

Converting public sector: why the work starts here

In two years' time, much of the public sector will convert to International Financial Reporting Standards (IFRS). But, as **Mike McDonagh**, Midlands audit sector lead – public sector at KPMG in Birmingham explains, managers must start work now or face consequences

The next four or five years will see one of the most fundamental changes in accounting that the public sector has ever seen. The introduction of IFRS over this period will create both opportunities and challenges for the public sector. The NHS will be one of the first areas of the public sector to convert to IFRS accounting, with all health bodies having to prepare their financial statements in accordance with the new standards by the end of March 2010, with local government following a year later. While 2010 appears to be a long way off at the moment, the lessons learned from the private sector's conversion highlights the need to build in more time.

The private sector converted to IFRS between January 2004 and December 2006 and, during this process, it became clear that the task was much bigger than anticipated and frequently generated a significant amount of additional work as the deadline drew ever nearer. As a result, it is important that the public sector takes on board these learning points to ensure a smooth and successful conversion.

Based on our and corporates' experiences, we have identified key factors that must be taken into consideration. Firstly, the time it takes. Planning is key and the whole issue of the conversion must be embraced by management and cannot be seen as something that can be fixed nearer the time.

The most successful conversion teams began working on the project at least 18 to 24 months ahead of their first IFRS reporting date. This is especially important when you take into consideration the requirement of a comparative set of accounts.

This requires public sector organisations reporting according to IFRS a year prior to full implementation in order to provide a comparison.

Secondly, IFRS has brought a considerable amount of complexity to financial accounts, both for the results reported and also the amount of disclosures that companies are now required to make. The sheer volume of IFRS requirements



Allow enough time to do the job properly, warns Mike McDonagh. The most successful conversion teams began working on the project at least 18 to 24 months ahead of their first IFRS reporting date

means that it often takes a long time for people to become familiar and thus confident with it. This learning curve is vital and must be factored in at an early stage or errors can occur close to implementation deadline.

The third point centres on the need for ownership. The process of moving to IFRS is not simply a series of technical accounting changes.

It is a cultural transformation as much as an accounting one. It is not possible to have IFRS as a year-end top-up – it is much wider than this.

Consideration has to be given to the impact that IFRS will have on an organisation's systems and processes, its people and, ultimately, the financial results, especially in relation to the impact it will have on the budgeting for, and performance of, the business.

The final key factor relates to the organisation's leadership. All successful projects had a nominated leader who was given the appropriate amount of time to ensure that the project was kept on-track.

It does not need to be a full-time job, but it is not something that can be viewed as simply an add on to someone's, no doubt already busy, schedule.

This task must be given due consideration, commitment and time, together with proper priority within the organisation. KPMG's public sector audit team has been

in discussions with a variety of public sector organisations to discuss what will be needed, the timing of the conversion and what they have to do to successfully prepare for it.

From these discussions, it is clear that changes made by the Treasury (for central government and the NHS) and the Joint Committee, that draws up the local government statement of recommended practice, to

the implementation timetable has raised questions, leading in turn to a delay in prioritising this issue on their agenda. As



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a result, many public sector organisations have not yet begun to carry out any work on preparing for this conversion.

This will need to change quickly if the conversion is to be successfully delivered within the timetable set out.

The current timetable varies with different areas of public sector coming on board at different times. Central government departments, NHS foundation trusts and the NHS are all scheduled for their conversion to occur in the financial year 2009/10, with local government scheduled to occur in 2010/11.

However, the education, charities and social housing sectors are currently awaiting confirmation of their final timeframe of convergence of UK GAAP with IFRS.

It is obvious from the private sector conversions that with the right approach, a smooth conversion to IFRS is achievable.

Our experience tells us that this new accounting framework is very different to the familiar UK GAAP, and therefore the practical challenges of implementation should not be underestimated.

Early consideration and planning, followed by a project action plan will be key to achieving a successful conversion within the public sector.

Now is the time for the public sector to start thinking about the task ahead.

