THE IMPLEMENTATION OF IFRS IN THE UK DEVOLVED ADMINISTRATIONS

Ciaran Connolly
Tony Wall
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FOREWORD

The UK public sector followed in the wake of the private sector and adopted IFRS for their 2009/10 financial statements. The implementation of IFRS was announced in the 2007 budget as a means of bringing ‘benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice’. But how did this transition go and what were the implications of the change?

This report investigates, through a survey and interviews, the implementation of IFRS in the central government departments of the three devolved administrations of Northern Ireland, Scotland and Wales. It seeks to examine the impact of reporting under IFRS, the merits and drawbacks of adopting IFRS, the impact on policy and decision-making and identifies lessons to be learnt for the future.

The research finds that the process of transition to IFRS was much smoother than initially expected and much less onerous than the earlier move to resource accounting and budgeting. Other findings of this report are that: the actual costs of implementation were unclear and the consensus was that only limited benefits have so far been realised from the transition; the transition had minimal impact upon management information systems, policy setting and the use of information for decision-making; and the implementation of IFRS resulted in increased disclosures but it appeared to add little value to users.

The report recognises: the importance of early planning and preparation for implementation of such a change; the need for value-for-money considerations rather than accounting treatment driving policy, especially when mechanisms for delivery public infrastructure; the need to resolve boundary alignment issues in the public sector; and the benefits of reviewing and hopefully reducing the complexity and volume of disclosures in public sector accounts.

This project was funded by the Scottish Accountancy Trust for Education and Research (SATER - see page 71) and the Chartered Accountants Ireland Educational Trust (CAIET - see page 73). The Research Committee of The Institute of Chartered Accountants of Scotland (ICAS) has also been happy to support this project. The Committee recognises that the views expressed do not necessarily represent those of ICAS itself, but hopes that the project will add to the understanding of the impact of adopting IFRS in the public sector and offer some assistance to other areas of the public sector considering implementation of IFRS.

Allister Wilson
Convener of ICAS Research Committee
March 2013
ACKNOWLEDGEMENTS

The authors wish to express their gratitude to those individuals, whose comments and views are reported in chapters four and five, who kindly responded to the questionnaire and agreed to be interviewed. Furthermore, we would also like to thank ICAS, the Scottish Accountancy Trust for Education and Research and the Chartered Accountants Ireland Educational Trust for the financial and research support of this project.
### ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>ASB</td>
<td>Accounting Standards Board</td>
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<tr>
<td>DFP</td>
<td>Department of Finance and Personnel</td>
</tr>
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<td>FRAB</td>
<td>Financial Reporting Advisory Board</td>
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<td>FRS</td>
<td>Financial Reporting Standard</td>
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<td>GAAP</td>
<td>Generally Accepted Accounting Principles</td>
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<td>HMT</td>
<td>Her Majesty’s Treasury</td>
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<td>IAS</td>
<td>International Accounting Standard</td>
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<td>IASB</td>
<td>International Accounting Standards Board</td>
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<td>IFRS</td>
<td>International Financial Reporting Standard</td>
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<td>IPSASB</td>
<td>International Public Sector Accounting Standards Board</td>
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<td>IPSAS</td>
<td>International Public Sector Accounting Standard</td>
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<td>NI</td>
<td>Northern Ireland</td>
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<td>NPM</td>
<td>New Public Management</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>OIP</td>
<td>Other Interested Party</td>
</tr>
<tr>
<td>PFI/PPP</td>
<td>Private Finance Initiative/Public-Private Partnership</td>
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<td>RAB</td>
<td>Resource Accounting and Budgeting</td>
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<td>UK</td>
<td>United Kingdom</td>
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EXECUTIVE SUMMARY

Background

Following the update in the United Kingdom (UK) 2008 budget, all public sector organisations were required to adopt International Financial Reporting Standards (IFRS) for their 2009/10 financial statements and to restate 2008/09 comparative figures (following a one-year delay). The motivation for the move to IFRS was clearly stated when the policy was announced in the 2007 Budget:

*The government needs to use high value performance data in combination with appropriate financial data... in order to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice.*

However, IFRS implementation is not only a technical accounting issue and the impact of the changes may impinge upon many areas of public sector organisations such as the setting and measurement of performance targets, budgeting and forecasting as well as financial reporting. This research project therefore investigates the consequences of IFRS implementation in the public sector, focusing on the central government departments of the devolved administrations.

Research aims, objectives and method

This research focuses upon the devolved administrations in Northern Ireland (NI), Scotland and Wales. It has four objectives:

1. To examine the impact of reporting under IFRS in the devolved administrations;
2. To assess the merits, drawbacks and impact of central government departments, within the devolved administrations, adopting IFRS;
3. To evaluate whether reporting under the IFRS regime adds value to public sector management and decision-making; and
4. To highlight examples of good practice and lessons to be learnt.

This research utilises both survey and interview instruments to capture the full richness of data available. The major empirical aspects of the research utilise semi-structured interviews with key finance and policy personnel from a sample of the government departments in NI, Scotland and Wales together with other interested parties. Central government is structured differently in each of the three devolved
regions and, in broad terms, there are 25 departments (or equivalent) in NI, Scotland and Wales. Thirty four responses to the anonymous online questionnaire were received from across the regions, with 18 semi-structured interviews being conducted with key finance and policy personnel, together with other interested parties, in NI, Scotland and Wales.

Key findings

The key findings arising from the research are as follows:

1. The transition to IFRS was significantly less onerous than the introduction of Resource Accounting and Budgeting (RAB). Although the initial fear was that the transition would involve major upheaval, in reality it was much smoother than expected. This can be attributed, at least in part, to the lessons learnt from the introduction of RAB, together with the subsequent increased accounting expertise across central government. Therefore, whilst there was a perception that public sector accounting practices had improved, this was probably due to a general improvement in the professionalisation of the public sector rather than the transition to IFRS. However, it was suggested that the process of making the transition had contributed to a better understanding of accounting and budgeting and staff having a broader awareness of the role of different departmental functions. Notwithstanding this, considerable time and effort was spent “proving the negative” (ie. demonstrating that a particular issue did not apply/was not relevant) in areas such as leases and financial instruments. In addition, some adjustments were required for PFI/PPP contracts and accrued holiday pay.

2. Departments were given sufficient time to make the transition, with the shadow year being considered crucial and the one-year delay opportune. Unlike the introduction of RAB across the UK (notwithstanding possible regional variations), there was limited use of external consultants, with Her Majesty’s Treasury (HMT) and regional central finance functions playing a major role in preparing personnel. Consistent with RAB, there was no separate budget or attempt to collate costs for the transition, thus making any form of cost-benefit analysis impossible. Consequently, the cost of implementation was unclear. However, while it was accepted that the financial cost of making the transition was relatively low, there was little evidence that it had represented value for money.

3. The transition to IFRS has had minimal impact upon management information systems, policy setting (apart from PFI/PPP) and the nature of the information produced to aid budgeting and decision-making. Although the extent of
disclosures in annual financial statements has increased, it appears to add little value for users. Furthermore, the consensus was that the potential benefits from the change will not be realised until boundary alignment issues (ie. the alignment of budgets, estimates and accounts in a manner that allows government to report to Parliament in a more consistent fashion) are resolved.

4. Whilst it was considered that IFRS are not entirely appropriate for the public sector, and that dedicated public sector standards would be more appropriate than IFRS, there appeared to be a willingness to accept IFRS. This is despite many interviewees struggling to identify tangible benefits of making the transition. Some suggested that it was logical to assess the accounting treatment of certain transactions which were directly linked to the private sector on a similar basis (for example, PFI/PPP projects). In addition, moving to RAB followed by the transition to IFRS had undoubtedly led to improvements in accounting for fixed assets and had contributed to a greater focus on assessing whether surplus assets were being held. There was also a belief that because IFRS had not been globally adopted by the public sector, the advantages had not yet been fully realised.

5. With the exception of comparability (which was one of the stated objectives (HMT, 2007a)), the consensus was that limited benefits have so far been realised from the transition to IFRS and that there has been little improvement in areas such as accountability, transparency, efficiency, policy setting, budget setting, decision-making, internal reporting and financial management. However, the primary anticipated advantages from introducing IFRS were identified as: improved transparency of assets and liabilities; and compliance with international private sector best practice which contributes to enhanced public sector professionalism.

6. The principal disadvantages were deemed to be: that the time, cost and effort involved in the transition outweighed the benefits. There was little evidence of improved accountability or decision-making, with the additional disclosures providing little (if any) benefit for either internal or external users. There was also a belief that public sector accounting has become overly-complicated since the introduction of RAB and that public sector financial statements could be more useful for users, especially politicians. Overall, the consensus was that financial statements had become long and unwieldy, and that some of the notes could be removed as they were not read.

7. Little had changed in terms of how IFRS-based information was used internally compared with previous UK Generally Accepted Accounting Principles (GAAP) information, particularly in the context of decision-making, policy decisions and performance measurement. To date there had been limited requests for new
8. There was no real belief that the move to IFRS is part of a wider programme of privatising elements of the public sector by requiring them to account on a similar basis to private sector organisations in order to facilitate comparison and competition for the provision of certain services. Rather, the transition to IFRS, was perceived as part of a process of ongoing public sector reform designed to increase transparency and general professionalisation.

Policy recommendations

The policy recommendations arising from the findings are as follows:

**Early planning and preparation**

The main lessons to be learnt from the transition to IFRS include the need for: early planning and preparation; integrated project teams; and the upgrading of IT systems to cope with the extra information. Furthermore, departments must have appropriate staff resources and expertise and strong leadership from senior management both within the departments and government.

**Recommendation 1:** Public sector change must be adequately resourced, carefully planned, with appropriate systems, trained staff and interdisciplinary project teams. Moreover, with respect to accounting change, it should not be introduced without good reason and the importance of accounting for cash should not be lost in a desire to comply with accounting standards.

**Accounting treatment driving policy**

With respect to PFI/PPP, there appears to be a reassessment of the use of such contracts given that these are now deemed to be “on balance sheet”. Even though this had already been clarified following the amendment to *FRS 5 Reporting the Substance of Transactions* (ASB, 1998), the adoption of IFRS has led to some reticence to undertake such projects. However, Scottish interviewees indicated that variations on the PFI/PPP model might still be considered.

**Recommendation 2:** The decision about which tool or mechanism to use to deliver public infrastructure should be based on value for money not the accounting treatment.
Resolve alignment issues

The consensus was that compliance with the budget remains more important than financial reporting, and that the potential benefits from the change to IFRS will not be realised until boundary alignment issues are resolved.

Recommendation 3: A single, coherent financial regime for the way in which government uses budgets to plan what it will spend, presents estimates to Parliament for approval and finally, after the year end, publishes its resource accounts, should be implemented as a matter of urgency.

Key stakeholder involvement and reduction in disclosures

The extent and complexity of disclosures in annual financial statements has increased. However, this appears to add little value for key users, such as departmental board members and government ministers.

Recommendation 4: Consideration should be given to reducing the complexity and volume of disclosures in public sector accounts (for example, see The Institute of Chartered Accountants of Scotland/The New Zealand Institute of Chartered Accountants, 2011). This could include greater consideration of materiality in financial reporting disclosures and the removal of disclosures that do not contain material information. A body such as the Financial Reporting Advisory Board (FRAB) would be well-placed to undertake such a review. Furthermore, public sector accountants should play an active role in educating key stakeholders and providing information in a more understandable format.
1. INTRODUCTION

Background

The United Kingdom (UK) comprises four separate countries (England, Northern Ireland (NI), Scotland and Wales) within one main political unit. Traditionally, government within the UK has been founded on concepts such as a unitary state and the supremacy of Parliament at Westminster. Latterly, these ideas have been challenged by devolution, whereby functions previously exercised by Westminster ministers and the Westminster Parliament have been transferred to subordinate elected bodies on a geographical basis (Bogdanor, 2001). Following referendums in Scotland and Wales in 1997, and in NI in 1998, the UK Parliament transferred a range of powers to national parliaments or assemblies. The NI Assembly, Scottish Parliament and the National Assembly for Wales were established and became operational in 1999.

