

Accounting and Auditing Standards Panel

# annual report 2010

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

CIPFA contributes directly to some technical and standards development through representation on relevant committees and groups. More generally CIPFA responds to consultations by standard setters and others on matters which are relevant to the public benefit sector. CIPFA Policy and Technical Directorate develops these responses taking expert advice from members of CIPFA's Accounting and Auditing Standards Panel.

More information on the work of the Accounting and Auditing Standards Panel can be found online at <http://www.cipfa.org.uk/panels/accounting/index.cfm>

**Further copies of this document are available for download at**

[www.cipfa.org.uk/panels/accounting/annual\\_report.cfm](http://www.cipfa.org.uk/panels/accounting/annual_report.cfm)

# Chair's Foreword

CIPFA's Accounting and Auditing Standards Panel (AASP) was formed to lead CIPFA's response to pan-sector issues relating to accounting and auditing standards and to provide thought leadership in these areas from a public services perspective. It works with other expert CIPFA panels to advise on specific issues within the public sector and wider public benefit sectors.

The work of the panel is largely driven by developments in the standards area, arising from:

- standards setters' improvement programmes and convergence agendas;
- adoption of new, mainly international, standards frameworks such as International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISAs); and
- interpretation of profit-focussed standards in wider public sector and public service contexts.

The adoption of auditing standards based on internationally developed ISAs in 2004, and the move to IFRS for EU listed groups in 2005 and most UK government financial reporting from 2009-10 serve to underscore the importance and relevance of the Panel's work. The pace of standards development has been steadily increasing, and, since 2007, more than half of CIPFA's public responses to consultations have been made to standard setters in financial reporting and auditing. Auditing and financial reporting standards have been subject to increasing media attention, and, during the financial crisis, standards moved firmly on to the political agenda.

In the international arena the Panel takes a close interest in, and is very supportive of, CIPFA's engagement with IFAC in the development of International Public Sector Accounting Standards (IPSAS).

While the majority of standards consultations relate to private sector company issues or the government/public sector, the Accounting and Auditing Standards Panel also monitors consultations in the wider public benefit sector. AASP advises CIPFA's housing association, further and higher education, and charity panels on standards matters. Until recently, this mainly focussed on Statements of Recommended Practice (SORPs) which provide guidance on the application of UK GAAP standards in the public benefit context. As the Accounting Standards Board continues its convergence of UK GAAP with IFRS, the key questions for the non-government public benefit sector relate less to the interpretive process and more to the nature of UK GAAP which is being interpreted. During 2010, the Panel helped CIPFA and other UK public benefit stakeholders develop a response to the ASB consultation on the future of UK GAAP for public benefit entities.

CIPFA also ran a joint outreach event with the IASB on its 2010 projects, which, if implemented, will affect all sectors.

More generally, the Accounting and Auditing Standards Panel seeks to engage CIPFA members in the standards development area, through participation in events, development of publications, and provision of online information and briefing. We hope you find the contents of this report helpful, and we would encourage you to keep up to date by visiting the AASP webpages and other relevant CIPFA material.

**David Watkins**

**Chair, Accounting and Auditing Standard's Panel**



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## 1 About The Panel

### 1.1 Membership And Meetings

- 1.1.1 CIPFA's Accounting and Auditing Standards Panel (AASP) is a panel of expert stakeholders from the public benefit sector, which advises on, and helps develop, CIPFA's position on technical issues relating to standards matters. While the Panel does not provide advice on local authority accounting matters where CIPFA is directly involved in the development of the Code on Local Authority Accounting and other guidance, briefing material is shared with the CIPFA/LASAAC board, and during 2010 three AASP members were also members of CIPFA/LASAAC. AASP also works with other CIPFA panels to advise on sector specific issues.
- 1.1.2 Panelists include auditors and practitioners from a variety of backgrounds, many of whom are also members of other standard setting bodies, advisory boards and committees. A list of all members is provided at Appendix A.

