37k for 95 employees at 31 March 2008. Employee season ticket loans are another benefit, recognised in debtors at face value of the outstanding debt. The value of season ticket loans at 31 March 2008 was £18.5k spread over 21 employees The loan is advanced interest free (nil difference between initial amount and maturity amount) to employees who pass their probationary period, on application.
83. Is the entity accruing for bonuses in year where applicable?	Not applicable.
RELATED PARTIES – IAS 24	**Comment**
84. Has the entity considered how related parties transactions will be captured and disclosed as required by the interpretations in the IFReM. For departments, the ministerial titles and names of all ministers who had responsibility for the department during the year must be included in the related parties disclosures.	Yes. No transactions with the Privy Council (HPC's controlling body) are anticipated. Future grants receivable may apply from the Department of Health, to be treated as financing on the HPC Balance Sheet. Transactions with Council members and non Council Committee members typically relate to allowance fee and expense claims accrued at Balance date. These are disclosed in the Notes to the Accounts, Note 17 and the Creditors section of the Balance Sheet. Requirements to disclose compensation paid the Chief Executive and some Council Members

	(annual allowance fees over £5,000) is covered in the Remuneration Report section of the Annual Report.
THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES – IAS 21	**Comment**
Under IAS 21 the average exchange rate method of retranslation can only be used if it is not materially different from the spot rates over the period. In addition, IAS 21 does not allow organisations to use the rate stated in a forward contract to retranslate foreign exchange at the balance sheet date. The spot rate must be used and a derivative financial instrument recognised at fair value for the forward contract.	Not applicable.
85. How material are exchange rates to the organisation and are plans in place to ensure the spot rate is used, unless it is not materially different from the average exchange rate?	

IFRS 8 – OPERATING SEGMENTS

Background
The treatment under IFRS 8 is significantly different to SSAP 25 as it requires reporting of segments of an entity's internal reporting framework. The standard will apply to all non-department entities, while departments will continue to produce a Statement of Net Operating Costs by Departmental Aim and Objective, which will provide the necessary segmental information.

	Comment
86. What segments would be disclosed, following the "through the eyes of management" approach to identifying segments required by IFRS 8?	Income by Profession is reported in Note 1 of the financial statements. Costs by department are reported in Note 4 of the financial statements. No further level of segment reporting is provided to EMT or Council, so is deemed sufficient for IFRS reporting purposes.
86. Have disclosures been developed for: • The basis of measurement of reportable segments? • Profit/loss, total assets and total liabilities for each segment? *Note – The requirement to separate out assets and liabilities relating to individual segments may prove difficult for some entities.* • Types of products and services from which each segment derives its revenues? • Interest revenues and interest expenses for each reportable segment?	In progress. There will be no segment profitability reporting, segment asset and liability reporting. No identification of interest income and expenses by segment is possible either.

SECTION C – LESSONS FROM THE PRIVATE SECTOR

The introduction of IFRS in the private sector caused a number of difficulties. The standards that created the most problems were IAS 32, 39 and IFRS 7 on Financial Instruments; IAS 27, 28 and 31 on Subsidiaries, Associates and Joint Ventures; IFRS 2 on Share Based Payment; and IAS 12 on Income Taxes. IFRS 2 and IAS 12 will not apply to the public sector in general, but the other standards will be applied, as adapted by the IFReM, which will result in significant impacts for some organisations.

The key lessons from the private sector transition to IFRS are as follows:

- Early preparation is essential to ensure that there is no knock-on impact on the timetables for the first year of IFRS compliant Accounts;
- The level of disclosure required under IFRS and therefore the length of accounts, increased significantly as a result of the transition and the new standards;
- For most organisations the impact assessment and understanding of the new standards took considerably longer than was expected;
- A significant investment in staff training was required;
- Flagging up and discussing key issues and potential areas of difficulty with key stakeholders early aided smooth transition;
- Board and Audit Committee engagement is crucial, to ensure that they are involved in the project and aware of the areas of impact and the potential risks involved in the transition.

The NAO believe that a number of these issues will apply equally to the central government implementation of IFRS. Given the progress the central government entities have made in bringing forward the laying and publication of accounts to the pre-recess period, it is important that the process of implementation is well managed to ensure that timetables are not adversely affected.