The traditional model of accounting in the UK central government was a cash model, whether in respect of management or financial reporting. Her Majesty’s Treasury (HMT) established the cash basis of reporting as part of major reforms introduced in 1866, a basis that was subsequently used in the British colonies over the next 100 years (Wynne, 2003). However, with the major reforms of the National Health Service (NHS) in the early 1990s, the internal market was developed and hospitals were established as quasi-independent businesses that accounted on an accruals basis. Shortly following this, the move from the cash basis was agreed for central government (with a Green Paper (HMT, 1994) being followed by a White Paper (HMT, 1995a)) and a phased implementation timeline outlined (where systems were to be developed and resources, including skilled personnel, were to be acquired). The change was viewed as significant and highlighted as such by politicians. For example, in announcing the proposed change, Kenneth Clarke, the then Chancellor of the Exchequer in the UK government, stated when launching the White Paper (HMT, 1995b, p. 1) that ‘people will find other ways of celebrating the millennium but few will be more important. This is one of those highly significant events’.

In the UK the move to accruals accounting in the public sector has been implemented under the title Resource Accounting and Budgeting (RAB). Resource accounting, which extends beyond the cash-based accounting used previously by applying accruals principles to public sector accounting, also seeks to integrate objectives and targets into the accounting system (implemented in full
in 2001/2002). In addition, on the management accounting side, a subsequent move to resource budgeting in order to make the management accounts align with the external accounts was made (implemented in full in 2003/2004). Resource budgeting involves using resource accounting information as the basis for planning and controlling public expenditure. It supports the fiscal framework by distinguishing between resource consumption and capital investment and requires departments to match their costs to the time of service delivery. The resource budget is made up of the sum of: administration costs (accruals basis); capital costs (depreciation and capital charge); programme expenditure (accruals basis); and provisions. Planned timelines were adhered to; therefore since the fiscal year 2003/2004 UK central government departments in all parts of the UK have been operating on an accruals basis for both accounting and budgeting.

Following the update in the UK 2008 budget, all public sector organisations, from the smallest agency to the biggest central government department, were required to adopt International Financial Reporting Standards (IFRS) for their 2009/10 financial statements and to restate 2008/09 comparative figures. NHS Trusts, Primary Care Trusts and NHS Foundation Trusts also needed to adopt IFRS within this timetable, with the first local authority IFRS-based accounts being produced for 2010/11. The motivation for the move to IFRS was clearly stated when the policy was announced in the 2007 Budget (HMT, 2007a, paragraphs 6.95 and 6.96):

*The government needs to use high value performance data in combination with appropriate financial data... in order to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice.*

The implications of the transition are complex and wide ranging for many public sector organisations. Unlike the UK private sector which had approximately five years to make the transition, the UK public sector had only three years. Moreover, there are two major differences that highlight the scale of the challenge for the public sector: firstly, IFRS were being developed and implemented simultaneously by the private sector and thus there was already a reasonable degree of understanding and acceptance; and secondly, the private sector only had to apply IFRS at the group or parent company level, whereas all public sector organisations are required to adopt IFRS regardless of their size. IFRS implementation is not only a technical accounting issue, with the impact of the changes impinging upon many areas of public sector organisations such as the setting and measurement of performance targets, budgeting and forecasting and processes and systems. While the impact will vary widely from one organisation to another, in all cases the broader implications are wide reaching. Indeed, the scale of the challenges led to
Financial reporting is intended to underpin the UK Government’s planning, monitoring and management of public expenditure. The primary aims of financial reporting by public sector bodies are to demonstrate to the public and their representatives (HMT, 2012):

- the financial performance of the bodies;
- their accountability for public funds and assets;
- that, where appropriate, public monies and other resources have been used for the purposes intended when the funds were authorised;

and to provide elected representatives information which is sufficient as a basis for their:

- consideration and approval of the levels of resources and cash voted to services; and
- examination of performance in carrying out policies, functions, programmes and projects.

Under section 24 of the Government Resources and Accounts Act 2000, HMT is required to consult an advisory group on financial reporting principles and standards for resource accounts (in practice, for England and Wales) and Whole of Government Accounts (WGAs). Under section 20 of the Government Resources and Accounts Act (NI) 2001, the Department of Finance and Personnel (DFP) in NI is also required to consult with and take account of the recommendations made by this advisory group before issuing directions on resource accounts or determining the form and content of WGAs (NI). The Scottish Ministers, with the agreement of the Audit Committee of the Scottish Parliament, have determined that they should be similarly advised on such matters. The Financial Reporting Advisory Board (FRAB) is that advisory group. FRAB is an independent body and its role is to promote the highest possible standards in financial reporting by government and to help ensure that any adaptations of, or departures from, UK Generally Accepted Accounting Principles (GAAP) are justified and properly explained. FRAB’s responsibilities have grown since it was established in 1996 and its role, which was given statutory footing by the Government Resources and Accounts Act 2000, now includes advising on financial reporting across the UK (principles only in Scotland) for departments, executive agencies, executive non-departmental public bodies, trading funds and health bodies.
Aims and objectives

This research focuses upon the devolved administrations in NI, Scotland and Wales. It is of a practical nature and has four objectives:

1. To examine the impact of reporting under IFRS in the devolved administrations;
2. To assess:
   (i) what different internal stakeholders believe are the merits and drawbacks of requiring public sector organisations to adopt IFRS; and
   (ii) the impact on departments, in particular their policies and decision-making, of the adoption of IFRS;
3. Based upon the review of prior research, official guidance and the findings from the questionnaires and interviews, evaluate whether reporting under the IFRS regime adds value to the management and decision-making of government; and
4. To highlight examples of good practice and identify lessons to be learnt for the future in light of the continuing trend of implementing private sector practices in the public sector.

Report structure

This report is structured as follows:

- Chapter two reports the effects of introducing IFRS in the private and public sectors in different countries;
- Chapter three explains the research methods adopted, including the online questionnaire and semi-structured interviews;
- Chapter four and chapter five report the results of the online questionnaire and semi-structured interviews; and
- Chapter six concludes on the main findings of this research.
2. INTRODUCING INTERNATIONAL FINANCIAL REPORTING STANDARDS: SOME GLOBAL EVIDENCE

Introduction

Although some areas of Africa, the Middle East and South/Central America strictly prohibit the use of IFRS as a system for reporting, the rest of the world either requires, permits or has plans to implement some form of IFRS in the private sector, as well as in some cases in the public sector. On 7th June 2002, the European Union (EU) Council of Ministers adopted a regulation passed by the European Parliament requiring all EU listed companies to prepare their consolidated financial statements in accordance with international standards by 1st January 2005 at the latest. Consequently, the legal framework under which EU companies prepared their financial statements changed significantly in 2004/05, with EU Member States being required to use local legislation to implement their options under the EU International Accounting Standard (IAS) Regulation 1606/2002. This Regulation made it mandatory for all EU listed entities to prepare their consolidated financial statements in accordance with IFRS for all accounting periods beginning on or after 1st January 2005 (Connolly, 2011).

The European Parliament and the Council of the EU (2002, p. 1) asserts that the implementation of IFRS will ensure comparability and the quality of reporting due to the ‘increasing convergence of accounting standards currently used internationally with the ultimate objective of achieving a single set of global accounting standards’. In a similar vein, Aisbitt (2006, p. 118) notes that the shift to IFRS ‘was part of a wider global move towards convergence on a single set of accounting standards that had become ever stronger in the previous decade, when the International Organization of Securities Commissions had been working on its “global passport” for stock exchange listing’.

Recent debate has centred on the implementation of IFRS and the impact the transition is having on different countries. For example, Ball (2005) notes that although there has been success in persuading many countries to adopt the ‘high quality’ standards of the system, there are inevitable differences in reporting between countries. He states (p. 3) ‘the notion that uniform standards alone will produce uniform financial reporting seems naïve, if only because it ignores deep-rooted political and economic factors that influence the incentives of financial statement preparers and that inevitably shape actual financial reporting practice’.
Making the transition to IFRS

A number of authors have reported on the far from seamless transition to IFRS in the private sector, with the focus typically being on the key differences between IFRS and a particular country’s GAAP. Some examples of this research are presented in Table 2.1.

Table 2.1  Introducing IFRS in the private sector – prior research

<table>
<thead>
<tr>
<th>Country</th>
<th>Reference</th>
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<tbody>
<tr>
<td>Australia</td>
<td>Brown and Tarca (2001); Collett et al. (2001); Goodwin and Ahmed (2006); and Jones and Higgins (2006).</td>
</tr>
<tr>
<td>Finland</td>
<td>Lantto and Sahlström (2009).</td>
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<tr>
<td>France</td>
<td>Standish (2003).</td>
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<tr>
<td>Germany</td>
<td>Weißenberger et al. (2004).</td>
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<tr>
<td>Spain</td>
<td>Callao et al. (2007).</td>
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<tr>
<td>UK</td>
<td>Aisbitt (2006); Fearnley and Hines (2007); and Jeanjean and Stolowy (2008).</td>
</tr>
<tr>
<td>USA</td>
<td>Daske (2006); and Erchinger and Melcher (2007).</td>
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In broad terms, the above research reports significant changes in the financial outturn for a number of corporate sectors when reporting under IFRS compared to their national GAAP, usually due to more assets being recorded on the statement of financial position (balance sheet) under IFRS and the fair valuing of these assets.

With regard to the public sector, the appropriateness of introducing private sector accounting practices and the apparent lack of a conceptual accounting framework for public sector accounting has been questioned (Pallot, 1992; Tagesson, 2009). This is often on the basis that the objectives of public sector accounting are different from those of the private sector, since the former seeks to deliver services to citizens whereas the latter’s long-term goals are profit. Indeed, large financial surpluses might even be considered as a sign of political irresponsibility and imposition of too high taxes and fees (Gosling, 2008). However, Rixon and Faseruk (2009) suggest that as the focus of financial reporting is to provide financial information on which to base resource allocation decisions, and that as such decisions require common types of information regardless of the nature of
the entity, accounting standards are applicable in both sectors. Furthermore, the elements of financial statements (assets, liabilities, income and expenditure) are defined from an economic/resource perspective rather than from the perspective of the reporting entity. Against the backdrop of these contrasting views, a number of countries has introduced IFRS in the public sector.

As a result of the private sector focused research referred to above, together with specific public sector studies (for example, Ryan et al., 2007), there is an awareness in the public sector of the technical challenges associated with implementing IFRS and the potential accounting issues connected with specific standards. In the UK, these differences were signalled in various government circulars (for example, HMT, 2007b). While public sector attention in the UK has focused on the fact that most assets in Private Finance Initiative (PFI) and other Public Private Partnership (PPP) arrangements are likely to be recorded on the public sector balance sheet under IFRS, it is also likely that more leased assets, intangible assets, investment properties and financial instruments will also be included (Ellwood and Newberry, 2007).

Often government statements regarding anticipated benefits associated with accounting change are not based on any systematic analysis of effect, and tend to include unproven ad hoc assertions of advantages while underplaying any emerging problems. Indeed, there have been persistent and consistent warnings about the differences between the public and private sectors and the dangers of applying private sector accounting standards to the public sector (Barton, 2004; Mack and Ryan, 2006), together with calls for caution when extending business accounting to public sector entities in order to avoid ‘perverse outcomes’ (Guthrie, 1998; Ellwood and Newberry, 2007; Broadbent and Guthrie, 2008).

New Public Management (NPM) theory has been extensively used to help explain the shift from cash to accruals accounting, which had taken place in around half of the Organisation for Economic Co-operation and Development (OECD) member countries by the early 2000s (Matheson, 2002), and the subsequent transition to IFRS. NPM refers to ways of improving planning, controlling, transparency and accountability in the public sector (Hood, 1991, 1995; Gray and Jenkins, 1995; Olson et al., 1998; Guthrie et al., 1999; Lapsley, 1999; Pollitt and Bouckaert, 2004), with the reforms typically evolving around six dimensions: privatisation; marketisation; decentralisation; output orientation; quality systems; and intensity of implementation. Accounting was viewed as ‘a key element in this new conception of accountability, since it reflected high trust in the market and private business methods (no longer to be equated with organized crime) and low trust in public
servants and professionals (now seen as budget-maximizing bureaucrats rather than Jesuitical ascetics), whose activities therefore needed to be more closely costed and evaluated by accounting techniques’ (Hood, 1995, p. 94).

