

TRANSPORT FOR LONDON

AUDIT COMMITTEE

SUBJECT: QUARTERLY PROGRESS UPDATE: THE INTERNATIONAL FINANCIAL REPORTING STANDARDS PROJECT

DATE: 4 MARCH 2010

1 PURPOSE AND DECISION REQUIRED

- 1.1 To provide the Audit Committee with the first quarterly progress update on the International Financial Reporting Standards (“IFRS”) Project.
- 1.2 To update the Audit Committee on the impact of the changes in PFI accounting applicable for the year ending 31 March 2010.

2 BACKGROUND

- 2.1 With effect from the year ending 31 March 2011, Local Authorities will be required to prepare their own accounts following IFRS. CIPFA has issued a “Code” for Local Authorities to replace the SORP, which will apply from 1 April 2010.
- 2.2 As reported to the Audit Committee in December, an IFRS project has been established to coordinate the transition across the whole of TfL. The Audit Committee will receive quarterly progress updates from the project and will be requested to approve new IFRS accounting policies, and specific treatments such as PFI and matters of accounting judgements with significant impact.
- 2.3 Separately, with effect from the current year ending 31 March 2010, TfL is required to apply new IFRS-based accounting rules for PFI transactions which have the impact of bringing many existing “off-balance sheet” PFI transactions on to the balance sheet. This paper provides an update on the impact of these changes.

3 INTERNATIONAL FINANCIAL REPORTING STANDARDS

Progress to date

- 3.1 The IFRS project has now formally commenced throughout TfL with a project plan, governance structure and working groups for each workstream in place. Each business area has nominated IFRS Champions to participate in the workstreams appropriate to them. The first six workstreams encompass the most complex topics that are likely to require significant detailed analysis and may have the largest impacts and so the IFRS Champions working on those topics have been provided with training, support and guidance.

- 3.2 Each IFRS Champion has had the opportunity to attend two IFRS training sessions. The first introduced the project objectives, governance and timescales, and the second provided background to IFRS and the standard setting process as well as more specific training and reference materials on the six workstreams.
- 3.3 Further support materials will be provided during the project, as well as additional training sessions to support the remaining workstreams as they commence. The project plan, objectives and governance have also been discussed with KPMG who are fully supportive of this approach.
- 3.4 To provide the appropriate level of additional technical accounting support, experienced IFRS support resources have been put into place. These resources will focus on the 2010 year end and the transitional work as well as developing the models to support the transitional financial reporting requirements.
- 3.5 The statutory consolidation and financial reporting processes resulting from the adoption of IFRS will require robust accounting systems. Following a review of the existing support systems, a procurement process has been established to ensure that the financial reporting process is supported appropriately. This will ensure that the current reporting process is strengthened, as it will replace the current mix of SAP and spreadsheets with a more stable and effective fit for purpose system.
- 3.6 To ensure that the governance of the project is appropriate, two Committees have been established. The Technical Committee, made up of Financial Accounting specialists, with additional Audit representation, will initially recommend appropriate accounting policies, and then will provide technical reference and support to the project workstreams as issues arise. The Steering Committee, made up of modal Finance Directors, will meet to review progress and achievement of targets, risks and issues, and will consider the Technical Committee's recommendations on options available where the CIPFA Code and IFRS differ.

IFRS and the Audit Committee

- 3.7 The IFRS Steering Committee are the sponsors of the IFRS Conversion Project and will recommend for approval by the Audit Committee the main deliverables as milestone dates are reached. The key deliverables are planned to be presented for discussion and approval as follows:

June 2010	• Proposed IFRS Accounting Policies
September 2010	• IFRS Budget Overlay 2010/11
	• Restated IFRS Opening Balance Sheet
	• Restated IFRS 2009/10 Financial Statements (for Whole of Government Accounts purposes)
December 2010	• Update for regulatory changes and CIPFA Code
March 2011	• Full IFRS Restated Comparatives (including all disclosure notes and transition statements)
June 2011	• First full IFRS Accounts (2010/11)
September 2011	• Ongoing technical update schedule

4 PFI ACCOUNTING

- 4.1 The work undertaken to determine the impact of the change in accounting rules for PFI transactions is nearing completion and the accounting models supporting the proposed adjustments have been passed to KPMG for review.
- 4.2 The Power, Connect, Prestige, British Transport Police and A13 DBFO PFI transactions are affected and will be reflected on the Group's balance sheet at 31 March 2010.
- 4.3 This change of accounting policy will require restatement of prior year comparatives. The impact on the Group's balance sheet at 1 April 2009 is to recognise an additional finance lease creditor of approximately £600 million.
- 4.4 Where PFI contracts come "on-balance sheet" as a result of the IFRS-based approach, there will be a requirement to adjust the Capital Financing Requirement, and local authorities will therefore need to ensure their authorised limits and operational boundaries are set accordingly. As soon as we have received audit clearance from KPMG on the additional finance lease creditor to be recognised, the Authorised Limit and Operational Boundary for 2009/10 will be restated.
- 4.5 Separately, confirmation has been received from the Department for Transport that any increase in TfL's balance sheet liabilities caused by a reclassification of TfL's existing PFI contracts as part of the transition to IFRS will not be required to be absorbed within TfL's borrowing limits.

5 RECOMMENDATION

- 5.1 The Audit Committee is asked to NOTE the contents of this report.

6 CONTACT

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