AGENDA ITEM 9

TRANSPORT FOR LONDON

AUDIT COMMITTEE

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

DATE: 28 SEPTEMBER 2010

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1 PURPOSE AND DECISION REQUIRED

1.1 To provide the Audit Committee with the 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 accounting policies applicable for the year ending 31 March 2011.

2 BACKGROUND

2.1 With effect from 1 April 2010, Local Authorities are required to prepare their own accounts following IFRS as interpreted by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the "Code"). The IFRS project has been established to coordinate the transition across the whole of TfL.

3 INTERNATIONAL FINANCIAL REPORTING STANDARDS

Progress to date

3.1 The IFRS project has completed the following phases of work:

(a) Strategic review of likely effects of transition to IFRS for TfL and its subsidiaries;

(b) Implementation planning;

(c) Initial training on the main topics and standards likely to affect TfL and its subsidiaries;

(d) Detailed analysis work by modal finance teams under the framework of topic led workstreams;

(e) The initial 20 workstreams are all now active and a further workstream added, with a focussed approach of finance team involvement as appropriate. Group issues are being centred on the Group Finance team with modal finance teams concentrating on detailed analysis relevant to their areas;

(f) Audit work planning, with an agreed high level approach and phasing;

(g) IFRS 1 elections to be made have been agreed with KPMG, so for example the accounting treatment adopted for previous business combinations will not be revisited; and

(h) Initial data capture to quantify the effect on the opening balance sheet at transition and on the primary statements of the comparative year. The Whole of Government Accounts (WGA) exercise required additional disclosure data this year as many areas of the public sector have already transitioned to IFRS. The unaudited submission was made as scheduled in July with the audited version due for submission by 1 October 2010.

3.2 The Whole of Government Accounts submission is a requirement for all Government entities, regardless of which framework they report under. The Government Financial Reporting Manual (FReM) is the technical accounting guide to the preparation of financial statements for public sector bodies, and applies directly to all public sector entities except Local Government, those Public Corporations that are not Trading Funds, and NHS Trusts and NHS Foundation Trusts. The aforementioned exceptions have their own frameworks (for example the CIPFA Code) that are compliant with the FReM other than for specifically agreed divergences.

3.3 Most of the public sector transitioned to IFRS in 2009/10 and so the WGA exercise was based in the IFRS FReM. TfL therefore was required to provide its 2009/10 Financial Statement data with an IFRS overlay of additional information including the following:

(a) A detailed analysis of movements in inventory by type, disclosing the opening balance, additions, reclassifications and transfers, revaluations, disposals, write-offs, and closing balance for raw materials and consumables, work-in-progress and finished goods;

(b) More extensive reporting of provisions for impairment of receivables (bad debt provisions), analysing the movement in the year into provisions added, used, written off and recovered during the year;

(c) Additional detail of provisions held, providing cash flow timing estimates split between those due within 1 year, 1 to 5 years, 5 to 10 years, 10 to 50 years, 50 to 75 years and those provisions expected to generate future cash flow liabilities over 75 years to maturity; and

(d) Additional PFI / PPP disclosures required for WGA purposes.

3.4 Proposed formats for the IFRS financial statements are still being drafted. The limited company format is nearing completion and skeleton accounts will be reviewed by KPMG during October. The format for TfL is in process but will only be fully finalised once CIPFA has confirmed any update to the Code in December. It is likely that there will be updates to reflect the changes to IFRS standards during 2010 and the option to early adopt some of the changes approved for future years.

3.5 An example of early adoption that TfL and its subsidiaries will take is IAS 24 Related Party Disclosures (Revised) which will significantly reduce the disclosures required and therefore we would seek to implement for the 2010/11 Financial Statements.

3.6 The restated IFRS opening balance sheet and comparative financial statements are scheduled to be presented to the Committee in Spring 2011. Prior to that, KPMG will audit the IFRS adjustments in detail, agree the format of the statements and verify compliance with required disclosures.

3.7 The initial data collection exercise identified the following adjustments:

(a) Approximately £34m effect of applying IAS 19 Employee Benefits and recognising a paid absence accrual. The cost is recognised in the opening position as restated and so the ongoing effect to the income statement is only the movement in the accrual each year;

(b) Approximately £110m recognition of intangible assets (software), for the most part a reclassification from tangible assets;

(c) Additional PFI impacts to Property, Plant and Equipment as the assets under those agreements are brought on balance sheet, with the related increase in finance lease creditor balance recognition. Although IFRIC 12 Service Concession Agreements, was early adopted in 2009/10, IFRIC 4 Determining Whether an Arrangement Contains a Lease, was not and so contracts falling under the definitions of IFRIC 4 will be recognised on balance sheet on transition to IFRS. The quantified effect is still under review but will have the impact of bringing the Heathrow T5 contract and the Northern Line Trains contract amongst others on balance sheet. Any increase in TfL's balance sheet liabilities caused by a reclassification of PFI transactions signed before 31 March 2009 as a result of the move to IFRS will not be required to be absorbed within TfL's borrowing limits. Contracts signed before 1 April 2009 will continue to be treated as they were under UK GAAP for Government budgeting purposes; and

(d) Some other small movements relating to IFRS re-categorisation, for example reserves from one category to another and accruals to provisions and vice versa and disclosing items such as investment property separately.

4 RECOMMENDATION

4.1 The Audit Committee is asked to NOTE the report.

5 CONTACT

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