International comparisons of NPM-style reforms across a number of countries indicate that these reforms are being implemented at a quicker pace and more enthusiastically in some countries compared to others (Hood, 1995; Flynn and Strehl, 1996; Pollitt and Bouckaert, 2004). Grossi and Newberry (2009) point to Australia, New Zealand and the UK as three countries that appear to compete for, or perhaps take turns at, leadership of business-style financial management and reporting initiatives in the public sector. Hood (1995), in an analysis of a number of OECD countries, distinguished between high, medium and low adopters of NPM ideas. Using Hood’s country classification, Table 2.2 provides an overview of the adoption of IFRS or International Public Sector Accounting Standards (IPSAS).

The International Public Sector Accounting Standards Board (IPSASB) focuses on the accounting, auditing and financial reporting needs of national, regional and local governments. Among its activities is the development of IPSAS, a set of accounting standards (with no legally-binding force) for use by public sector entities around the world in the preparation of their financial statements. These standards are based on IFRS and adapted by the IPSASB to a public sector context when appropriate. In undertaking that process, the IPSASB attempts, wherever possible, to maintain the accounting treatment and original text of the IFRS unless there is a significant public sector issue which warrants a departure.

While many governments have stated they are introducing IPSAS because it is considered to be good practice, very few have actually wholly-adopted the standards, with many applying IFRS-based accounting standards that are broadly consistent with IPSAS. In the UK public sector, while central government financial statements are now prepared using IFRS, different or additional guidance in a relevant IPSAS is one of a number of indicators of the potential need to adapt IFRS for the public sector context. In broad terms, the UK government decided to move to IFRS to remain in line with industry through using one common set of standards.
<table>
<thead>
<tr>
<th>Intensity of adoption of NPM reforms</th>
<th>Country</th>
<th>Private sector adoption of IFRS</th>
<th>Public sector adoption of IFRS</th>
<th>Applies/in the process of applying IPSAS</th>
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<tr>
<td></td>
<td>UK</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Medium</strong></td>
<td>Austria</td>
<td>Yes</td>
<td>No</td>
<td>Yes²</td>
<td>2 Applying IPSAS with the purpose of converging to IFRS</td>
</tr>
<tr>
<td></td>
<td>Denmark</td>
<td>Yes</td>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Finland</td>
<td>Yes</td>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>France</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Republic of Ireland</td>
<td>Yes</td>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Italy</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Netherlands</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Norway</td>
<td>Yes</td>
<td>No³</td>
<td></td>
<td>3 Applies IPSAS where no private sector standards are applicable</td>
</tr>
<tr>
<td></td>
<td>Portugal</td>
<td>Yes</td>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>USA</td>
<td>Partial⁴</td>
<td>No⁵</td>
<td></td>
<td>4 For foreign companies issuing shares in the USA, with conversion to IFRS under review</td>
</tr>
<tr>
<td><strong>Low</strong></td>
<td>Greece</td>
<td>Yes</td>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Germany</td>
<td>Yes</td>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Japan</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Spain</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Switzerland</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Turkey</td>
<td>Yes</td>
<td>No</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The experience of the UK, a high intensity adopter of both NPM and IFRS, is now considered further.

**United Kingdom – private and public sectors**

Ormrod and Taylor (2004) noted that some UK companies were obliged to reform their procedures in order to meet criteria under IFRS and that the effects of these changes could be unexpected. Complicating factors included the ability of companies to select their end of year dates and opting to select different exemptions; issues that Ball (2005) suggested could result in variation rather than standardisation. However, while Aisbitt’s (2006) case study of the Financial Times and London Stock Exchange (FTSE) 100 in the UK concluded that the varying conditions within different companies indicated that the change from UK GAAP to IFRS would ‘demand attention to detail by users of financial statements’ (p. 117), the results of her study indicated that the net assets reported under UK GAAP and IFRS were ‘not significantly different’ (p. 122). Although, differences in the accounting treatment of certain items were highlighted as potential problem areas; for example, under IFRS, retirement benefits are reported during an employee’s working career and acknowledged on the balance sheet, in contrast to the previous arrangement whereby such costs would have been contained separately (Aisbitt, 2006). Additionally, in a comparative study of the implementation of IFRS in UK, Ireland and Italy, Dunne et al. (2008) found that one of the biggest concerns of UK interviewees was the fear that strategic information would be divulged to competitors, although the Irish and Italian participants were much less concerned about this. Cautioning against complacency, Aisbitt (2006) remarks that although UK GAAP and IFRS are perceived as emerging from the same Anglo-Saxon model, this fact will not preclude companies from adjusting reported figures.

The adoption of accruals accounting in the public sector, as a precursor to IFRS, was meant to benefit those using it in several ways, including improved transparency and accountability as well as improved reporting and information (Ball, 1994). However, the support for accruals accounting was not universal, with its failures in the private sector causing some to question why it was then considered viable for the public sector (Guthrie and Johnson, 1994; Guthrie et al., 1999). Additionally, it was highlighted that the particular circumstances of the different areas implementing the change should be taken into account. For example, with the transition to resource accounting in 2002, the proposed timetable and plans were not modified despite the fact that devolution had just occurred in NI, Scotland and Wales; in NI, the restructuring of departments greatly complicated the transition (Connolly and Hyndman, 2006).
Focusing on the policy implications for the transition to accruals accounting, Arnaboldi and Lapsley (2007, p. 831) concluded that ‘the intended aim of enhancing accountability by improving the accounting information available to users of local authority services and taxpayers has not materialised’ and that only those with knowledge of public finance can (realistically) critically analyse the reports. Importantly, they observed that accountants often do not present the internal decision-makers with improved reports and information, seen initially as one of the major benefits of the transition. Thus, as the reports were treated ‘as a year-end adjustment to their annual accounts’, the potential use of information in policy decisions was ‘all but eliminated’ (p. 832).

Against the backdrop of such conclusions, it was announced in 2007 that UK public sector bodies would be required to prepare reports in compliance with IFRS from 2008/2009, with local government expected to adopt IFRS from 1 April 2010 (McHugh, 2008). Central government bodies (including the NHS) were subsequently given an additional year (Shah, 2010). It is estimated that the incidental result of delaying the implementation of IFRS from 2008/09 to 2009/10 meant that the government did not need to bring approximately £30 billion of underlying assets and the related debt in PFI/PPP arrangements onto its balance sheet for another year (Jeanjean and Stolowy, 2008). Furthermore, it was anticipated that the introduction of IFRS in the public sector would impact on decision-making, particularly because of the requirements for some assets to be recorded on the balance sheet that previously were not (Gallen, 2008). Additionally, Mason (2009) suggested that the adoption of IFRS would have implications for council tax, employee holidays, flexitime and other benefits.

Pilcher and Dean (2009, p. 728) state that ‘with the introduction of accruals accounting, followed by IFRS, local government is, in some respects, being treated more like the private sector in regards to their reporting obligations’. More widely, the move to IFRS can be seen as an important part of the UK government’s finance professionalisation agenda, which includes: professionally qualified finance directors sitting on the board of government departments; faster closing of accounts; and enhanced financial management of future programmes and projects. Reporting under IFRS requires government finance professionals to be familiar with, and accept, the accounting framework used by large companies. Indeed, HMT in recent years has been moving away from reproducing the underlying accounting standards in a public sector context and now most IFRS material directs government finance professionals to the actual standards. The most well-known instance of HMT becoming involved in accounting standard-setting issues is in relation to the amendment to *FRS 5 Reporting the Substance of Transactions* (Accounting Standards Board (ASB), 1998) (see Hodges and Mellett, 1999). While
occurring before the transition to IFRS, this example highlights the fact that private sector accounting standards are not always seen as directly applicable in the public sector and modifications may be necessary.

Summary

To date countries such as Australia, Canada, New Zealand and the UK have produced IFRS-based public sector financial statements. In one respect, the transition to IFRS is a natural consequence of an increasing demand for high-quality public sector financial information (Warren, 2012). The application of accruals accounting in accordance with IFRS facilitates the provision of information to enable better financial management and is believed to improve accountability, transparency and trust (Ball, 2012). However, a government balance sheet cannot be interpreted in the same manner as the private sector’s where size and strength is a measure of success or wealth. In the public sector, a bigger balance sheet means bigger government and there is no consensus on what the size of government should be.

This chapter illustrates that anxieties about the transition to IFRS by the public sector include fears that: IFRS will not in fact contribute to decision-making; there will be too great an emphasis on the “bottom line” rather than information pertinent to policy and decision-making; the needs of internal users and external managers are not homogeneous; and the overall cost will outweigh the benefits experienced by public sector groups. There are also concerns about the effect of sector neutrality on the public sector, because private sector frameworks ought not to be automatically accepted as applicable to the public sector.

It could be argued that the private sector had an easier time transitioning to IFRS than the public sector since IFRS are designed to suit the private sector, which was afforded more time for implementation. An alternative view is that the public sector had the benefit of drawing on the experience of the private sector. Gallen (2008, p. 21) notes that “a key lesson is that planning for conversion needs to start as soon as possible. IFRS is more than just a finance issue and early planning enables organisations to identify issues around systems, processes and people, to mitigate both risk and the possibility of unwelcome surprises”. However, despite the challenges, Mason (2008, p. 16) noted that “there is a lot of work ahead, but the prize is worth it”; although what the prize is and the time frame involved in achieving it have been questioned.
The next chapter outlines the research methods used in undertaking the empirical research, an online questionnaire and semi-structured interviews. The main issues arising from the literature review presented in this chapter are engaged with in the questionnaire and interviews, with the findings being reported and concluded upon in chapters four, five and six.
3. RESEARCH METHODS

Introduction

This chapter outlines the research methods used in undertaking the empirical research. In addition to a literature review to place the discussion in context (see chapter two), this research utilises both survey and interview instruments to capture the full richness of data available and address the key research questions.

Online questionnaire

Drawing upon the literature review, an anonymous online questionnaire was developed in order to inquire into the views and experiences, of central government departments (or equivalent) in each of the devolved regions, of reporting under IFRS. The results of this are reported in chapter four. Central government is structured differently in each of the three regions. In broad terms:

• NI is structured on a departmental basis with 10 departments\(^1\);
• Scotland has eight cabinet secretaries\(^2\) (with ministers where appropriate); and
• Wales has seven ministers\(^3\) (and deputy ministers where appropriate) sharing responsibilities.

In addition, because of the different structures, many aspects of the finance function tend to be performed centrally in Scotland and Wales, whereas they are largely carried out within each department in NI.

The Accounting Officer (or equivalent) in each of the departments (or equivalent) was contacted by telephone and it was requested that an individual within the department, who had experience of the transition to IFRS, complete the questionnaire. If agreement was received, an email containing the link to the questionnaire was sent. While the responses were anonymous, based on the number of departments and number of accounting officers contacted, it appears that all those contacted responded. Indeed, in some instances, because of the way the transition was managed, more than one person from the same department may have completed a questionnaire. Consequently, whilst confident of broad coverage of the departments, due to the anonymous nature of the questionnaire, it is not possible to state with certainty the number of departments responding. Details of the respondents to the questionnaire are provided in Table 3.1.
Table 3.1  Analysis of respondents to online questionnaire

<table>
<thead>
<tr>
<th>Devolved Region</th>
<th>Total</th>
<th>%</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>NI</td>
<td>41.2</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>Scotland</td>
<td>47.1</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>Wales</td>
<td>11.7</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0</td>
<td>34</td>
<td></td>
</tr>
</tbody>
</table>

Semi-structured interviews

Drawing upon the themes arising out of the literature review and the findings from the questionnaire, a semi-structured interview guide was developed (see chapter five). Subsequently, semi-structured interviews with key finance and policy personnel from a sample of central government departments (or equivalent) in NI, Scotland and Wales, together with other interested parties (for example, representatives from the three regional public audit offices and a professional body whose members are directly involved in implementing and regulating public sector accounting changes), were conducted. Representatives from 14 organisations (6 NI, 6 Scotland and 2 Wales) were interviewed; although occasionally more than one person from the same organisation was interviewed separately or participated in the same interview and therefore the views and responses reported in this research are based upon 18 interviewees. Table 3.2 provides an analysis of the interviewees by region (NI, Scotland (S) or Wales (W)) and role (ie. central government departmental official (DO) or other interested party (OIP)).

