

<b>Committee</b>	Accounting and Auditing Standards Panel
<b>Venue</b>	CIPFA Mansell St
<b>Date</b>	September 2018
<b>Author</b>	Steven Cain
<b>Subject</b>	Wider developments in the standard setting field May to August 2018

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### **Purpose**

**To provide panel members with information with a broader focus than accounting and auditing standards issuance and consultations.**

**These may include consultations on wider categories of reporting or assurance, or may encompass wider categories of pronouncement, consultation or development.**

**Items are reported in the following order of priority:**

- 1 Matters on which an AASP led CIPFA response or other AASP input might be considered**
- 2 Other matters for information**
- 3 Note of meetings and events attended**

The content of this report is mostly drawn from online press releases, lightly edited so that they make sense when read in isolation. Links to the original press releases are provided.

**1 Matters on which an AASP led CIPFA response or other AASP input might be considered**

**CALL FOR NOMINATIONS FOR THE IPSASB CONSULTATIVE ADVISORY GROUP**

**29 August 2018**

[www.ipsasb.org/cagnom](http://www.ipsasb.org/cagnom)

The International Public Sector Accounting Standards Board (IPSASB) seeks nominations from individuals, or representatives from organizations, interested in serving as a member of the IPSASB Consultative Advisory Group (CAG).

The CAG is an integral part of the IPSASB's formal process for consultation and a forum for the IPSASB to obtain the views of those interested in, or affected by, the development and maintenance of high-quality International Public Sector Accounting Standards (IPSAS). CAG members have an opportunity to get involved in shaping the development of IPSAS.

CAG members serve an initial term of three years. The CAG meets twice a year in different locations across the globe. Interested nominees should be committed to attending each meeting in person.

The IPSASB is particularly interested in nominees with skills and experience that include:

- Deep understanding of IPSAS; such as those involved in the adoption and implementation of IPSAS or IPSAS-based standards;
- Strong knowledge of public financial management; and/or
- Ability to perceive strategic public sector issues important to financial reporting and the use of financial statements.

Geographic and gender diversity remain a top priority in the IPSASB's nominations process. In pursuit of a globally representative advisory group, we particularly encourage women and those from Africa, Asia, and Latin America to apply.

Nominations are due by October 31, 2018.

To be considered by other parts of CIPFA.
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**1 Matters on which an AASP led CIPFA response or other AASP input might be considered**

**ENVISIONING THE FUTURE—SURVEY ON THE IAASB’S FUTURE STRATEGY**

**(New York, New York, May 24, 2018)**

[www.ifac.org/news-events/2018-05/envisioning-future-survey-iaasb-s-future-strategy](http://www.ifac.org/news-events/2018-05/envisioning-future-survey-iaasb-s-future-strategy)

The International Auditing and Assurance Standards Board (IAASB) has started the consultation process about its future strategy. Today it releases a Strategy Survey to seek views and insights from its stakeholders on emerging developments and trends that are likely to be important to its 2020-2023 strategy.

The survey serves as an important tool to help identify key issues for consideration in developing its future strategy in the context of the IAASB’s broad strategic focus and the changing environment, and with the overriding objective of serving the public interest.

The input from the survey will help inform the development of a Consultation Paper on the IAASB’s 2020-2023 strategy, expected to be published at the end of 2018.

The IAASB is looking to obtain the views of its stakeholders on areas of future focus as the IAASB continues its work on current projects, including revisions of the standards on auditing accounting estimates; identifying and assessing risks of material misstatement; and quality control for firms and audit engagements, and undertakes work on agreed upon procedures engagements and emerging forms of external reporting.

The IAASB seeks input from all interested stakeholders. The survey will remain open until July 24, 2018. French and Spanish translations will be available on the IAASB's website next week.

CIPFA responds to periodic consultation papers on IAASB strategy, but does not generally provide input to the pre-consultation surveys.

## **1 Matters on which an AASP led CIPFA response or other AASP input might be considered**

### **IESBA Global Ethics Board Consults on Professional Skepticism**

**May 14, 2018**

[www.ifac.org/news-events/2018-05/global-ethics-board-consults-professional-skepticism](http://www.ifac.org/news-events/2018-05/global-ethics-board-consults-professional-skepticism)

The International Ethics Standards Board for Accountants (IESBA) seeks public comment by August 15, 2018 on its consultation paper, Professional Skepticism – Meeting Public Expectations.