TOP AIM COMPANIES BY TURNOVER

Rank	Change from 2007	Company Name	Location	Turnover £000s	Profit £000s	Employees	A/c made up	Activity
1	↑1	TITAN EUROPE Plc	Kidderminster	385,814	21,475	2,789	31/12/2007	Holding company whose subsidiaries are involved in the manufacture and sale of steel wheels and undercarriages for the off-highway vehicles industry.
2	↑1	ACERTEC Plc	Stratford-upon-Avon	322,900	8,800	2,355	31/12/2007	Group is involved in manufacture of steel wire, pressings and assemblies, steel reinforcing mesh.
3	↑1	GSH GROUP Plc	Stoke-on-Trent	157,401	8,039	1,759	31/07/2007	Holding company whose subsidiary is involved in the provision of facilities management services and asset management.
4	↓3	FAYREWOOD Plc	Birmingham	129,585	936	436	31/12/2007	Distributor of hardware and software products and e-business solutions.
5	New entry	CASTLE SUPPORT SERVICES Plc	Birmingham	87,259	21,997	1,422	30/6/2007	Investment company with access, subject to trustee consent, to surplus of its subsidiary company's UK defined benefit pension scheme.
6	↑1	QUADNETICS GROUP Plc	Studley	66,065	3,819	412	31/05/2007	Holding company whose subsidiaries are engaged in advanced CCTV & networked video systems & related security management & support services.
7	↓1	ARBUTHNOT BANKING GROUP Plc	Solihull	57,774	14,740	626	31/12/2006	The group is engaged in banking and financial services.
8	New entry	NETWORK GROUP HOLDINGS Plc	Coventry	51,660	3,626	n/a	30/11/2007	Labour recruitment and provision of personnel
9	↑3	SUPPORTA Plc	Warwick	49,088	-4,114	2,176	31/03/2007	Holding company whose subsidiaries are engaged in outsourcing services to the public sector.
10	↓1	F W THORPE PUBLIC LIMITED COMPANY	Redditch	46,508	9,054	536	30/6/2007	The group is engaged in the design, manufacture & supply of a range of interior & exterior industrial & commercial lighting equipment.
11	↓3	CHURCHILL CHINA Plc	Stoke-on-Trent	45,930	4,842	596	31/12/2007	Group is engaged as designers and manufacturers of ceramic and related products for hospitality and household markets.
12	↓7	WIDNEY Plc	Birmingham	39,594	-1,831	578	30/9/2007	Holding company whose subsidiaries are engaged in manufacturing products for the construction, automotive and agricultural industry.
13	↓3	CHAMBERLIN Plc	Walsall	39,188	-831	478	31/03/2007	Group is involved in the production and sale of iron castings and the manufacture & sale of light engineering products, predominantly into safety and security markets.
14	↓1	PORTMEIRION GROUP PUBLIC LIMITED COMPANY	Stoke-on-Trent	32,017	4,419	537	31/12/2007	Manufactures ceramics and markets ceramic, glass and metal tableware, cookware and giftware, candles and other associated products.
15	↓1	DELCAM Plc	Birmingham	29,707	2,148	438	31/12/2007	Principal activities are the supply of Cadcam systems and services for the design of products with complex shapes and their manufacture with tooling.
16	↓5	BIRMINGHAM CITY Plc	Birmingham	25,039	-6,518	139	31/08/2007	Operation of sports arenas stadiums
17	↓1	NORMAN HAY Plc	Coventry	23,959	1,670	265	31/12/2007	Manufacture & supply of chemical sealants & related chemicals to eliminate porosity in metal castings, generally destined for automotive industry.
18	↑5	CLAIMAR CARE GROUP Plc	Birmingham	22,318	1,195	1,368	30/9/2006	Provides domiciliary care services to local authorities or private individuals
19	↑7	NEUTRAHEALTH Plc	Birmingham	21,307	1,862	91	31/12/2007	Holding company whose subsidiaries are engaged in sale and distribution of nutraceutical products.
20	↓2	DM Plc	Ross-On-Wye	20,012	4,878	66	31/12/2006	The Group activity is that of prize games and database rental.
21	↓2	SANDERSON GROUP Plc	Coventry	18,165	1,935	242	30/9/2006	The group's activities are the supply of IT services.