Table 3.2  Analysis of interviewees

<table>
<thead>
<tr>
<th>Region</th>
<th>Departmental official</th>
<th>Other interested party</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Ireland</td>
<td>7 (NIDO1-7)</td>
<td>2 (NIOIP1-2)</td>
<td>9</td>
</tr>
<tr>
<td>Scotland</td>
<td>5 (SDO1-5)</td>
<td>2 (SOIP1-2)</td>
<td>7</td>
</tr>
<tr>
<td>Wales</td>
<td>1 (WDO1)</td>
<td>1 (WOIP1)</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>13</td>
<td>5</td>
<td>18</td>
</tr>
</tbody>
</table>

The interviewees were chosen because of their seniority and assumed detailed knowledge and awareness of the issues surrounding the implementation of accounting change, and in particular the transition to IFRS, in the public sector. Given their knowledge of the changes, and their position relating to the changes,
these interviewees were well situated to comment on the issues being addressed. Such an approach facilitated an understanding of ‘the perspective of the person being interviewed... to find out from them things that we cannot directly observe’ (Patton, 2002, p. 341). Consequently, research information was gathered on the benefits, problems and impact of the transition to IFRS in the devolved administrations. This provided an insight into the consequences and impact of the transition, and identified the institutional structures put in place to assist transition. The interviews ranged from one to two hours in length and all interviewees allowed their interviews to be recorded and for notes to be taken. The recordings were transcribed immediately to ensure accuracy and comprehension of the interview data.

Given the difficulties of gaining access to interviewees, the potential sensitivities of the matters being discussed and the desire for the interviewees to be as candid as possible, each potential interviewee was informed that the interviews would be reported in a manner where specific statements could not be attributed to particular individuals. However, the results are presented in such a way so as to be able to distinguish between possible differences of opinion between the different groups in each jurisdiction. By giving each interviewee a unique reference (for example, NIDO1, NIOIP1), this allows the reader to identify the role of the interviewee, and the region and comments from the same interviewee, while maintaining their confidentiality. The analysis of the interviews is presented in chapter five. While the approach adopted provides an opportunity for an in-depth analysis of many specific issues, it only gives an insight into the views of the particular interviewee and it is therefore dangerous to assume that the findings apply to all public sector organisations (Pugh, 1988). Consequently, the findings may not be indicative of the whole sector.

Summary

The data in this research was extracted using a combination of three different approaches, namely a content analysis of the literature and official government publications, a questionnaire survey and semi-structured interviews. Each method has its own limitations and it is hoped that the use of multiple approaches eliminates some of the drawbacks from using the individual methods in isolation. For example, questionnaire surveys do not facilitate detailed insights into the issue of inquiry but enable researchers to draw on large sample sizes. Interviews do the opposite, and thus by using both, the richness in data is obtained as well as an indication of more widely held views. The focus on central government in the devolved regions of NI, Scotland and Wales means that the views generated may be
somewhat skewed towards these regional administrations. As views from England and other parts of government are not covered in this research, the findings are not necessarily applicable to the entire public sector.
4. QUESTIONNAIRE ANALYSIS

Introduction

The research methodology adopted with respect to the preparation and distribution of the questionnaire is explained in chapter three. The questionnaire contained 26 questions, addressing a number of key themes: background (Questions 1 to 3); implementing IFRS (Questions 4 to 11); impact of IFRS (Questions 12 to 21); and concluding comments (Questions 22 to 26). The analysis of the questionnaire responses is presented below under the headings of each of these key themes.

Background

There were 34 usable responses from the online survey with 16 (47.1%) from Scotland, 14 (41.2%) from NI and four (11.7%) from Wales. The respondents came from a range of departments within central government in each of the three devolved regions and all had involvement in the transition to IFRS and/or the preparation of IFRS-based public sector financial statements.

Implementing IFRS

Respondents were asked a series of questions that focused upon their experiences and views on implementing IFRS in the public sector (Questions 4 to 11). These questions began by seeking views on two major changes to accounting in the UK public sector, namely the move from cash accounting to RAB and then from UK GAAP to IFRS. With respect to the former, the overwhelming consensus (94.1%) was that it was appropriate for the public sector to move from cash to accruals accounting. In contrast, opinions on the move from UK GAAP-based (accruals) accounting to IFRS-based (accruals) accounting were more divided. Figure 4.1, which presents the responses to Question 5, indicates that while there was overall agreement that the move to IFRS was appropriate (61.7%), a significant number was either indifferent (29.4%) or disagreed with the move (8.9%).
Figure 4.1 Do you agree that it was appropriate for the public sector to move from UK GAAP-based (accruals) accounting to IFRS-based (accruals) accounting?

<table>
<thead>
<tr>
<th>Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>44.1%</td>
</tr>
<tr>
<td>Agree</td>
<td>29.4%</td>
</tr>
<tr>
<td>Neutral</td>
<td>17.6%</td>
</tr>
<tr>
<td>Disagree</td>
<td>5.9%</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>3.0%</td>
</tr>
<tr>
<td>Don't know</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Note: The total number of respondents is 34.

However, while these responses indicate the majority believed that it was appropriate to move to IFRS, this may not have been because IFRS-based accounting was perceived as better than UK GAAP-based. For example, when probed about whether IFRS were of greater benefit than UK GAAP (Question 6), the majority was neutral (47.1%) or disagreed (23.5%). Therefore, perhaps the perceived ‘appropriateness’ of IFRS was driven by an acceptance that public sector accounting practices should mirror developments in the private sector. Interestingly, while nearly half of the respondents were neutral about the benefits of introducing IFRS, opinions were more clearly divided with respect to whether dedicated public sector accounting standards would be more appropriate (Question 7). For example, 58.8% of respondents agreed/strongly agreed that that dedicated public sector accounting standards would be more appropriate, 35.3% disagreed/strongly disagreed and only 5.9% was neutral (see Table 4.1).
Table 4.1 Do you agree that dedicated public sector accounting standards would be more appropriate than IFRS?

<table>
<thead>
<tr>
<th>Response</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree strongly</td>
<td>14.7%</td>
</tr>
<tr>
<td>Agree</td>
<td>44.1%</td>
</tr>
<tr>
<td>Neutral</td>
<td>5.9%</td>
</tr>
<tr>
<td>Disagree</td>
<td>23.5%</td>
</tr>
<tr>
<td>Disagree strongly</td>
<td>11.8%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Note: The total number of respondents is 34.

There was strong support for the assistance on IFRS implementation provided centrally from within the devolved administrations, with 70.6% agreeing it was sufficient and only 8.8% disagreeing (Question 8). This is supported by the fact that 70.6% of respondents reported that their department/public sector body (hereafter referred to as department) did not require external assistance in order to initially implement IFRS (Question 9) and none has subsequently required such assistance (Question 10).

The final question (Question 11) in this section asked respondents to rank (in order of importance) the main problems faced by their department with regard to implementing IFRS (it was not necessary for respondents to rank all of the options provided). The results are shown in Figure 4.2.

Figure 4.2 What do you believe were the main problems faced by your department in implementing IFRS?
Notes:
The total number of respondents is 34.
The problems were ranked by respondents in order of importance from 1-8. In the means reported below, the higher the mean, the greater the importance.

As can be seen from Figure 4.2, the problem acknowledged most frequently (19), and viewed overall as the main problem (mean response 7.47), was a lack of precedence. Lack of understanding of IFRS (15), insufficient information systems (14), lack of expertise (13), insufficient number of accounting staff (13) and insufficient time to prepare the accounts (11) were also frequently recognised as problems. Of these five, two closely related issues, insufficient number of accounting staff was most frequently ranked first and lack of expertise received the highest mean response (and was therefore perceived as the most important of these five issues). It is worthwhile noting that while 14 respondents ranked insufficient information systems as a problem, none ranked it first and its mean response was 5.0; thus suggesting that while it was an issue, it was not perceived as a major one. While eight respondents acknowledged a lack of financial resources as an issue, none ranked it first and its mean response was 4.0. The other problems highlighted were: changes to the guidance during the preparation period; and dealing with complex financial instruments and PFI/PPP contracts.

Impact of IFRS

The next section of the questionnaire focused upon the impact of adopting IFRS, in particular whether there had been improvements in certain areas, namely: accountability; transparency; efficiency; comparability; policy setting; budget setting; decision-making; internal reporting; and financial management. The responses for Questions 12 to 20 are shown in Table 4.2.

Table 4.2 indicates that, with the exception of comparability (which was one of the stated objectives (HMT, 2007a)), the consensus was that the transition had not led to an improvement in the areas referred to. Indeed, with respect to six of the nine areas (accountability, efficiency, budget setting, decision-making, internal reporting and financial management), 50% or more of the respondents actually disagreed/strongly disagreed that there had been an improvement. Moreover, with respect to the two remaining areas (transparency and policy setting), more respondents disagreed/strongly disagreed than agreed/strongly agreed, particularly in relation to the latter.
Table 4.2 In the public sector, compared with UK GAAP, has the transition to IFRS improved?

<table>
<thead>
<tr>
<th>Area for possible improvement</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountability</td>
<td>2.9%</td>
<td>17.6%</td>
<td>29.5%</td>
<td>38.2%</td>
<td>11.8%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Transparency</td>
<td>2.9%</td>
<td>26.5%</td>
<td>35.3%</td>
<td>32.4%</td>
<td>2.9%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Efficiency</td>
<td>0.0%</td>
<td>8.8%</td>
<td>32.4%</td>
<td>41.2%</td>
<td>17.6%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Comparability</td>
<td>5.9%</td>
<td>50.0%</td>
<td>14.7%</td>
<td>29.4%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Policy setting</td>
<td>0.0%</td>
<td>11.8%</td>
<td>44.1%</td>
<td>20.6%</td>
<td>20.6%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Budget setting</td>
<td>0.0%</td>
<td>11.8%</td>
<td>32.3%</td>
<td>47.1%</td>
<td>8.8%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Decision-making</td>
<td>0.0%</td>
<td>11.8%</td>
<td>32.3%</td>
<td>47.1%</td>
<td>8.8%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Internal reporting</td>
<td>0.0%</td>
<td>14.7%</td>
<td>32.4%</td>
<td>44.1%</td>
<td>8.8%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Financial management</td>
<td>0.0%</td>
<td>11.8%</td>
<td>32.3%</td>
<td>50.0%</td>
<td>5.9%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Note: The total number of respondents for each area is 34.

The final question in this section asked respondents to consider whether they believed the benefits of IFRS implementation outweighed the drawbacks (Question 21). Perhaps a little surprisingly given the responses presented in Table 4.2, the results were fairly evenly split across the three broad categories with 35.3% agreeing/strongly agreeing, 35.3% being neutral and 29.4% disagreeing/strongly disagreeing. This may be explained by the fact that IFRS have just been adopted and consequently it is too soon to evaluate the consequences of the transition.

Benefits and drawbacks of implementing IFRS

The final section of the questionnaire began by asking respondents whether they believed there was a gap between their initial expectations of the benefits and the actual outcomes of IFRS (Question 22). The vast majority of respondents (30 – 88.2%) reported no gap, with only four (11.8%) indicating that one existed. This latter group were asked to provide examples of where the gaps had arisen. Two respondents indicated that the transition had proven less complicated and troublesome than expected; although both highlighted that it had been necessary to undertake significant checks to confirm that any changes would be minimal. The other two respondents both referred to their initial belief that accounting for
impairments would be simplified under IFRS, only for the government to revise the accounting treatment.