In response to regulatory and other stakeholder feedback on the topic, the paper explores:

- The behavioral characteristics comprised in professional skepticism;
- Whether all professional accountants should apply these behavioral characteristics; and
- Whether the International Code of Ethics for Professional Accountants (including International Independence Standards) should be further developed to address behaviors associated with the exercise of appropriate professional skepticism.

Through this initiative, the IESBA also aims to reinforce the effective exercise of professional skepticism by auditors.

The consultation paper was developed following close coordination with the International Auditing and Assurance Standards Board (IAASB) and the International Accounting Education Standards Board (IAESB), and with advice from the IESBA Consultative Advisory Group.

The paper will form the basis for discussion with a wide range of stakeholders at a series of three global roundtables in Washington, DC, USA on June 11; Paris, France on June 15; and Tokyo, Japan on July 12.

On Ethics matters, CIPFA generally contributes to CCAB responses through membership of the CCAB Ethics Group.

## **1 Matters on which an AASP led CIPFA response or other AASP input might be considered**

### **Independent review of the Financial Reporting Council (FRC) launches call for evidence**

[www.gov.uk/government/news/independent-review-of-the-financial-reporting-council-frc-launches-call-for-evidence](http://www.gov.uk/government/news/independent-review-of-the-financial-reporting-council-frc-launches-call-for-evidence)

6 June 2018

The independent review of the Financial Reporting Council has today (6 June 2018) launched a call for evidence.

The review, led by Sir John Kingman, is keen to hear from stakeholders on a range of themes including its:

- role and purpose
- effectiveness and its powers
- potential role in preventing corporate failure
- legal status and relationship with the Government
- governance and leadership.

The call for evidence builds on the framework set out by the review's terms of reference, and the consultation period closes on 6 August 2018.

The standard setting aspects of this consultation are mainly private sector focused. The main areas where CIPFA is relevant are in respect of its status as an accountancy body regulated by the FRC.

## **1 Matters on which an AASP led CIPFA response or other AASP input might be considered**

### **FRC Consultation on Corporate Governance Principles for Large Private Companies 13 June 2018**

[frc.org.uk/news/june-2018/consultation-on-the-wates-corporate-governance-pri](http://frc.org.uk/news/june-2018/consultation-on-the-wates-corporate-governance-pri)

The Financial Reporting Council, on behalf of James Wates CBE, has published a consultation on corporate governance principles for large private companies. Development of the principles follows the Government's 2016 Green Paper and the BEIS Select Committee's report of April 2017 which considered the need for improved transparency and accountability in this area.

The six principles are:

**Purpose** – An effective board promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.

**Composition** – Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.

**Responsibilities** – A board should have a clear understanding of its accountability and terms of reference. Its policies and procedures should support effective decision-making and independent challenge.

**Opportunity and Risk** – A board should promote the long-term success of the company by identifying opportunities to create and preserve value and establish oversight for the identification and mitigation of risk.

**Remuneration** – A board should promote executive remuneration structures aligned to sustainable long-term success of a company, taking into account pay and conditions elsewhere in the company.

**Stakeholders** – A board has a responsibility to oversee meaningful engagement with material stakeholders, including the workforce, and have regard to that discussion when taking decisions. The board has a responsibility to foster good relationships based on the company's purpose.

The consultation is open until 7 September 2018. Responses should be sent to [corporategovernanceprinciples@frc.org.uk](mailto:corporategovernanceprinciples@frc.org.uk) address. The final version of the Wates Principles for Corporate Governance will be published in December 2018.

This consultation is private sector focused.

While there can be some read across from private sector developments in corporate governance, the read across for public companies is normally more relevant.

**1 Matters on which an AASP led CIPFA response or other AASP input might be considered**

**FRC consults on proposed amendments to the FRC Taxonomies**

**26 June 2018**

The FRC has today issued a consultation on proposed amendments to the FRC Taxonomies to support the objectives of enhancing the quality and accessibility of financial reporting in the UK and to enable digital reporting of IFRS and UK GAAP standards.

The consultation on the amendments closed on 28 August 2018.

This consultation is private sector focused, and CIPFA did not respond.

