

Accounting and Auditing Standards Panel

# **annual report 2011**

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 [www.cipfa.org/Policy-and-Guidance/Technical-Panels-and-Boards/Accounting-and-Auditing-Standards-Panel](http://www.cipfa.org/Policy-and-Guidance/Technical-Panels-and-Boards/Accounting-and-Auditing-Standards-Panel)

# 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, thereby supporting CIPFA's strategy to champion and support improvement in standards of public financial management and governance. The Panel seeks to ensure that developments in international and UK standards are sensibly framed, providing worthwhile and relevant reporting to public sector stakeholders, while also taking account of the practical issues of implementation facing public sector accountants and auditors.

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

- adoption and implementation of international standards frameworks such as International Financial Reporting Standards (IFRS), International Public Sector Accounting Standards (IPSAS) and International Standards on Auditing (ISAs);
- UK programmes for improvement and convergence with international standards; and
- the need to interpret profit-focussed standards in wider public service contexts.

The relevance of CIPFA's engagement across the range of international and UK standard setting has been very clear as government has implemented reporting based on EU adopted IFRS. The Government's Financial Reporting Manual (FReM), is now framed as an adaptation of IFRS, and also has regard to IPSAS and legacy UK GAAP approaches to public sector specific issues. The same approach underlies the Code of Practice on Local Authority Accounting, and manuals for the NHS and devolved administration.

The work of AASP complements the work of CIPFA's charities, social housing and education panels. AASP and the sector panels jointly provide input to the development of public benefit Statements of Recommended Practice (SORPs). These SORPs provide guidance on the application of UK GAAP in the public benefit context. More recent work with the sector panels has focussed on UK proposals to converge and align UK GAAP with IFRS based standards. AASP also works with CIPFA's Sustainability Working Group on matters of common interest.

The UK adopted auditing standards based on internationally developed ISAs in 2004. CIPFA contributed to the subsequent major redraft of ISAs in the 'Clarity Project', making specific comments on the implications for public sector audits. The clarified ISAs have since been used by the International Organisation of Supreme Audit Institutions (INTOSAI) as the basis for public sector auditing standards, on which AASP also provided comments. More recently, the Panel has considered proposals to improve the quality of audit and of auditor reporting, subjects which have moved firmly on to the political agenda in the wake of the economic crisis.

The Panel supports CIPFA's engagement with IFAC in the development of International Public Sector Accounting Standards (IPSAS). The economic crisis has highlighted the potential usefulness of IPSAS as a viable approach to accrual accounting for governments in the many developed countries which currently use cash accounting.

While most of its formal communications are with standard setters and regulators, the Panel also seeks to engage CIPFA members in the standards development area, through participation in events, development of publications, and provision of online information and briefings. 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**

# **Accounting and Auditing Standards Panel ANNUAL REPORT 2011**

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## **Appendix A AASP Membership During 2011**

## 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. The Panel does not provide advice on local authority accounting matters. CIPFA is directly involved in the development of the Code on Local Authority Accounting and other guidance and AASP briefing material is shared with the CIPFA/LASAAC board. During 2011 three AASP members were also members of CIPFA/LASAAC. AASP 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 2011 were:
- Commenting on the work of the ASB, the FRAB and other stakeholders in the UK's convergence with, and adoption of, International Financial Reporting Standards. In carrying out this work, AASP has 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.
- 1.2.3 AASP also pursues other projects as part of CIPFA's thought leadership and promotion of good practice.

## 2 Activities Relating To Financial Reporting Standards

### 2.1 AASP Work Relating To IFRS Development

- 2.1.1 IFRS is the basis for government financial reporting from 2009-10, except for local government where the implementation began in 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 2011, AASP advised on responses to four consultations, variously relating to the development agenda, timing of standards implementation and transition, and the Board's ongoing programme of routine improvement. These were short and low key responses

acknowledging that the IASB was in transition and that its priorities were constrained in the light of requirements to progress projects undertaken in response to the economic crisis. Our response on the standards development agenda did comment on the need to consider issues relating to non-profit entities at some stage.

- 2.1.3 As regards IFRS implementation, some AASP members were also members of both the FRAB and the CIPFA/LASAAC Local Authority Code Board. Also the Panel chair advised CIPFA on a response to a consultation on the future role of the FRAB.

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

- 2.2.1 CIPFA is a member of the International Federation of Accountants (IFAC), and has provided support to IFAC on public sector issues for many years, including supporting the project to develop International Public Sector Accounting Standards. IPSAS standards became more relevant to the UK public sector from 2008, being recognised as key guidance on public sector specific issues to be considered in situations where IFRS does not provide guidance.

- 2.2.2 AASP advised on responses to five consultations during 2011, some of which were very substantial. These included

- a Conceptual Framework Exposure Draft on the objectives and qualitative characteristics of public sector financial reporting
- two consultation papers on the Conceptual Framework, dealing with Measurement and Recognition and with the Elements of Financial Statements
- an Exposure Draft on Key Characteristics of Public Sector Financial Reporting
- a routine '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 two ASB consultations during 2011, as follows:

- FRED 43 and 44 proposals for UK GAAP for companies (FRSME and FRSSE, with the former based on IFRS for SMEs); and
- FRED 45 on a FRS for Public Benefit Entities (FRSPBE);

- 2.3.2 AASP together with CIPFA's Charity Panel, Housing Association Panel and Further and Higher Education Panel helped CIPFA develop responses to the ASB consultation on the future of UK GAAP, both generally and having specific regard to public benefit entities. A key element of the CIPFA response was a view that it would not be beneficial for the FRSME or the FRSPBE to adopt accounting which was markedly less good than existing UK GAAP.