Respondents were given the opportunity to outline the main benefits and drawbacks of introducing IFRS (Questions 23 and 24). The responses are summarised in Table 4.3.

Table 4.3 The main benefits and drawbacks of introducing IFRS in the public sector

<table>
<thead>
<tr>
<th>Main benefits and drawbacks</th>
<th>No. of respondents indicating as main benefit/drawback</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Main benefits</strong></td>
<td></td>
</tr>
<tr>
<td>• Greater consistency of reporting resulting in improved comparability with private sector and public sector reporting in other countries.</td>
<td>11</td>
</tr>
<tr>
<td>• Increased transparency of assets and liabilities, particularly with respect to leases, PFI/PPP contracts, employee benefits and financial instruments, thus enhancing the balance sheet value.</td>
<td>9</td>
</tr>
<tr>
<td>• Compliance with international best practice and enhanced public sector professionalism, including improved technical accounting knowledge.</td>
<td>7</td>
</tr>
<tr>
<td>• Other.</td>
<td>7</td>
</tr>
<tr>
<td><strong>Main drawbacks</strong></td>
<td></td>
</tr>
<tr>
<td>• The time, cost and effort involved outweigh the benefits.</td>
<td>11</td>
</tr>
<tr>
<td>• No evidence of it leading to improved accountability or decision-making. The additional complexity and disclosures provide little (if any) benefit for both internal and external users thus accountability is not enhanced.</td>
<td>9</td>
</tr>
<tr>
<td>• Some IFRS are only relevant to the private sector, yet a significant amount of work is required to prove that they are not applicable (for example, embedded derivatives).</td>
<td>6</td>
</tr>
<tr>
<td>• Comparability with the private sector is not enhanced as many parts of the private sector still use UK GAAP.</td>
<td>5</td>
</tr>
<tr>
<td>• Other.</td>
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Note: The total number of respondents is 34.
The majority of respondents identified improved comparability with the private sector and increased transparency of assets and liabilities as the main benefits of introducing IFRS in the public sector. While this is consistent with the purported benefits reported in chapter two, it is important to note that none of the respondents indicated that these benefits had been achieved and a large number prefaced their response with words such as ‘potential’ and ‘may’. Moreover, while improved comparability with the private sector was the most cited benefit, some queried whether this was actually needed. Other benefits mentioned occasionally (and not reflected in Table 4.3) were: reduction in the time between publication of a new accounting standard and its adoption, resulting in public sector financial statements complying with current best practice more quickly; and that the application of IFRS 8 Operating Segments may enhance awareness of departmental activities. Some respondents also indicated that the transition process (but not necessarily IFRS) had resulted in enhanced working relationships between, and within, departments; largely because it had required accounting and operational staff, including budget holders, to engage more closely. Moreover, it was suggested that there was now a greater acceptance and awareness of accounting among non-accounting staff. It is interesting to note that four respondents (included in other), stated that there were no benefits of introducing IFRS in the public sector.

When referring to the time, cost and effort involved outweighing the benefits, most respondents added that few real benefits had yet been realised and there was little evidence that they would be in the near future. Moreover, many expressed doubt regarding the extent to which IFRS-based information was being used to inform decision-making and policy, particularly at board level where it was perceived there was a lack of understanding of such information. In addition to the main drawbacks outlined in Table 4.3, other issues highlighted less frequently included: the statutory accounts are still not viewed as a useful management document; the need to (re) educate budget holders on the accounting impact of certain types of expenditure; and it does not lead to improvements in public sector efficiency. It is interesting that what is perceived as a benefit by some is viewed as a drawback by others. For example, with respect to the adoption of IAS 19 Employee Benefits, some indicated this had increased transparency whilst others questioned the relevance of the increased information for users of public sector accounts.

Next, respondents were asked what lessons have been learnt following the introduction of IFRS (Question 25). A number of respondents from Scotland praised the structured and collegiate manner in which the Scottish Government managed the transition. Additionally, the importance of involving staff in the process and the benefits of using multi-disciplinary project teams was emphasised. Connected with both these points was the value of consistent central guidance
early in the process to enable adequate planning and ensure uniformity. PFI/PPP was mentioned specifically in this regard. It is noteworthy that consistency was seen as one of the main objectives of introducing IFRS (HMT, 2007a). While not being mentioned as a drawback in response to Question 24 (see Table 4.3), several respondents emphasised the importance of having appropriate integrated information technology (IT) systems and suggested that existing systems were inadequate. There was support for facilitating accounting change through the use of shadow years to enable staff to come to terms with the implications of certain actions; for example, the impact of IFRS on budgeting. Finally, and perhaps understandably, while some believed it was too early to draw proper conclusions, one respondent suggested:

“I doubt if any lessons will be learnt. If the centre chooses to implement something like IFRS then staff have to comply regardless of cost or whether any benefits will accrue.”

While not necessarily a lesson to be learned, a number of respondents mentioned that implementing the changes had not been as daunting as first feared, largely because many of the more complicated aspects of IFRS (for example, financial instruments), did not apply to the public sector.

The final question addressed whether the respondents believed that the transition to IFRS was part of a wider programme of introducing private sector practices into the public sector. Only ten respondents (29.4%) indicated that they thought it was, with reasons for this including:

“...over many years the presentation of government accounts has moved closer to the private sector, I see IFRS as just the next rung in that ladder.”

and

“...departments are going through the centralisation/decentralisation cycle. At present it is the centralising phase, as illustrated by initiatives such as the move to Next Generation HR [see Public and Commercial Services Union, 2011] and the establishment of the pensions mutual [see Watt, 2011]. The next phase will be a shared services offering of accounting services.”
Summary

Overall, based upon the responses above, there would appear to be a mixed reaction to the introduction of IFRS; in particular, it was not seen to be as appropriate or necessary as the move from cash-based to accruals accounting. Less than one third of respondents (Question 6 – 29.4%) indicated that IFRS were of greater benefit than UK GAAP, while more than half felt dedicated public sector accounting standards would be more appropriate (Question 7 – 58.8%). Notwithstanding, respondents were generally very positive about the assistance provided centrally, with almost three quarters agreeing/strongly agreeing that it was sufficient to enable departments to implement IFRS (Question 8 – 70.6%). Indeed, only approximately 29% of respondents indicated that their department initially required external assistance (Question 9 – 26.5%), with none requiring ongoing assistance (Question 10).

While respondents indicated a wide range of drawbacks in introducing IFRS (Question 24), overall there was marginally more agreement that the benefits outweighed the drawbacks (Question 21 – 35.3% vs. 29.4%). The main problem encountered in implementing IFRS was a lack of precedence, with some of the accounting adjustments being entirely new in a public sector context. Associated with this was what was referred to as “proving the negative”. This was where departments had to devote considerable time and effort in justifying to auditors why a particular IFRS did not apply; although it was accepted that this burden should reduce through time. Whilst a lack of resources in some areas (for example IT, time and accounting expertise) was acknowledged as problematic, a lack of financial resources was generally not perceived as an issue (Question 11).

When respondents were asked about less tangible benefits of introducing IFRS (such as accountability and transparency), most felt that IFRS were not an improvement on UK GAAP (Questions 12 and 13). The only area where IFRS was felt to add value was with respect to comparability with the private sector (Question 15), though this was not necessarily always seen as beneficial (Question 24). Similarly, while it was accepted that the transition brought greater transparency of assets and liabilities, others opined that the added complexity and additional disclosures were of little benefit to external users of accounts and that the time, cost and effort involved outweighed any benefits. A number of respondents referred to *IAS 19 Employee Benefits*, particularly with respect to accrued annual leave, as an example of this.

The main lessons that respondents believed could be learnt from the transition to IFRS were (Question 25): early planning and preparation; the need for integrated
The implementation of IFRS in the UK devolved administrations involved project teams; the upgrading of IT systems to cope with the extra information; and consistency in advice (for example, with respect to the accounting treatment of leases and PFI/PPP assets). Whilst some respondents reported that the transition was an extensive and pressurised exercise, others acknowledged that it was actually not as daunting as expected. Finally, there was no belief that the move was part of a wider programme of introducing private sector practices into the public sector (Question 26). Although, several suggested that such a process was inevitable, and while some viewed this professionalisation agenda positively others thought it merely led to more accountants in the public sector.
5. INTERVIEW ANALYSIS

Introduction

In an attempt to develop and enrich the findings from the questionnaire (see chapter four), interviews were conducted with central government departmental officials (DOs) and other interested parties (OIPs) from each of the devolved regions. In total, semi-structured interviews were conducted with 18 individuals (nine from Northern Ireland (NI), seven from Scotland (S) and two from Wales (W)). The methodology adopted is explained in chapter three. In terms of the format of this chapter, the analysis of the interviews is presented under the following headings: background; advantages; disadvantages; budgeting, decision-making and public policy; public versus private sector applicability; guidance and assistance received; and moving forward.

Background

Interviewees were asked to outline their background and experience in dealing with public sector accounting, and in particular financial statements prepared in accordance with IFRS, so that their views and opinions could be placed in context (Questions 1-2). Each interviewee: held a senior position in their respective department; had substantial knowledge of the public sector; had been employed in the sector for a number of years; and had been involved in the transition to IFRS (hereafter referred to a transition unless otherwise specified), with the majority also having experience of both cash and accruals accounting.

Initial experiences

When interviewees were asked about their department’s experiences with the introduction of IFRS (Question 3), they typically reported that initially the main task was identifying the likely key issues and then assessing how to obtain the relevant information. This story was consistent across interviewees from each of the regions.

While the actual changes were not great we still had to go through a process. (NIDO2)

It was a massive fact finding exercise and a good discipline. There was something really valuable about going through the process,
and the information stayed with us as it was largely done in-house. (SD03)

We conducted an extensive check on all our leases but not much actually changed and we had little to show for all the effort. (WDO1)

The consensus was that the transition impacted primarily on accounting staff, albeit other (non-accounting) staff were often required to collate additional information that had not been previously requested in the past (for example, accrued annual leave at the end of the financial year). In each of the jurisdictions, it was stated that considerable effort was expended proving the negative (ie. demonstrating that a particular issue did not apply/was not relevant), particularly with respect to the audit of the financial statements. Common examples of this were leases and financial instruments.

The biggest impact was getting to grips with the newer standards. Financial instruments were probably the most awkward, not because there are a huge number but because it is often unclear if there is a commercial guarantee. (SOIP1)

While in the majority of instances it was determined that the issue was not applicable or had no impact, many interviewees acknowledged that the process of, for example, reviewing lease contracts to determine if they should be on or off balance sheet was a useful and informative exercise in terms of gaining a better understanding of their department’s commitments.

The transition to IFRS was useful in terms of looking at accounting practices and assessing what errors had been made under GAAP. (WDO1)

The transition brought a focus on financial reporting. ...non-accounting staff were more involved with the transition. (WOIP1)

Support and expertise

One interviewee (NIDO7) reported that their organisation engaged external consultants to examine potential exposure to financial instruments when it was deemed there was insufficient in-house expertise. Interviewees anticipated that many of the issues faced in the year of transition, particularly with respect to proving the negative, would be more easily addressed in the future, providing there was no significant change to their department’s activities or extant IFRS.
The transition from cash to RAB was recalled as being extremely difficult; in contrast moving to IFRS was viewed as being relatively straightforward. Interviewees reported that the level of accounting expertise has increased significantly across the public sector; although this was not universal.

There has been an increase in the numbers of accountants recently and their experience of public sector accounting issues has increased. (WD01)

There is still a lack of understanding on the budget side. (NIDO6)

**Driving forces**

The majority of interviewees indicated that they believed the main driving force behind the introduction of IFRS in the public sector was a desire to comply with best practice, which IFRS were perceived to represent, and to be seen to account on a similar basis to the private sector (Question 4).

It looks good, enhances the reputation but that’s about it. (NIOIP1)

If it is recognised as best practice then that is what we should aspire to. But who knows if it is. (SD05)

The move to IFRS was driven by the need to comply with best practice; it was just the next stage of moving on. (WOIP1)

It was also thought that as there was inherent support within HMT for IFRS, this made the transition inevitable; particularly given the introduction of WGAs.