## **2 Other matters for information**

### **IFAC MATTERS**

#### **IAESB**

#### **IFAC and IAESB to Transition Standard-Setting Board to Different Model**

[www.ifac.org/news-events/2018-08/ifac-and-iaesb-transition-standard-setting-board-different-model](http://www.ifac.org/news-events/2018-08/ifac-and-iaesb-transition-standard-setting-board-different-model)

IFAC (International Federation of Accountants) and the International Accounting Education Standards Board (IAESB) today announce a new path forward for global accountancy education and professional development.

To ensure that the accountancy profession can address the challenges posed by a rapidly changing environment, a different model is being advanced based on the benefits that will be realized from a comprehensive and integrated approach to international accountancy education. The model will continue to progress international accountancy education in the public interest and with the legitimacy necessary for stakeholders around the world to continue to participate and accept its outputs as credible. The model will be overseen by the IFAC Board instead of the Public Interest Oversight Board.

A multi-stakeholder advisory group is being established to consult with key stakeholders, inform the development of the future model, and facilitate a smooth transition from the IAESB. The advisory group will include IAESB and IAESB Consultative Advisory Group representation, which will be instrumental in developing and implementing the model.

The IAESB has contributed significantly to international accountancy education and the global accountancy profession by developing high-quality, relevant International Education Standards (IES) and by harnessing stakeholder relations to better understand future needs. The model will continue to advance IES implementation and build the capacity of professional accountancy organizations.

In advance of the transition, the IAESB will focus on accelerating the completion of its top priority projects, including revision to standards on Continuing Professional Development and finalizing new related guidance, and on its pivotal work on Information and Communications Technology and Professional Skepticism. It will also progress key work streams to best position the model to take maximum advantage of the IAESB's important body of work.

The future model will begin operations by July 1, 2019.



## **2 Other matters for information**

### **IESBA**

#### **Global Ethics Board Resets Expectations of Professional Accountants Regarding Inducements**

**Jul 19, 2018**

[www.ifac.org/news-events/2018-07/global-ethics-board-resets-expectations-professional-accountants-regarding](http://www.ifac.org/news-events/2018-07/global-ethics-board-resets-expectations-professional-accountants-regarding)

The International Ethics Standards Board for Accountants® (IESBA®) today released new enhancements to its global ethics code which address more fully the responsibilities of professional accountants around the offering and accepting of inducements.

The revised standard sets out a comprehensive framework that more clearly delineates the boundaries of acceptable inducements, and guides the behavior and actions of professional accountants in business and in public practice in situations involving inducements.

Central to this framework is a new intent test that prohibits the offering or accepting of inducements where there is actual or perceived intent to improperly influence the behavior of the recipient or of another individual. The framework also:

- Clarifies the meaning of an inducement;
- Establishes a requirement to understand and comply with laws and regulations that prohibit the offering or accepting of inducements in certain circumstances, such as in relation to bribery and corruption;
- Guides professional accountants in applying the enhanced conceptual framework underpinning the International Code of Ethics for Professional Accountants (including International Independence Standards) where there is no improper intent; and
- Provides enhanced guidance on the offering and accepting of inducements by professional accountants' immediate or close family members.
- The revised provisions become effective June 2019, including consequential amendments to the independence provisions of the Code addressing gifts and hospitality. The changes constitute the last piece of the recently revised and restructured Code.

## 2 Other matters for information

### FRC MATTERS

#### (FRC corporate reporting)

#### **FRC publishes a list of companies whose Report and Accounts have been reviewed 29 June 2018**

[www.frc.org.uk/news/june-2018/frc-publishes-a-list-of-companies-whose-report-and](http://www.frc.org.uk/news/june-2018/frc-publishes-a-list-of-companies-whose-report-and)

The FRC has published its first list of companies whose reports and accounts have been reviewed by its Corporate Reporting Review function.

See also [frc.org.uk/news/june-2018/corporate-reporting-review-briefing](http://frc.org.uk/news/june-2018/corporate-reporting-review-briefing)

#### **A UK Corporate Governance Code that is fit for the future**

**16 July 2018**

[www.frc.org.uk/news/july-2018/a-uk-corporate-governance-code-that-is-fit-for-the](http://www.frc.org.uk/news/july-2018/a-uk-corporate-governance-code-that-is-fit-for-the)

Today the FRC has released the 2018 UK Corporate Governance Code which puts the relationships between companies, shareholders and stakeholders at the heart of long-term sustainable growth in the UK economy. The new shorter, sharper Code is the product of extensive consultation.