### 1.2 The Work Of The Panel

- 1.2.1 While some CIPFA panels mainly produce guidance or training materials, a key aspect of the work of the Accounting and Auditing Standards Panel is that it helps develop most of CIPFA's responses to standards consultations.
- 1.2.2 The main priorities of the AASP in 2010 were:
- Supporting the Accounting Standards Board (ASB), the Financial Reporting Advisory Board (FRAB) and other stakeholders in the UK's convergence with, and adoption of, International Financial Reporting Standards, having particular regard to the ASB's proposals for a UK Public Benefit standard and the need for SORPs or similar interpretive and explanatory guidance;
  - Monitoring the International Accounting Standards Board's work programme, identifying and commenting on areas where there may be difficulties in applying these to public service bodies, and supporting related work by the International Public Sector Accounting Standards Board (IPSASB); and
  - Supporting the relatively light consultation programme of the International Auditing and Assurance Standards Board (IAASB) in the aftermath of the 'clarity project', which ended in 2008, and supporting Auditing Practices Board (APB) initiatives to reframe UK guidance to reflect clarified standards and other developments.
- 1.2.3 AASP also pursues other projects as part of CIPFA's thought leadership and promotion of good practice, which in 2010 included a publication on the various standard setting and interpretation frameworks which are relevant to the public benefit sector.

## 2 Activities Relating To Financial Reporting Standards

### 2.1 AASP Work Relating To IFRS Development

- 2.1.1 IFRS was the basis for government financial reporting from 2009-10, except for local government where implementation began for 2010-11. CIPFA is interested both in the development of new and existing IFRS and specific issues relating to public sector implementation.

2.1.2 During 2010, AASP advised on responses to seven consultations by the International Accounting Standards Board (IASB), variously relating to pensions reporting, development of an improved conceptual framework, and further work on financial instruments, revenue recognition, and leases.

2.1.3 AASP did not make any direct comments on, or provide other input to, IFRS implementation in the UK public sector, although AASP members were also members of both the FRAB and the CIPFA/LASAAC Local Authority Code Board, which developed an IFRS based Code for 2010-11 accounts.

## **2.2 AASP Work Relating To IPSAS Development**

2.2.1 CIPFA has a longstanding interest in the work of the International Public Sector Accounting Standards Board, and IPSAS standards became more relevant to the UK public sector during 2008, being placed second in the hierarchy for financial reporting by government, to be considered in situations where IFRS does not provide guidance.

2.2.2 After a very high volume of consultation during 2009, the IPSASB issued only three consultations during 2010, and AASP advised on responses. These included

- a long awaited exposure draft setting out proposals for Service Concession Arrangements grantor accounting (on which IFRIC 12 provides no guidance);
- a consultation paper on Long Term Fiscal Sustainability, exploring reporting which goes beyond that currently included in public sector financial statements; and
- an 'improvements' IPSAS, seeking to maintain the quality of IFRS converged and other IPSAS standards.

2.2.3 AASP and CIPFA broadly supported each of the proposals.

## **2.3 AASP Work Relating To Developments in UK GAAP**

2.3.1 AASP advised on responses to three ASB consultations during 2010, as follows:

- a consultation paper on the future of UK GAAP. The CIPFA response incorporated views developed at a joint ASB / CIPFA round table exploring the implications for public benefit entities;
- a proposed UITF Abstract on accounting for changes to Retirement Benefits arising as a result of the use of CPI rather than RPI; and
- an annual 'Improvements' FRS, mainly maintaining convergence with IFRS standards to which similar improvements had also been made.

2.3.2 AASP also provided input to the Housing Association Panel development of a CIPFA response to the 2010 revision of the RSL SORP

## **2.4 AASP Work Relating To Developments in International Valuation Standards**

2.4.1 AASP also provided advice on CIPFA's response to the International Valuation Standards Board consultation on a new suite of International Valuation Standards. The Chair of AASP also attended a Round Table discussion event held by the IVSB.