UK GAAP was disappearing off a cliff. It was considered better to change to IFRS in a time of their [HMT] own choosing rather than being forced to later. (WOIP1)

It was obvious from the start that moving to IFRS was going to be a pain for departments. The only benefit was at the Westminster level. They wanted to use IFRS to prepare WGAs. (SOIP1)

There was a strong belief, especially amongst Scottish and Welsh interviewees, that FRAB was instrumental in pushing for the introduction of IFRS.
FRAB is quite a purist body; it believes that IFRS are the highest quality going and therefore should be applied. (WDO1)

However, some interviewees suggested that the quest for harmonisation had, at least not yet, lived up to expectations.

IFRS adoption has arguably not “taken off” to the extent expected across the world, both in the private and public sectors. (SDO1)

Many interviewees struggled to identify tangible benefits of making the transition; although some suggested that it was logical to assess the accounting treatment of certain transactions that were directly linked to the private sector on a similar basis (for example, PFI/PPP projects).

Consistency is the key. Users of accounts should be able to understand both private and public sector accounts. (NIDO3)

It links areas that are common between both sectors like PFI. (NIOIP2)

Notwithstanding the benefits of consistency, many interviewees expressed the view that there was little evidence to support the notion that ‘private sector was best’. Indeed, some suggested public sector accounting was more onerous, a view supported particularly by those with private sector experience.

Public sector accounts are more complicated and have more disclosure requirements. The importance of properly classifying expenditure and paying attention to the budget make it much more difficult. (NIDO1)

Main areas impacted

When asked which areas had been most impacted by the introduction of IFRS (Question 5), the accrual of holiday pay and increased disclosures were those most frequently mentioned.

The whole holiday accrual thing took far more time and effort relative to its actual value. (SOIP1)

There was a considerable amount of work involved in drafting the new disclosure notes. Next we have to look at segmental information and possibly pay details. (NIDO2)
A number of interviewees also referred to additional work undertaken to verify that lease contracts and PFI/PPP projects had been properly accounted for, with few adjustments being required.

_The issue of leases forced us to take a step back and consider the nature of our agreements._ (SDO2)

Many interviewees indicated that little had changed in terms of how the IFRS-based information was used compared with previous UK GAAP information, particularly in the context of decision-making, policy decisions and performance measurement (Question 6). Moreover, it was felt that there remained little interest in public sector financial statements and that only preparers and auditors read them.

_I haven’t seen any changes in the form and content of management reports, nor am I aware of any new requests for information._ (NIDO4)

Indeed, while departments will be adopting segmental reporting in full in 2011/12, the interviewees indicated that their management board had not requested information in a different format to that requested previously. However, it was noted that while there had been (very) limited requests for new information by management, this could develop in the future.

_Internally, the year-end financial accounts are not used for anything; apart from the odd press enquiry, they are probably not used at all. Although, because of the processes that we have gone through, it means that the information behind the accounts is available now throughout the year._ (SOIP2)

While it was agreed that the transition has resulted in public and private sector accounts that are comparable to the extent that both are prepared in accordance with IFRS, arguably, given the differences between the two sectors, the accounts are not the same anyway (Question 7).

**Advantages**

_Transition supported but benefits not yet fully realised_

Interviewees from each of the three regions mentioned that moving to RAB followed by the transition to IFRS had undoubtedly led to improvements in accounting for fixed assets and had contributed to a greater focus on assessing whether surplus assets were being held. However, while there was little negativity
regarding the transition, few interviewees were able to identify specific benefits, especially from a decision-making/public policy perspective (Question 8).

*It has made some things explicit, for example the annual leave accrual. Also, you can argue that it gives a fuller picture of assets and liabilities. Although, UK GAAP should do this as well.* (SDO4)

Indeed, many interviewees were adamant that there was no evidence of tangible benefits arising directly from the transition.

*Apart from being seen to meet best practice, I can’t think of any.* (NIDO6)

However, it was suggested that the advantages had not (yet) been realised because global public sector adoption of IFRS had not occurred as anticipated.

*IFRS have not become the accepted model we thought they would; however, there are now minimal differences between UK GAAP and IFRS. We could have managed happily with GAAP.* (SDO1)

There was a perception that while public sector accounting practices had recently improved, this was probably due to a general improvement in the professionalisation of the public sector rather than the transition. However it was suggested that the process of making the transition had contributed to a better understanding of accounting and budgeting.

*There was a huge amount of work and it was a bit of a pain. But it forced a consistent evaluation of all contracts and transactions at the one time rather than a piecemeal approach.* (SDO1)

*There is an increased focus on financial reporting. Until recently we were all populating the same scruffy template. Now we have had technical training and can discuss issues.* (WDO1)

A number of interviewees acknowledged that the benefits of the transition had been oversold and accepted that this was the nature of most policy changes. Many viewed the transition as part of a wider programme of embedding improved financial management practices across the public sector.

*The main benefit was the process of change. Things were already shifting prior to IFRS, but they helped push it along.* (SDO3)
It has driven consistency, but it is hard to see the real benefits of this on a day-to-day basis. (SDO4)

Cautious optimism

Notwithstanding the broad acceptance of the transition, a significant number of interviewees expressed a consistent note of caution.

Transparency and accountability, key objectives under the IFRS project, can’t be achieved until there is alignment [between the budgeting and accounting boundaries]. (SOIP1)

Although it was acknowledged that the transition had contributed to staff across different departmental functions having a better understanding of what others did.

There has been a marked improvement in relationships and understanding, especially between supply and accounting teams. (NIOIP2)

It was more than just introducing IFRS. It was a means to get under the skin of our customs and practices. A snapshot in time of how we do things. (SDO1)

It has kept the focus on accounting and helped everyone have a better understanding of accounting. (WDO2)

Few interviewees indicated that the transition had directly resulted in improvements to the quality or usefulness of internal management information and external annual reports (Question 9); however other contributory factors were identified.

Things have changed for the better, but not due to IFRS. It’s because of qualified accountants coming into departments and saying this is not how the real world works. Skill levels are being upped throughout departments, right up to board level. (NIDO5)
Internal reporting has changed massively but not due to IFRS. Boards just need better information, especially given the squeeze on resources. (SDO5)

The quality of internal reporting has improved. But this is due to a general increase in financial skills as opposed to IFRS. (WOIP1)
It was emphasised that if alignment issues (ie. the creation of a single, coherent financial regime for the way in which government uses budgets to plan what it will spend, presents estimates to Parliament for approval and finally, after the year end, publishes its resource accounts) could be resolved then this would have the most potential for improving the quality and usefulness of management information.

Disadvantages

The fear of the unknown

When asked about the challenges faced (Questions 10 and 11), most respondents stated that the main problem was determining where and how to obtain the necessary information (Question 10).

_We needed to go through a research process; simply finding and checking the records and property deeds took a while. While nothing much changed, we now know things are done right._ (WDO1)

Moreover, some argued that certain issues are more difficult to determine or assess in a public sector context, which made the transition more difficult.

_It is easier to determine economic benefit and control in the private sector. In the public sector, there is the issue of service benefit and this makes it more difficult to determine whose balance sheet it should go on._ (SDO1)

In addition, a number of interviewees explained that their main concern going forward was coming to terms with the volatility that adopting IFRS could bring.

_One of the problems when trying to remain within budget is the changes to valuations or pensions._ (NIOIP1)

Although, it was acknowledged that, given that most issues had now been resolved, the process should be less troublesome in the future.

_We are not expecting as many changes going forward; although a raft of new standards might change that._ (WOIP1)
Increased complexity

It was argued that the additional disclosures that were now required as a consequence of RAB and IFRS meant that financial statements had become long and unwieldy, and the consensus was that some of the notes could be removed as they were not read. It was also believed that the level of disclosures was likely to increase as a result of Lord Hutton’s (2011) review of fair pay which, at a minimum, would require departments to publish the differential between higher rates of pay and the median rate. Furthermore, while there was an acceptance that IFRS represent best practice, especially by interviewees that were qualified accountants, not all were convinced that public sector accounting practices needed to be compatible with the private sector. Indeed, some interviewees even cast doubt on whether accruals accounting and IFRS actually represented best practice.

*I am not sure if it [accruals accounting] really is best practice as cash is more relevant to the public sector.* (NIOIP1)

Uncertain if benefits outweigh costs

The cost of implementing IFRS was unclear, with interviewees distinguishing between (direct) external costs and (indirect) internal costs (Question 12). Most interviewees reported that while there had been minimal use (if any) of external consultants, there was undoubtedly pressure on staff time and that no budget had been set aside for the transition, nor was there any attempt to track the associated costs.

*We had some outside help. But most of the cost was to do with training staff and producing guidance.* (SDO2)

*Costs were not tracked and there was no budget for implementing IFRS.* (WDO1)

*There was lots of extra audit work and costs. Other costs included training staff and providing guidance.* (WOIP1)

Interviewees reported that the expectation was that departments would simply make the transition and absorb any additional costs, together with the extra workload, within existing budgets.

*There were some one-off costs, but now it is business as usual.* (NIDO4)
The whole transition process was seen as part of the job; we sometimes had to work extra hours or prioritise other tasks in order to get it done. (WDO1)

While it was accepted that the financial cost of making the transition was relatively low, most saw little evidence that it represented value for money.

There was not an excessive cost to bringing it in, but it was not value for money either. (NIOIP2)

It was acknowledged that given there had been no attempt to collate costs associated with the transition, this made any form of cost-benefit analysis impossible; some interviewees intimated that this may have been intentional.

Less troublesome that expected

Generally interviewees reported that the move to IFRS had less impact and was easier than expected, particularly in comparison to the move to RAB (Question 13). Many acknowledged that the transition proved comparatively straightforward because there had been a substantial investment in accountants in recent years (particularly due to RAB). For many departments, the extent of the upheaval appeared to depend on whether they had PFI/PPP and, to a lesser extent, lease contracts. NI interviewees in particular indicated that while ‘breaking down’ fixed assets into smaller components was expected to be onerous, this proved not to be the case.

Some interviewees reported ‘disappointment’ that, despite the considerable effort and time devoted to preparing the financial information (monthly, quarterly or annually), there was little evidence it was used.

Few people outside those preparing the accounts actually use or understand them. (NIOIP2)

We are providing more information under IFRS but who understands it, who is using it, who knows? (SDO5)

It was emphasised that most elected representatives have a very limited knowledge of public sector accounts in their present form, which clearly limits their usefulness to a key stakeholder and impacts upon their ability to interrogate the information.
The politicians don’t understand the accounts, especially given the way that they are presented. (NIDO5)

Indeed, some suggested that even if alignment issues were resolved (see above), it was unlikely this situation would change as politicians would still be presented with IFRS-based accounts.

**Budgeting, decision-making and public policy**

**PFI/PPP**

With respect to the impact of IFRS implementation upon policy setting (Question 14), interviewees confirmed that the accounting treatment of PFI/PPP contracts and leases had definitely been clarified and that this had fed into the decision-making process. Although, some interviewees acknowledged that while there had been no real effect with respect to leases, as the majority had continued to be treated as operating leases, this may change if a new standard on leases is issued.

*The changed treatment to PFIs has had an impact and [changes to] leases may have [an impact] in the future.* (WDO1)

There was a suggestion that as PFI/PPP contracts were more likely to be “on balance sheet” under IFRS, there was a ‘behind the scenes reticence to take on PFI projects’ (NIOIP1); although it was acknowledged that the transition to IFRS was not responsible for this as the PFI/PPP on/off balance sheet issue had been largely clarified under UK GAAP before the transition. It was indicated by interviewees from Scotland that variations on the PFI/PPP model were expected to be considered in the future.

Referring specifically to PFI/PPP, a number of interviewees indicated that while the accounting treatment of PFI/PPP did not drive policy it was taken into consideration, certainly more so than in the past. Many of the interviewees indicated that there was no discernible difference in the way that IFRS-based information was being used by budget holders and that there was no evidence that much had changed (Question 15).