ANNEX 1: FINANCIAL INSTRUMENTS

FINANCIAL INSTRUMENTS

Background

The financial instruments standards are long and complex and will need a significant effort in terms of time and resources in some government entities to ensure that the categories and accounting of such instruments is correct. Some entities may not be affected by the standards but a considerable amount of work may still be required to ensure that this is the case. The Standards will come into effect on 1 April 2008 in the public sector.

- Financial instruments are defined as, "contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity".
- Financial assets are defined as "cash, or an equity instrument of another entity, or a contractual right to receive cash or another financial asset from another entity".
- Financial liabilities are defined as "a contractual obligation to deliver cash to another entity or to exchange financial assets or liabilities on unfavourable terms".

The major challenge for clients will be to provide a clear audit trail of their assessment of the impact of the financial instruments standards, which will need to include a method of review of contracts that may contain financial instruments.

The standards that apply to financial instruments are:

- FRS 25 – Financial Instruments: Presentation;
- FRS 26 – Financial Instruments: Recognition and Measurement;
- FRS 29 – Financial Instruments: Disclosure.

Examples of specific areas where these standards will impact on the central government sector are:

- Derivatives (forward contracts, options, forex contracts);
- Embedded derivatives (see section below for definition);
- Soft or subsidised loans (loans issued or received at less than the market rate); and
- Financial guarantees and letters of comfort.

Entities should note that the Treasury has stated that prior year comparatives will not be restated on the adoption of these Standards.

Financial instruments – general	**Yes/No/Not applicable**
1. Is the entity identifying all assets and liabilities that should be recognised as financial instruments, including assets and liabilities that have been classified as 'contingent' under FRS (e.g. financial guarantees), derivatives and embedded derivatives? *Note – See FReM paragraph 9.1.8 (e) for the treatment of Financial Guarantees.*	Season ticker loans are covered in question 82 and no interest charged by the HPC on season ticket loans advanced to employees.
Financial Instruments – Assets	
Fair Value through profit and loss (FVTPL) ***Note – reclassification into or out of the fair value through profit or loss category while an asset is held is prohibited.***	**Yes/No/Not applicable**
2. Is the entity working towards identifying all assets to be categorised as at FVTPL?	n/a
Assets designated as at fair value through profit and loss	

<table>
<tr><td>3. If the entity is categorising assets (or liabilities) at fair value through profit or loss is this because:

• The categorisation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities on different bases?

Note – This is called accounting mismatch – i.e. if an entity has associated assets and liabilities, then they should be accounted for using the same basis to ensure there is no inconsistency, for example if an organisation borrows and then uses all of the funds to buy shares, then the most accurate treatment is to value both the debt and equity on the same basis – FVTPL.

• The entity manages performance on a fair value basis – i.e. an organisation that aims to make money by buying or selling shares or debt?
• A contract contains one or more embedded derivatives and therefore the whole contract is classified as at fair value to avoid any confusion or requirement to split out the embedded derivative?

Note – The Treasury must be informed of any designated Financial Instrument at FVTPL so that they are aware of the budgeting implications.</td><td>The face value of the financial asset or liability is recorded in the balance sheet i.e. the maturity value equates to the original value.</td></tr>
<tr><td></td><td></td></tr>
<tr><td>Assets categorised as held for trading – Note all derivatives must be classified as held for trading.</td><td></td></tr>
<tr><td>4. If the entity is categorising assets as held for trading, and therefore at FVTPL, is this because they meet the following criteria:

• The assets have been acquired principally for the purpose of sale in the near term?
• The assets are part of a portfolio of instruments that are managed together and for which there is evidence of short term profit taking?
• The assets are derivatives and therefore must be classified as at FVTPL (where hedging does not apply)?</td><td>n/a</td></tr>
<tr><td></td><td></td></tr>
<tr><td>Held to maturity