22	↓1	ARDEN PARTNERS Plc	Birmingham	16,770	5,160	44	31/10/2007	Research-led institutional stockbroking firm.
23	↓1	EDUCATION DEVELOPMENT INTERNATIONAL Plc	Coventry	16,274	2,120	150	30/9/2007	Technical and vocational secondary education
24	↓4	BUSINESS DIRECT GROUP Plc	Rugby	15,945	-2,403	190	31/01/2007	The group is involved in intelligent outdoor locker distribution system, marked as parcelXchange, and provides distribution and logistics services, primarily in the field services personal market.
25	↓8	SLIMMA Plc	Leek	15,702	-1,015	127	28/09/2007	Manufacture, marketing & wholesale of ladieswear.
26	↓2	SAMUEL HEATH AND SONS PUBLIC LIMITED COMPANY	Birmingham	12,712	1,733	182	31/03/2007	Manufacture and marketing of a wide range of products in the builders' hardware and bathroom field.
27	↑2	TRICORN GROUP Plc	Malvern	11,147	694	156	31/03/2007	Specialist engineering subsidiaries whose activities incorporate high precision tube manipulation, systems engineering and specialist fittings.
28	↓1	THOMAS WALKER Plc	Birmingham	9,890	629	123	30/6/2007	Stamper and finisher of brass components, Manufacturers and Distribution of garment fasteners and personal identification products.
29	↓4	COBRA BIO-MANUFACTURING Plc	Newcastle	9,194	-1,885	136	30/9/2007	Holding company whose subsidiaries are engaged in manufacturing services for protein, virus and DNA based pharmaceuticals.
30	↓2	FOCUS SOLUTIONS GROUP Plc	Leamington Spa	7,908	1,035	83	31/03/2007	Development, supply and support of point of sale systems to the UK financial services market.
31	↑2	MEDIWATCH Plc	Rugby	5,684	-820	40	31/10/2007	Development of primary care products used in the diagnosis of urological disorders and early prostate cancer detection.
32	↓2	EG SOLUTIONS Plc	Stafford	5,472	-289	49	31/01/2008	IT and software support services business delivering guaranteed improvements in operations management.
33	New entry	SOUTHERN BEAR Plc	Leamington Spa	3,017	410	19	31/03/2007	Pipeline design, installation and general engineering.
34	↓3	ISLAMIC BANK OF BRITAIN Plc	Birmingham	3,011	-8,833	144	31/12/2006	Provide banking services to Muslims in the UK and Europe.
35	↓1	PLAYGOLF (HOLDINGS) Plc	Leamington Spa	2,939	-2,127	80	31/12/2006	Golf course and driving range management.
36	New entry	INNOVISE Plc	Brierley Hill	2,254	226	26	30/9/2007	Workforce management software and managed IT solutions.
37	↑1	BIOGANIX Plc	Leominster	1,601	-64	17	31/12/2006	Composting organic waste material.
38	New entry	ROEFORD PROPERTIES Plc	Solihull	1,513	-985	4	31/12/2006	Property trading and development including related consultancy services.
39	↓3	INNOBOX Plc	Halesowen	701	-359	23	30/4/2007	Management, ownership and day to day running of hotels and licensed premises.
40	New entry	IQ HOLDINGS Plc	Leamington Spa	347	-189	7	3/9/2006	Involved in market research and business information.
41	↓2	CAPITAL IDEAS Plc	Birmingham	255	118	n/a	30/4/2007	Investment company. Subsidiaries are involved asset repossession, manufacture, supply & instalment of timber, steel & concrete products, property investment, engineering and manufacturing consultancy etc.
42	New entry	KLEENAIR SYSTEMS INTERNATIONAL Plc	Ross-On-Wye	35	-825	8	30/9/2007	Development of vehicle emission reduction devices.
43	↓2	PERSONAL SCREENING Plc	Stourbridge	31	-304	5	31/12/2006	Sources, markets and sells self-test health screening and diagnostic kits for a variety of common medical conditions.
44	↓1	HENDERSON MORLEY Plc	Birmingham	19	-943	7	30/4/2007	Development of drugs and vaccines for the pharmaceutical industry.
45	↔	DESIRE PETROLEUM Plc	Malvern	n/a	-2,483	6	31/12/2006	Extraction of crude petroleum and natural gas

Information sourced from FAME as at April 2008 and from Hemscoff as at May 30, 2008

N/A = not available