*Budgeting drives the information that is presented to the board and that has always been the case.* (NIDO1)
Little request for clarification or new information

In addition, few interviewees reported that budget holders/internal decision makers had requested additional information or clarification of accounting information. Indeed, the departmental accountants indicated that there had been few, if any, requests from management boards to explain the financial information. Moreover, consistent with the position under UK GAAP, it was rare for management to query the accounting information presented.

*We don’t get questions back, and I would be flabbergasted if we did.*
(SDO1)

It was thought that the lack of questioning was due to a lack of understanding on behalf of management boards. Departmental accounts were considered quite complicated, especially given alignment issues, and non-accountants often had difficulty grasping certain accruals information and non-cash costs such as impairments.

*The only people that read the full departmental accounts would be the person that prepares them and the auditor.* (NIDO5)

None of the interviewees indicated that the transition had led to improved or new performance information being produced (Question 16); indeed it was generally accepted that this remained poor.

*Decisions are based upon budgetary conditions and constraints; this was the case before IFRS and it remains so.* (SOIP2)

*IFRS has helped with consistency in terms of external reporting. But it is questionable whether internal decision-making has changed or improved.* (WDO1)

Improving performance and awareness

A number of interviewees mentioned that the abolition of *Schedule 5 Resources by Departmental Aim and Objectives*, which showed the allocation of the net operating cost to the objectives of the department, was detrimental to performance reporting. It was not expected that the adoption of *IFRS 8 Operating Segments* would lead to any significant changes in the way that management reviewed departmental operations.
However, interviewees from Scotland and Wales in particular suggested that there had been a recent improvement in financial management and awareness, and while it was believed this had been driven by the increased powers given to ministers, the transition had been an important part of a wider process of improving public sector financial management skills.

*There has been an improvement in budgeting, decision-making and financial management in recent years, but this is not down to RAB or IFRS. I think there just has been an overall improvement.* (SDO1)

*While the devolution of power has had a much greater impact as ministers now have more power, IFRS has been a driver for greater financial management and awareness.* (WDO1)

When interviewees were asked if the reports that are used for internal decision-making, which have been prepared under IFRS, were different from those prepared under UK GAAP (Question 17), they stated that there was limited evidence of changes in the information being presented to management, and no evidence of performance information being produced or requested. It was acknowledged that while management boards were likely to receive budget information quarterly, accounting information would be received less frequently (and the degree of accuracy could be variable). Interviewees were generally uncertain what the impact would be on the type of information presented to management and ultimately on public policy once IFRS became more firmly bedded-in.

**Public versus private sector applicability**

*Public sector applicability*

Most interviewees were neutral regarding the introduction of IFRS and whether they were a suitable or better alternative to UK GAAP (Question 18). Notwithstanding, few saw any benefit in moving to IFRS as they were perceived to be no more relevant than UK GAAP to the public sector. Some mentioned that the transition merely created more costs and bureaucracy. Overall there was also little appetite for dedicated public sector accounting standards.

*Most IPSAS are just IFRS with a few modifications.* (WDO1)

Although, some interviewees acknowledged that in certain circumstances where fair values or market values were applied, the potential for volatility under IFRS could distort the situation in a public sector context.
Sometimes they’re [IFRS] not appropriate. The change in value of agricultural assets impacts upon the revenue account, which is not best for the public sector. (WDO1)

Interviewees were asked if IFRS were too private sector orientated and whether it was necessary to make changes to certain IFRS so that they are more relevant or appropriate for the public sector, particularly from a decision-making/public policy perspective (Question 19). Few interviewees had strong objections to the unmodified application of IFRS, and even fewer suggested areas where changes were essential.

*IFRS are generally appropriate for the public sector.* (NIDO1)

*Financial instruments are probably the one area, especially with respect to guarantees, that are too private sector orientated.* (SOIP1)

**Consequences**

It was suggested that one consequence of applying the same standards in both sectors could be that public sector accounts become more accessible and understandable to a wider audience.

*Arguably it makes the accounts more generalist, and perhaps this opens up the accounts to more people as you don’t have to be a public sector accountant to understand them.* (SOIP2)

*The guidance is much thinner now as everyone is expected to refer to the IFRS. Also, more accountants have come from the private sector and all students are now trained in IFRS.* (WOIP1)

When asked if departments had been given enough time to implement IFRS (Question 21), the interviewees mentioned that the public sector transition appeared to be much smoother than the private sector’s. However, it was acknowledged that the public sector benefitted from the private sector experience, and also from the earlier introduction of RAB. In addition, the delay in the adoption of IFRS by one year was welcomed.

*The delay was fortunate because it enabled us to get ready for it.* (WDO1)
Guidance and assistance received

Resource adequacy

Interviewees were asked about the adequacy of the resources (staff, expertise and finance) provided to departments to enable IFRS implementation and the extent to which use was made of external consultants (Questions 22 and 23). Departmental interviewees acknowledged the support received from their central finance department (for example, DFP in NI). Interviewees from each of the regional audit offices also referred to the training received from the National School of Government and the National Audit Office.

Wales Audit worked with the Welsh Government, ICAEW [Institute of Chartered Accountants in England and Wales], the other [devolved] regions and Treasury. (WOIP1)

Interviewees suggested that there had generally been limited use of external consultants.

We really only used PwC to look at issues surrounding financial instruments. (WDO1)

Most reported that departments formed local and regional working groups with information being freely shared. However, it was accepted that smaller departments, such as non-departmental public bodies, that had limited accounting teams were more likely to avail of outside assistance.

Sharing experiences

In each of the jurisdictions, the central finance department drove the transition process (Question 24). For example, in NI DFP took the lead and departments were happy with the advice and guidance provided. DFP received advice from HMT (which was itself guided by FRAB). With respect to whether there was any cooperation among the devolved administrations (Question 25), interviewees reported that, at a more formal level, representatives from the devolved regions had the opportunity to meet through FRAB. There was also contact on an informal basis between staff in the central finance functions and the regional audit offices.

There was a meeting at the beginning between representatives from each of the three devolved regions. We discussed where we were and what direction should we take. (SDO1)
There is still some dialogue between the devolved governments but not as much as initially. I think each of us has got to grips with things. (WOIP1)

When interviewees were asked if their departments liaised with their regional audit offices, it was acknowledged that the client/auditor relationship was potentially different in the public sector. Some stated that much depended upon the individual auditor and departments were wary of raising an issue that could lead to subsequent ‘digging for problems’. Several interviewees suggested it was easier to ask for advice on disclosure matters rather than technical accounting issues that might have budget implications.

Moving forward

Lessons for the future

With regard to their experience of implementing IFRS, interviewees were asked about the impact on policy setting, both at a departmental and devolved government level (Question 26). The broad thrust of responses was that the switch has not led to different questions being asked by the Public Accounts Committee (PAC).

The PAC likes to keep things as simple as possible. (NIOIP2)

In NI, it was reported that DFP is micro-managing departmental spend and there is a very low delegation level (lower than in England and Wales); thus the NI Audit Office is qualifying more accounts on regulatory matters as these levels are breached. It was emphasised that there has always been a strong focus on spend and it has not changed as a result of the recession.

Accounting Officers are driven by getting things done, meeting their commitments and being within budget; that’s the way they look at things. (NIOIP1)

In relation to what lessons could be learnt for future changes to public sector accounting, or even other reforms (Question 27), interviewees reported that the move to RAB was very different and far more difficult, largely because departments had fewer accounting staff and had to rely heavily on consultants which meant knowledge was lost when they left. Consequently, there was an overwhelming belief that departments must have appropriate staff resources and expertise when implementing accounting reforms.
RAB was a totally different beast. We weren’t geared up and didn’t have the skills set. (NIDO2)

RAB was a forceps birth. In total contrast, IFRS was a managed pregnancy and birth. (SDO3)

Department interviewees also indicated that their respective central finance function had provided a strong lead during the transition and facilitated meetings to discuss issues.

The transition to IFRS was easier than RAB, more of a shared understanding of ideas and issues, less local practices and more consistency. (WDO1)

Preparation was viewed as the key ingredient, together with replicating what would happen when finally going live (ie. a shadow year including a shadow audit to ensure proper engagement and learning).

The shadow accounts exercise and the discipline this brought was crucial. (SDO5)

There was leadership from Treasury, we had a dry run and did not leave it to the last minute. (WDO1)

Most of the interviewees indicated that they believed there was little direct benefit of making the transition. However, a number reported that the exercise had been a useful learning experience and had increased understanding and appreciation of accounting issues across departments.

We adopted an inclusive approach, designed to encourage everyone to get involved. (SDO3)

There was good collaboration. Even when errors came out of the woodwork, they [departments] did not keep them to themselves. You need to be pragmatic when doing something for the first time. (WOIP1)

Many believed that public sector accounts were overly-complicated (especially compared to their private sector equivalents) and that there was scope to make them more user-friendly. Some indicated that while it was logical to apply IFRS, perhaps not all should be adopted. One frequently quoted in this regard was IFRS
Operating Segments as the information was considered to be of limited valued to policy makers/users.

Accounting is more complex in the public sector and it shouldn’t be. The objective should be to make reporting more useful for users, including politicians. Accruals accounting can provide better information; for example, about fixed assets, provisions and write-offs. But we have made it so complicated that we run the risk of it ceasing to be useful. (NIOIP1)

I would like to see simpler accounts so that the focus was on analysing spend and asking questions rather than compliance with accounting standards. (WOIP1)

A common thread running through responses to what lessons could be learnt for future changes is that it is important to be careful that accounting reform is not just introduced for the sake of it. Linked to this is that the importance of cash should not be lost in a desire to comply with accounting standards. It was stressed that there is a risk that too much emphasis can be placed upon accounting, especially as reporting timetables become tighter. Budget compliance is at the forefront of everything. However, this might take precedence over preparing appropriate management information that is not just about budget compliance.

Quiet satisfaction

Interviewees were asked for examples of good practice with respect to the initial implementation process (Question 28). Without exception, interviewees stated that, given the size of the task and the number of bodies involved, being well-organised was the key.

We had proper project plans in place and knew where to find the information from the outset. (SDO1)

We gave prominence to the issue, dedicated resources to it and took it seriously. (WDO1)

While not directly related to the transition, one of the most significant improvements in recent years was the faster closing of accounts and the provision of interim accounts (at the nine month stage). While many acknowledged that this was largely a technical accounting achievement in that it was not yet having a real impact on
decision-making, it was hoped that improved reporting efficiency would eventually translate into improved internal reporting.

*Ongoing professionalisation not privatisation*

When asked if initiatives like the transition made aspects of the public services easier to privatise (Question 29), none of the interviewees believed this to be the case.

*No, it was just part of the continuing improvement in financial management.* (SDO3)

Most interviewees viewed the process of introducing IFRS positively and as part of an on-going process designed to ‘increase transparency and the general professionalisation of the public sector’ (WDO1).

*IFRS are just part of the trend of professionalisation in general. They are not linked to privatisation. IFRS are only a marginal change on UK GAAP, but they are seen as the ‘gold standard’.* (SOIP1)

*A lot of this comes under the umbrella of public sector reform rather than privatisation.* (WDOIP1)

In fact, many considered that mimicking private sector best practice was actually of little real benefit to government.

*The public sector works in very different ways, and has very different masters and objectives.* (NIDO2)

However, it was acknowledged that perhaps the underlying reason for many of the changes was illustrated by the fact that when the first set of WGAs was issued, the UK’s credit rating increased. The majority thought that while Westminster was interested in WGAs, it was likely to be of little interest or value at regional, never mind department level.

**Summary**

In an attempt to develop and enrich the findings from the questionnaire (see chapter four), this chapter presented the findings from the semi-structured interviews with central government departmental officials and other interested
parties from each of the devolved regions. Most interviewees reported that the transition to IFRS, while daunting and resulting in additional work (particularly proving the negative), had been relatively straightforward. This was largely attributed to the lessons learnt when moving from cash accounting to RAB, the greater accounting expertise within departments and the assistance received from the centre (including FRAB). Overall, while the interviewees expressed little negativity towards the adoption of IFRS (compared to the questionnaire responses reported in chapter four), possibly because it was perceived to have occurred relatively smoothly, few interviewees identified immediate or specific benefits. This is consistent with the questionnaire responses (chapter four), with for example less than one third of respondents (Question 6 – 29.4%) believing that IFRS were of greater benefit than UK GAAP. Interviewees acknowledged that moving to RAB followed by IFRS had undoubtedly led to an increased financial awareness across departments and not just by the finance function. Drawing upon the experience of RAB, interviewees emphasised the importance of having appropriate accounting experience and expertise already in place when implementing accounting changes.