Held to maturity assets are defined as "instruments with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity, other than those that are initially recognised at fair value through profit and loss or as available for sale or that meet the definition of loans and receivables".</td><td>Yes/No/Not applicable</td></tr>
<tr><td>5. Is the entity working towards identifying all</td><td>Not applicable.</td></tr>
</table>

financial instruments that are to be held to maturity?	
6. Is the entity demonstrating a positive intent and ability to hold all assets categorised as held to maturity to the end of the contract term?	n/a
7. Is the entity using the effective interest rate method to value assets classified as held to maturity? *Note – See www.financial-reporting.gov.uk for an example of the effective interest rate method.*	n/a
8. Is the entity *not* categorising any assets as held to maturity if the liability holder has the right to settle at less than amortised cost?	n/a
9. Is the entity *not* categorising equity instruments as held to maturity (as they are judged to have an indefinite life)?	n/a
10. Is the entity categorising variable interest rate instruments as held to maturity if the option is taken to classify them as such?	n/a
11. Is there any evidence of tainting of held to maturity assets? *Note – This occurs if an organisation sells some held to maturity assets before the maturity date. This calls into question the entity's intent to hold to maturity and therefore all such assets are re-categorised as available for sale. No comparative restatement is required. Once a two year period has elapsed post-tainting assets can be transferred back to held to maturity providing intention can be shown. In this case fair value at the time is the new amortised cost.*	n/a
Loans and receivables Loans and receivables are defined as "non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that are to be sold in the short term (held for trading) and those that the entity on initial recognition designates as at fair value through profit and loss or available for sale".	**Yes/No/Not applicable**
12. Is the entity working towards identifying all loans and receivables and only categorising financial instruments as loans and receivables if they meet the definition?	Yes.
13. Is the entity valuing all such assets at amortised cost using the effective interest rate method? *Note - See www.financial-reporting.gov.uk for an example of the effective interest rate method.*	n/a
14. Is the entity only categorising assets as loans and receivables if they have been created by	Yes.

providing money, goods or service to a debtor? *Note - Examples include deposits held in banks, trade receivables, loan assets, loans acquired in syndication and other loans purchased in a secondary market provided that they are not quoted.*	
15. Is the entity holding assets in the loans and receivables category consistently and not transferring any assets out of the category? *Note – The transfer of assets out of the loans and receivables category is specifically not allowed by the standard.*	Yes.
Available for sale Examples of available for sale assets include: equity investments that are not designated on initial recognition as at fair value through profit and loss; debt securities quoted on an active market; and other financial assets held for liquidity purposes. *Note – There is no definition of available for sale assets, they are simply assets that are not classified as at FVTPL, held to maturity or loans and receivables.*	**Yes/No/Not applicable**
16. Is the entity working towards identifying all assets to be categorised as available for sale? *Note – This will mainly be through identifying all other financial instrument assets first. The available for sale categories comprises the remainder of the Financial Instrument assets.*	Not applicable.
17. Is the entity measuring all assets categorised as available for sale at fair value, with gains/losses recognised in equity and recycled through the income statement on sale?	n/a
Financial Instruments - Liabilities Most liabilities in the public sector will generally be held at amortised cost except for derivatives. Liabilities must be classified as at FVTPL if they are held for trading, or alternatively the entity can designate liabilities as at FVTPL if appropriate criteria are met.	
Fair value through profit and loss Liabilities categorised as at FVTPL can be designated as such by the entity or are categorised as FVTPL because they are held for trading.	**Yes/No/Not applicable**
18. Is the entity categorising liabilities as held for trading because the liabilities are: incurred with the intention of repurchasing them in the near term; part of a portfolio of instruments that are managed together and for which there is	Not applicable.

evidence of short term profit taking; or derivative liabilities (unless part of a hedge)?	
19. Is the entity designating all liabilities as at FVTPL if: • The categorisation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities on different bases? *Note – This is called accounting mismatch – i.e. if an entity has associated assets and liabilities, then they should be accounted for using the same basis to ensure there is no inconsistency, for example if an organisation borrows and then uses all of the funds to buy shares, then the most accurate treatment is to value both the debt and equity on the same basis – FVTPL* . • The entity manages performance on fair value basis – i.e. a bank that aims to make money by buying or selling shares or debt? • A contract contains one or more embedded derivatives and therefore the whole contract can be classified as at fair value to avoid any confusion or requirement to split out the embedded derivative? *Note – The Treasury must be informed of any designated Financial Instrument at FVTPL so that they are aware of the budgeting implications.*	n/a.
Other financial liabilities – all those that are not held at FVTPL – all valued at amortised cost.	**Yes/No/Not applicable**
20. Is the entity valuing all financial liabilities not categorised as at FVTPL at amortised cost using the effective interest rate method?	Not applicable.
Financial instruments – Derivatives A derivative is defined as a financial instrument with the following characteristics: • Its value changes in response to the change in a specified interest rate, price, commodity price, forex rate, index of prices or rates, credit rating or index, or other variable. • It requires no initial net investment or initial investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors. • It is settled at a future date.	**Yes/No/Not applicable**
21. Is the entity working towards identifying all derivatives that meet the above definition?	Not applicable.