This Code places emphasis on businesses building trust by forging strong relationships with key stakeholders. It calls for companies to establish a corporate culture that is aligned with the company purpose, business strategy, promotes integrity and values diversity.

There is a renewed focus on the application of the Principles – the FRC wishes to see clear, meaningful reporting. Investors and proxy advisors must assess explanations carefully and not take a tick-box approach.

The main changes include:

- **Workforce and stakeholders:** There is a new Provision to enable greater board engagement with the workforce to understand their views.
- **Culture:** Boards are asked to create a culture which aligns company values with strategy and to assess how they preserve value over the long-term.
- **Succession and diversity:** To ensure that the boards have the right mix of skills and experience, constructive challenge and to promote diversity, the new Code emphasises the need to refresh boards and undertake succession planning.
- **Remuneration:** To address public concern over executive remuneration, the new Code emphasises that remuneration committees should take into account workforce remuneration and related policies when setting director remuneration.

#### **The Financial Reporting Lab's Q2 newsletter**

**24 July 2018**

[sway.com/MULQbQK1kV2a7LBN?ref=Link](http://sway.com/MULQbQK1kV2a7LBN?ref=Link)

The Lab has released its Q2 newsletter. This issue highlights the Lab's recent Reporting Now event, and the recently released reports on Blockchain and Performance Metrics. It also looks forward to the Lab's upcoming project on Artificial Intelligence, details of further work on Performance Metrics and an Implementation Study.

## **2 Other matters for information**

### **Revised Guidance on the Strategic Report**

**31 July 2018**

[www.frc.org.uk/news/july-2018/revised-guidance-on-the-strategic-report](http://www.frc.org.uk/news/july-2018/revised-guidance-on-the-strategic-report)

The FRC has today published revised Guidance on the Strategic Report, which encourages companies to consider wider stakeholders and broader matters that impact performance over the longer term.

The 2018 Guidance has been enhanced to recognise the increasing importance of non-financial reporting while maintaining the key principles of existing guidance. The FRC believes that the integration of non-financial information into the strategic report is a key part of telling a company's story.

The revised guidance places a greater focus on the directors' duty to promote the success of the company under section 172 of the Companies Act 2006. This is complemented by new legislation that introduces a specific reporting requirement on how directors have had regard to broader matters when performing their duty, including considering the interests of employees, suppliers, customers and other stakeholders as well as impacts on the community and environment. The new legislation is applicable to large companies for financial years beginning on or after 1 January 2019.

## **2 Other matters for information**

### **Accountants increasing in numbers and more focus is given to diversity and inclusion 24 July 2018**

[www.frc.org.uk/news/july-2018/accountants-increasing-in-numbers-and-more-focus-i](http://www.frc.org.uk/news/july-2018/accountants-increasing-in-numbers-and-more-focus-i)

The accountancy bodies continue to attract members in significant numbers, with more than 530,000 members worldwide, an increase of 16,706 from 2017. This year's membership figures show the highest rate of year-on-year growth in the past five years.

The Financial Reporting Council's (FRC) publication, Key Facts and Trends in the Accountancy Profession, now in its 16th year, collates data on accountancy bodies' membership and regulatory activities, as well as data on the statutory audit market and firms.

In this edition the FRC has given more focus to the profession's track record on diversity and inclusion. Previous publications included information on the age and gender of the members and students of the accountancy bodies and on the number of female principals at each of the audit firms. For this year's publication the FRC requested data, collected voluntarily, on seven additional diversity indicators on the workforce of the professional bodies and firms. It has been published in an anonymised form to encourage the accountancy profession to improve and widen its diversity and inclusion data collation in future years.

For the firms, alongside the percentage of female principals and data on ethnicity, the percentage of BAME principals is reported.

## **2 Other matters for information**

### **(FRC audit and assurance)**

#### **Big Four Audit Quality Review results decline 18 June 2018**

Overall results from the most recent inspections of eight firms by the FRC show that in 2017/18 72% of audits required no more than limited improvements compared with 78% in 2016/17. Among FTSE 350 company audits, 73% required no more than limited improvements against 81% in the prior year.

Across the Big 4, the fall in quality is due to a number of factors, including a failure to challenge management and show appropriate scepticism across their audits, poorer results for audits of banks. There has been an unacceptable deterioration in quality at one firm, KPMG. 50% of KPMG's FTSE 350 audits required more than just limited improvements, compared to 35% in the previous year. As a result, KPMG will be subject to increased scrutiny by the FRC.