It was broadly accepted that the benefits of adopting IFRS were oversold, but this was seen as being typical of the way most new policies are promoted. The transition was viewed as part of a wider programme of embedding improved financial management practices across the public sector, not part of a privatisation agenda. Surprisingly, given the manner in which the transition to IFRS was “officially” sold, there was little (if any) indication that budgeting, decision-making and public policy has changed as a result. Indeed, most interviewees reported surprise at the limited requests to explain the (new) information being presented to management boards. The consensus was that until budgeting and accounting boundary issues are resolved, tangible benefits, especially from a decision-making/public policy perspective, are unlikely.

Consistent with the questionnaire findings presented in chapter four, interviewees reported limited use of external consultants in the transition process and widely mentioned the sharing of ideas across departments and the regions, together with general satisfaction with the support and guidance received from the central finance department in each of the regions. Again, in line with the questionnaire results, interviewees highlighted some first time adoption difficulties, including simply finding the information, and were apprehensive about the practical difficulties that adopting (private sector-based) IFRS might pose in the future as existing standards changed and new ones are introduced. Many believe departmental financial statements have become too long and complex, and foresee this only continuing in the future (an issue also identified by questionnaire respondents in chapter four).
6. CONCLUSIONS

Focusing upon the devolved administrations in NI, Scotland and Wales, this research examined the impact of reporting under IFRS using an online questionnaire and semi-structured interviews. This led to an assessment of what different internal stakeholders believed to be the merits and drawbacks of requiring public sector organisations to adopt IFRS, and the impact on departments, in particular their policies and decision-making, of the adoption of IFRS. This is reported in chapters four and five, with the key findings being summarised below. This research also sought to evaluate whether reporting under the IFRS regime adds value to the management and decision-making of government, and while it is perhaps too soon to assess this, there is limited evidence that the transition has added any value. Examples of good practice and lessons to be learnt for the future, in light of the continuing trend of implementing private sector practices in the public sector, are presented below.

Key findings

The key findings arising from the research are as follows:

1. The transition to IFRS was significantly less onerous than the introduction of RAB. Although the initial fear was that the transition would involve major upheaval, in reality it was much smoother than expected. This can be attributed, at least in part, to the lessons learnt from the introduction of RAB, together with the subsequent increased accounting expertise across central government. Therefore, whilst there was a perception that public sector accounting practices had improved, this was probably due to a general improvement in the professionalisation of the public sector rather than the transition to IFRS. However, it was suggested that the process of making the transition had contributed to a better understanding of accounting and budgeting and staff having a broader awareness of the role of different departmental functions. Notwithstanding this, considerable time and effort was spent proving the negative (ie. demonstrating that a particular issue did not apply/was not relevant) in areas such as leases and financial instruments. In addition, some adjustments were required for PFI/PPP contracts and accrued holiday pay.

2. Departments were given sufficient time to make the transition, with the shadow year being considered crucial and the one-year delay opportune. Unlike the introduction of RAB across the UK (notwithstanding possible regional
variations), there was limited use of external consultants, with HMT and regional central finance functions playing a major role in preparing personnel. Consistent with RAB, there was no separate budget or attempt to collate costs for the transition, thus making any form of cost-benefit analysis impossible. Consequently, the cost of implementation was unclear. However, while it was accepted that the financial cost of making the transition was relatively low, there was little evidence that it had represented value for money.

3. The transition to IFRS has had minimal impact upon management information systems, policy setting (apart from PFI/PPP) and the nature of the information produced to aid budgeting and decision-making. Although the extent of disclosures in annual financial statements has increased, it appears to add little value for users. Furthermore, the consensus was that the potential benefits from the change will not be realised until boundary alignment issues (ie. the alignment of budgets, estimates and accounts in a manner that allows government to report to Parliament in a more consistent fashion) are resolved.

4. Whilst it was considered that IFRS are not entirely appropriate for the public sector, and that dedicated public sector standards would be more appropriate than IFRS, there appeared to be a willingness to accept IFRS. This is despite many interviewees struggling to identify tangible benefits of making the transition. Some suggested that it was logical to assess the accounting treatment of certain transactions which were directly linked to the private sector on a similar basis (for example, PFI/PPP projects). In addition, moving to RAB followed by the transition to IFRS had undoubtedly led to improvements in accounting for fixed assets and had contributed to a greater focus on assessing whether surplus assets were being held. There was also a belief that because IFRS had not been globally adopted by the public sector, the advantages had not yet been fully realised.

5. With the exception of comparability (which was one of the stated objectives (HMT, 2007a)), the consensus was that limited benefits have so far been realised from the transition to IFRS and that there has been little improvement in areas such as accountability, transparency, efficiency, policy setting, budget setting, decision-making, internal reporting and financial management. However, the primary anticipated advantages from introducing IFRS were identified as: improved transparency of assets and liabilities; and compliance with international private sector best practice which contributes to enhanced public sector professionalism.

6. The principal disadvantages were deemed to be: that the time, cost and effort involved in the transition outweighed the benefits. There was little evidence of improved accountability or decision-making, with the additional disclosures
providing little (if any) benefit for either internal or external users. There was also a belief that public sector accounting has become overly-complicated since the introduction of RAB and that public sector financial statements could be more useful for users, especially politicians. Some indicated that while it was logical to apply IFRS, perhaps if not all were adopted this would aid user-understanding. One frequently quoted in this regard was *IFRS 8 Operating Segments* as the information was believed to be of limited valued to policy makers/users. Overall, the consensus was that financial statements had become long and unwieldy, and that some of the notes could be removed as they were not read.

7. Little had changed in terms of how IFRS-based information was used internally compared with previous UK GAAP information, particularly in the context of decision-making, policy decisions and performance measurement. To date there had been limited requests for new IFRS-based information by management; but it was acknowledged that this could develop in the future.

8. There was no real belief that the move to IFRS is part of a wider programme of privatising elements of the public sector by requiring them to account on a similar basis to private sector organisations in order to facilitate comparison and competition for the provision of certain services. Rather, the transition to IFRS, was perceived as part of a process of on-going public sector reform designed to increase transparency and general professionalisation.

**Policy recommendations**

The policy recommendations arising from the findings are as follows:

*Early planning and preparation*

The main lessons to be learnt from the transition to IFRS include the need for: early planning and preparation; integrated project teams; and the upgrading of IT systems to cope with the extra information. Furthermore, departments must have appropriate staff resources and expertise and strong leadership from senior management both within the departments and government.

**Recommendation 1:** Public sector change must be adequately resourced, carefully planned, with appropriate systems, trained staff and interdisciplinary project teams. Moreover, with respect to accounting change, it should not be introduced without good reason and the importance of accounting for cash should not be lost in a desire to comply with accounting standards.
Accounting treatment driving policy

With respect to PFI/PPP, there appears to be a reassessment of the use of such contracts given that these are now deemed to be “on balance sheet”. Even though this had already been clarified following the amendment to FRS 5 Reporting the Substance of Transactions (ASB, 1998), the adoption of IFRS has led to some reticence to undertake such projects. However, Scottish interviewees indicated that variations on the PFI/PPP model might still be considered.

Recommendation 2: The decision about which tool or mechanism to use to deliver public infrastructure should be based on value for money not the accounting treatment.

Resolve alignment issues

The consensus was that compliance with the budget remains more important than financial reporting, and that the potential benefits from the change will not be realised until boundary alignment issues are resolved.

Recommendation 3: A single, coherent financial regime for the way in which government uses budgets to plan what it will spend, presents estimates to Parliament for approval and finally, after the year end, publishes its resource accounts, should be implemented as a matter of urgency.

Key stakeholder involvement and reduction in disclosures

The extent and complexity of disclosures in annual financial statements has increased. However, this appears to add little value for key users, such as departmental board members and government ministers.

Recommendation 4: Consideration should be given to reducing the complexity and volume of disclosures in public sector accounts (for example, see The Institute of Chartered Accountants of Scotland/The New Zealand Institute of Chartered Accountants, 2011). This could include greater consideration of materiality in financial reporting disclosures and the removal of disclosures that do not contain material information. A body such as FRAB would be well-placed to undertake such a review. Furthermore, public sector accountants should play an active role in educating key stakeholders and providing information in a more understandable format.
Areas for future research

To complement this research on the three devolved regions, it would beneficial to conduct a wider study incorporating the impact of the transition to IFRS at a Westminster level, together with a broader study of other countries that have implemented a similar policy (for example, Australia and New Zealand). As the public sector in such countries adopted IFRS earlier, an evaluation of whether the anticipated benefits have been realised may be possible. Moreover, as this research focused upon central government departments, a more extensive study could consider other public sector and not-for-profit organisations that have adopted IFRS. Finally, it would be of interest to replicate this research in the future to assess the longer term implications of the transition.
ENDNOTES

1. Agriculture and Rural Development; Culture, Arts and Leisure; Education; Employment and Learning; Enterprise, Trade and Investment; Environment; Finance and Personnel; Health, Social Services and Public Safety; Justice; Regional Development; and Social Development. This excludes the Office of First Minister and Deputy First Minister, which oversees the coordination of policies and programmes.

2. Health, Wellbeing and Cities Strategy; Finance, Employment and Sustainable Growth; Education and Lifelong Learning; Justice; Rural Affairs and the Environment; Parliamentary Business and Government Strategy; Culture and External Affairs; and Infrastructure and Capital Investment.

3. Education and Skills; Environment and Sustainable Development; Health and Social Services; Business, Enterprise, Technology and Science; Finance and Leader of the House; Housing, Regeneration and Heritage; and Local Government and Communities.
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ABOUT SATER

The research project, which culminated in this publication, was funded by a grant from The Scottish Accountancy Trust for Education & Research (SATER) – a registered Scottish Charity (SC034836). The SATER Trustees are pleased to have been able to support this project and hope that the results are of interest and relevance to a broad range of users.

SATER’s objective is to promote research into, and education of, accountancy, finance and management together with all subjects in any way related. In fulfilling its charitable objectives, it also seeks to provide public benefit by making grants for research projects which result in reliable evidence for use in the development of policy – by professional bodies, standard setters, regulators or governments.

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The Trustees would like to thank the ICAS Research Committee and Research Centre staff for their support, through liaison with the academic team and the provision of advice and assistance at various stages of the project. Their role in reviewing publication drafts and providing constructive comments to the authors has been invaluable in producing publications which are easily accessible and of interest to ICAS members, the interested public and policy makers.

Further details about SATER and the ICAS research programme can be found from the SATER and ICAS websites: scottishaccountancytrust.org.uk/research.html and icas.org.uk/research.

David Spence
Chairman of SATER
March 2013
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Henry Saville
Chairman of the Chartered Accountants Ireland Educational Trust
March 2013
The UK public sector followed in the wake of the private sector and adopted IFRS for their 2009/10 financial statements. The implementation of IFRS was announced in the 2007 budget as a means of bringing ‘benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice’. But how did this transition go and what were the implications of the change?

This report investigates, through a survey and interviews, the implementation of IFRS in the central government departments of the three devolved administrations of Northern Ireland, Scotland and Wales. It seeks to examine the impact of reporting under IFRS, the merits and drawbacks of adopting IFRS, the impact on policy and decision-making and identifies lessons to be learnt for the future.

The findings from the research indicate that, while the process of transition went relatively smoothly, questions remain over what benefits, if any, the new regime offers the public sector. The report concludes with policy recommendations covering: the need for early planning and preparation for change; avoiding accounting treatment driving policy; the resolution of boundary alignment issues; a reduction in the complexity and volume of disclosures in public sector accounts; and key stakeholder involvement.

ISBN 978-1-904574-94-1
EAN 9781904574941
Price: £10.00