# **3 Activities Relating To Auditing Standards**

## **3.1 AASP Work Relating To Developments in IAASB standards**

3.1.1 During both 2009 and 2010, there were relatively few consultations on auditing standards following the completion of the very substantial IAASB clarity project during 2008. AASP provided input to CIPFA responses relating to the following:

- IAASB consultation on assurance on Greenhouse Gases Statements;
- IAASB consultation on proposals to develop a practice statement for Complex Financial Instruments; and
- IAASB exposure draft of a revised ISA 610, on using the work of internal auditors

3.1.2 AASP also advised on an INTOSAI (International Organisation of Supreme Audit Institutions) consultation which set out proposals for a quality control standard based on the IAASB International Standard on Quality Control 1 (ISQC 1).

### **3.2 AASP Work Relating To Developments in APB standards and guidance**

3.3.1 During 2010, the Auditing Practices Board continued to update its guidance for UK and Ireland, reflecting changes to legislation and the issue of 'clarified' versions of ISAs (UK & Ireland) based on IAASB standards.

3.3.2 AASP advised on responses relating to:

- four revised practice notes, including a revised Practice Note 10 on audits of public sector financial statements;
- Amendments to the Auditor's Report; and
- A discussion paper on Auditor Scepticism.

3.3.3 In general, CIPFA was supportive of the APB, while expressing some reservations about the relevance of older US based research when commenting on scepticism and related issues in the UK audit environment.

## **4 Other Panel Activities**

### **4.1 Support for IFRS adoption in government**

4.1.1 AASP members contributed to a number of CIPFA initiatives relating to IFRS adoption in government, including a third CIPFA/ICAEW IFRS Conference in March 2010 'Preparing for the Next Stage'.

### **4.2 Engaging UK stakeholders in consultations**

4.2.1 AASP has long supported CIPFA initiatives to engage more stakeholders in matters relevant to them, and during 2010 held a round table event jointly with the IASB to discuss the Board's programme of consultations. The Panel also obtained input from attendees at that event which informed the development of the CIPFA response to the ED on Leases.

### **4.3 Publications**

4.4.1 During 2010, three Accounting and Auditing Standards Updates were published on the AASP website. A revised edition of the publication "Accounting And Auditing Standards – A Public Services Perspective (2010)" was issued in December 2010.

4.4.2 'Narrative Reporting: A Public Services Perspective (2009)' remains on sale.

## **5 Looking Forward To 2011**

5.1.1 While the IPSASB and the IAASB produced proposals on new types of accounting and assurance, much of the standard setter activity during 2010 was in the nature of 'tidying

#### 5.1.2 AASP work in the financial reporting area will reflect

- IASB's intention to complete a significant programme of standards development before the departure of the current Chair, Sir David Tweedie, mostly on the basis of consultations which have already been completed, after which the Board will consult on its agenda for the next three years.
- IPSASB plans to make significant progress in developing its conceptual framework for public sector financial reporting.
- ASB proposals for the future of UK GAAP based on a combination of EU adopted IFRS, a FRS for Medium Sized entities based on IFRS for SMEs, and residual guidance based on the FRSSE. The ASB Committee on Accounting for Public Benefit Entities is also developing a Public Benefit standard which will provide the basis for SORPs based on the FRS-ME.

5.1.3 In the audit area, the main focus of attention is likely to be the implementation approach for ISAs (UK and Ireland), based mainly on the revised and redrafted ISAs developed by the IAASB during its Clarity Project. The IAASB will continue its review of assurance standards other than ISAs, including review engagements and XBRL reporting, and will also review the status of International Auditing Practice Statements (IAPSs).