- 2.3.3 AASP also responded to an FRC paper 'Cutting Clutter' which proposed approaches to making annual reports more readable.

## **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 Professional Board consultation on a Technical Paper on Depreciated Replacement Cost.

## 3 Activities Relating To Auditing Standards

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

- 3.1.1 During 2011 the main consultations related to strategic matters and audit quality, material supporting auditing standards, and standards on assurance other than financial audit. AASP provided input to CIPFA responses relating to the following IAASB consultations:
- Consultation Paper *Enhancing the Value of Auditor Reporting*
  - Consultation Paper on ISAE 3000 *Assurance Engagements Other Than Audits*
  - IAASB strategy consultation 2012-14
  - Exposure Draft ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*
  - Consultation on International Auditing Practice Statements (IAPS)
- 3.1.2 From a public sector audit perspective the consultation on ISAE 3000 was significant in that it provides a framework for many engagements carried out by public sector audit institutions which are not 'financial audit', including certain types of performance audit.
- 3.1.3 AASP worked with CIPFA's Sustainability Working Group to develop CIPFA's response to the consultation on ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*.

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

- 3.3.1 During 2011, 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:
- a revised Practice Note 11 on audits of charity 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, although in our response to the paper on Auditor Scepticism we expressed some reservations about the relevance of the US based research included in the paper, which was somewhat dated and reflected audit work carried out under very different regulatory structures and in a very different audit market than that of the UK.

## 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 fourth CIPFA/ICAEW IFRS Conference in March 2011 'Rising to the task – financial management after the spending review'.

### 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. During 2011 the scope of outreach was focussed on liaison with other

CIPFA panels and groups. Input on issues relevant to charities, education and housing was incorporated into the two responses to ASB consultations on the future of UK GAAP. The Panel also obtained input from CIPFA's Sustainability Working Group when developing the CIPFA response to the IAASB consultation on Greenhouse Gases assurance, and provided input to the same group's response to the new International Integrated Reporting Committee consultation on integrated reporting.

### **4.3 Publications**

- 4.4.1 During 2011, three Accounting and Auditing Standards Updates were published on the AASP website. These provide information on new and amended standards issued by the major international and UK standard setters, consultations on standards development, and CIPFA's planned and actual responses to consultations on accounting and auditing standards.
- 4.4.2 Two CIPFA publications issued by the panel remain on sale: 'Narrative Reporting: A Public Services Perspective (2009)' and 'Accounting And Auditing Standards – A Public Services Perspective (2010)'.

## **5 Looking Forward To 2012**

- 5.1.1 AASP work in the financial reporting area will reflect
- Changed IASB priorities following the Board consultation on its agenda. Development is expected to mainly be concentrated on completing ongoing projects, and allowing a period of calm before the next wave of changed standards.
  - IPSASB plans to make further progress in developing its conceptual framework for public sector financial reporting.
  - ASB proposals for the future of UK GAAP for lower tier entities which are expected to be less directly based on the IFRS for SMEs, particularly when current UK practice is broadly consistent with full IFRS. The ASB propose that this will also incorporate guidance for Public Benefit entities, rather than there being a separate FRSPBE.
- 5.1.2 In the audit area, the IAASB will continue its review of assurance standards other than ISAs, including review engagements and XBRL reporting. It is also expected that there will be proposals to improve audit quality and auditor reporting, developed in response to concerns expressed by regulators and other stakeholders over the role of audit in the economic crisis.
- 5.1.3 In the light of these developments, the priorities of the Accounting and Auditing Standards Panel for 2012 will be:
- Supporting the ASB and other public sector and public benefit stakeholders in the UK's implementation of EU adopted IFRS and convergence with IFRS and other IASB standards and guidance.
  - 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 its post-2011 work programme (mainly completing ongoing projects).
  - Responding to the work of the IAASB and related work by the APB which seeks to improve audit quality and auditor reporting

**ACCOUNTING AND AUDITING STANDARDS PANEL**

**PANEL MEMBERSHIP DURING 2011**

**Chair**

David Watkins      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

Christina Earls    Chief Accountant, Foreign and Commonwealth Office Finance Directorate

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

Hilary Lower     Head of Financial Reporting  
(from May 2011)    Financial Audit Practice and Quality, National Audit Office

Paul Mason       Assistant Director, Policy and Technical, CIPFA

Peter Morgan     Audit Manager  
(to March 2011)    Financial Audit Practice and Quality, 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 2011, 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.

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

[www.cipfa.org/Policy-and-Guidance/Technical-Panels-and-Boards/Accounting-and-Auditing-Standards-Panel](http://www.cipfa.org/Policy-and-Guidance/Technical-Panels-and-Boards/Accounting-and-Auditing-Standards-Panel)