22. Is the entity valuing all such derivatives at FVTPL, except when hedge accounting is applied?	n/a
Financial Instruments - Embedded Derivatives Embedded derivatives are defined as: "a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows vary in a way similar to a stand-alone derivative, such that it requires that some or all of the cash flows will be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or other variable". If a derivative is identified then it can either be separated from the host contract or left with the contract, depending on the nature of the relationship between the two elements. Embedded derivatives will be an issue for entities in the implementation process, as they will need to carry out a detailed review of their contracts to identify hybrid contracts that contain separable elements.	**Yes/No/Not applicable**
23. Is the entity working towards identifying all embedded derivatives that meet the definition by reviewing contracts that may contain such derivatives?	Not applicable.
24. Is the entity separating all embedded derivatives from host contracts when: • The economic characteristics and risk of the embedded derivative are not closely related to the economic risks and characteristics of the host contract? • A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative? • The hybrid instrument is not measured at fair value with changes in fair value recognised in profit and loss?	n/a
25. Is the entity valuing all embedded derivatives separated from the host contract at FVTPL, as for other derivatives?	n/a
Financial Instruments – Measurement	**Yes/No/Not applicable**
26. Is the entity initially valuing all financial instruments entered into since 1 April 2008 at Fair Value – e.g. the transaction price? *Note – See FRS 26 Appendix A, paragraphs AG 69-82 for details on the assessment of fair value. Indications of fair value include: transaction price; market price; market price of a similar instrument; discounted cash flow analysis; and a range of other valuation techniques for specialised instruments.*	No financial instruments held.
27. Is the entity adding transaction costs to the fair value of all assets or deducting them from the fair value of liabilities that are not classified	n/a

as at FVTPL? *Note – Therefore for all assets or liabilities that are held at amortised cost, the transaction costs are included in the calculation of the Effective Interest Rate.*	
28. Is the entity recognising all transaction costs in the OCS for assets or liabilities classified as at FVTPL?	
Subsequent measurement	**Yes/No/Not applicable**
29. Is the entity valuing all financial instruments classified as at FVTPL at fair value?	n/a
30. Is the entity valuing all financial instruments classified as held to maturity at amortised cost using the effective interest rate method (Internal Rate of Return)?	Not applicable.
31. Is the entity valuing all loans and receivables at amortised cost using the effective interest rate method (Internal Rate of Return)?	n/a
32. Is the entity is valuing all financial instruments classified as available for sale as follows: at fair value with movements going through equity, except for the following which are recognised in the OCS: interest calculated using the effective interest rate method; impairment losses; forex gains; and losses on monetary assets? In addition, when sold are all fair value gains/losses recognised in reserves been recycled through the OCS?	Not applicable.
Financial Instruments - Hedging Hedging provides the ability to match the volatility caused by carrying financial instruments at fair value. Complex rules and documentation apply if an organisation is going to implement hedge accounting. The rules for individual hedges are complex and specific, there are three main types: • Fair value hedge – A hedge of exposure to changes on fair values of a recognised asset or liability or an unrecognised firm commitment. • Cash flow hedge – A hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and (ii) could affect profit or loss. • Hedge of a net investment in a foreign operation.	**Yes/No/Not applicable**

<table>
<tr>
<td>33. Is the entity only using hedge accounting if:
Formal hedge designation and documentation is in place at its inception?
The hedge is expected to be highly effective?
The effectiveness of the hedge can be measured reliably?
The effectiveness is assessed regularly and is within 80% and 120%?
The transactions for cash flow and forecast transactions are highly probable?
Note – The Treasury must be informed of any proposed hedged accounting treatments.</td>
<td>Not applicable.</td>
</tr>
</table>