The increased FRC scrutiny of KPMG includes inspecting 25% more KPMG audits over its 2018/19 cycle of work; and monitoring closely the implementation of the firm's Audit Quality Plan. KPMG agrees that its efforts in recent years have not been sufficient; the FRC will hold KPMG's new leadership to account for the success of their work to improve audit quality.

The FRC has also reported on the results of its inspections of four other firms, BDO, GT, Mazars and Moore Stephens. These reports show general improvements in the quality of inspected audits.

Other actions taken by the FRC include:

- Setting out to firms earlier in the year concerns over various aspects of bank audits, including their challenge of management and provisioning against loan losses and PPI mis-selling claims.
- Reviewing the effectiveness of Root Cause Analysis by the firms to identify the real causes of audit shortcomings and whether their action plans will effectively address the FRC's concerns.
- Agreeing actions with firms on all audits where shortcomings were identified.
- Taking enforcement action under the Audit Enforcement Procedure where appropriate.
- Implementing a new audit firm monitoring approach, focusing on five key pillars of leadership and governance, firm values and behaviours, business models and financial soundness, risk management, and evidence of audit quality.

## 2 Other matters for information

### **FRC highlights good practice and scope for improvements in audits of pension obligations** **26 July 2018**

[www.frc.org.uk/news/july-2018/frc-highlights-good-practice-and-scope-for-improve](http://www.frc.org.uk/news/july-2018/frc-highlights-good-practice-and-scope-for-improve)

There is room for improvement in the audit of pension balances and disclosures in company accounts, according to a new report from the Financial Reporting Council (FRC), 'The audit of defined benefit pension obligations'. The FRC focussed on the quality of audit of pension balances and related disclosures in 51 of its audit inspections in 2017/18 and found that in almost half, improvement was required in at least one aspect of the audit work, as well as identifying areas of good practice.

In many cases the existence of multiple pension arrangements and/or financial and risk management transactions, such as liability-driven investment strategies, partial buy-outs and longevity swaps, have made valuation judgements and their audit complex.

Auditors can bring about improvement by:

- assessing the sensitivity of the valuation to changes in assumptions,
- clearly evidencing the work done by actuarial experts and the rationale for conclusions reached,
- considering whether the source data used to calculate the valuation of the defined benefit obligation is materially accurate and complete,
- identifying different categories of investment assets and obtaining sufficient audit evidence to support the valuation of each,
- paying attention to evidence to support the allocation of the defined benefit obligation and pension scheme assets in multi-employer schemes,
- focussing on the completeness and accuracy of the pensions related disclosures; not just the valuation; and
- considering whether given the material nature and risks, the audit work on pensions should be explained in the auditor's report.

## **2 Other matters for information**

### **IASB AND RELATED MATTERS**

#### **IASB communications and outreach**

The IFRS.org website provides regular updates on numerous matters as set out below:

General updates

[www.ifrs.org/news-and-events/updates/monthly-update/](http://www.ifrs.org/news-and-events/updates/monthly-update/)

Updates on IASB meetings

[www.ifrs.org/news-and-events/updates/iasb-updates/](http://www.ifrs.org/news-and-events/updates/iasb-updates/)

IFRIC updates

[www.ifrs.org/news-and-events/updates/ifric-updates/](http://www.ifrs.org/news-and-events/updates/ifric-updates/)

Research updates

[www.ifrs.org/projects/research-programme/](http://www.ifrs.org/projects/research-programme/)

Investor updates

[www.ifrs.org/investor-centre/](http://www.ifrs.org/investor-centre/)

IFRS for SMEs

[www.ifrs.org/supporting-implementation/supporting-materials-for-the-ifrs-for-smes/ifrs-for-smes/](http://www.ifrs.org/supporting-implementation/supporting-materials-for-the-ifrs-for-smes/ifrs-for-smes/)

**3 Note of meetings and events attended**

**Meetings and events attended by AASP chair and/or secretariat (excluding Accountancy Europe and IPSASB related meetings) in the period May to September 2018 included**

- 14.05.2018 CCAB-CIMA meeting with the FRC Corporate Reporting Council secretariat
- 12.06.2018 ICAEW ISA Implementation Sub-Group
- (14.06.2018 FRC Auditing and Assurance: International Committee CANCELLED)