5.1.4 In the light of these developments, the priorities of the Accounting and Auditing Standards Panel for 2011 will be:

- Supporting the ASB, the FRAB and other stakeholders in the UK's convergence with, and adoption of, International Financial Reporting Standards, having regard to the quality and content of IFRS based UK GAAP, the interpretation process for public benefit entities as enshrined in a public benefit standard, and practical processes for the development of SORPs or similar guidance based on the new GAAP.
- Monitoring and supporting the work of IPSASB in developing a public sector conceptual framework at a faster pace than comparable work by the IASB on its revised conceptual framework; responding to the IASB on the implementation timetable for new IFRS; and reviewing IASB proposals for its post-2011 work programme.
- Monitoring and responding to the work of the IAASB in developing standards which range more widely than the audit of financial statements, and related work by the APB.

**ACCOUNTING AND AUDITING STANDARDS PANEL**

**PANEL MEMBERSHIP DURING 2010**

**Chair**

Martin Sinclair (to May 2010)	Assistant Auditor General, National Audit Office, and a member of the Financial Reporting Advisory Board.
David Watkins (from May 2010)	Head of Strategic Technical Resource Planning at the Foreign and Commonwealth Office

**Members**

Nigel Davies	Deputy Head of Accountancy Policy, Charity Commission.
Tim Day	Independent Consultant, and a member of CIPFA/LASAAC.
Una Foy	Assistant Director, Policy and Technical, CIPFA.
Mike Hathorn	Partner, Moore Stephens.
Lynn Hine	Partner, Government and Public Sector, PricewaterhouseCoopers, and a member of CIPFA/LASAAC.
Mike Langley	Senior Technical Manager, Financial Reporting, Audit Commission, and a member of CIPFA/LASAAC
John Layton	Local Space HA
Iolo Llewelyn	Head of Technical Team, Wales Audit Office.
Peter Morgan	Audit Manager, Financial Audit Support Team, National Audit Office.
Kieran Rix	Deputy Director of Group Financial Strategy, Department for Transport.
Chris Welford	Chief Executive, ENTRUST.
Harry Wilkinson	Independent Consultant.

There were three meetings of the Panel during 2010, in January, May and September. In recent years there has been a significant volume of standards development, and so a significant proportion of Panel business has been conducted between meetings.

AASP panellists also participate in standards development or advice through membership and support to other advisory groups, drafting groups and committees, including the ASB Committee on Accounting for Public Benefit Entities (CAPE), the APB Public Sector Sub-Committee, RSL, FEHE and Charity SORP making bodies, and many CIPFA and other CCAB body working groups.

## AASP AND OTHER CIPFA ONLINE RESOURCES

### AASP Webpages

Information on CIPFA's Accounting and Auditing Standards Panel is available on the CIPFA website at

[www.cipfa.org.uk/panels/accounting/index.cfm](http://www.cipfa.org.uk/panels/accounting/index.cfm)

which include

New Developments in Standards

[www.cipfa.org.uk/panels/accounting/newstandards.cfm](http://www.cipfa.org.uk/panels/accounting/newstandards.cfm)

Accounting and Auditing Standards Updates

[www.cipfa.org.uk/panels/accounting/standards\\_update.cfm](http://www.cipfa.org.uk/panels/accounting/standards_update.cfm)

CIPFA responses on which AASP has advised

[www.cipfa.org.uk/panels/accounting/responses\\_accounting.cfm](http://www.cipfa.org.uk/panels/accounting/responses_accounting.cfm)

Publications

[www.cipfa.org.uk/panels/accounting/publications.cfm](http://www.cipfa.org.uk/panels/accounting/publications.cfm)

Useful Links

[www.cipfa.org.uk/panels/accounting/links.cfm](http://www.cipfa.org.uk/panels/accounting/links.cfm)

### Other CIPFA webages

Other CIPFA webpages which are relevant to standards discussions include

IFRS pages

[www.cipfa.org.uk/pt/ifrs/](http://www.cipfa.org.uk/pt/ifrs/)

CIPFA LASAAC

[www.cipfa.org.uk/pt/cipfalasaac/index.cfm](http://www.cipfa.org.uk/pt/cipfalasaac/index.cfm)

Local Authority Accounting Panel (LAAP)

[www.cipfa.org.uk/panels/laap](http://www.cipfa.org.uk/panels/laap)

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