

The logo for CIPFA, consisting of the letters 'CIPFA' in a bold, sans-serif font. A diagonal line cuts through the letters from the top right to the bottom left.

The Chartered Institute of
Public Finance & Accountancy

Accounting and Auditing Standards Panel

annual report 2012

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

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 (FRM) 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.

The work of AASP complements the work of CIPFA panels which provide specialist advice on issues relevant to charities, social housing and education. 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 develop a new UK GAAP in line with standards developed by the International Accounting Standards Board (IASB).

The UK adopted ISAs (UK & Ireland) based on internationally developed ISAs in 2004. CIPFA has mainly contributed to development of the international versions, and specifically the major redraft of ISAs in the 'Clarity Project' between 2004 and 2009, 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. 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 in the development of International Public Sector Accounting Standards. 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. During 2012 the European Commission reviewed whether IPSAS might be suitable for EU wide adoption.

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.

David Watkins

Chair, Accounting and Auditing Standard's Panel

Accounting and Auditing Standards Panel ANNUAL REPORT 2012

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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, which advises CIPFA on technical issues and the public services position 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 2012 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 consultations which shape the development of international and UK standards for financial reporting and for auditing.
- 1.2.2 The main priorities of the AASP in 2012 were:
- Supporting the FRC and public sector and public benefit stakeholders in the UK's implementation of EU adopted IFRS and the development of new UK GAAP based on IASB standards.
 - Supporting the work of IPSASB in developing a public sector conceptual framework and 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 FRC which seeks to improve audit quality and auditor reporting
- 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 has been the basis for all UK government financial reporting from 2011-12. CIPFA is interested both in the development of new and existing IFRS and specific issues relating to public sector implementation.
- 2.1.2 During 2012, AASP advised on responses to three consultations – two exposure drafts on Government Loans and on Revenue from Contracts, and a 'Request for Information' on the IASB's comprehensive review of the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). The response on the review of IFRS for SMEs commented on the need for additional conceptual development if, as suggested by the paper, the IFRS for SMEs might be applied to non-profit entities at some stage.
- 2.1.3 AASP also developed a response to a discussion paper issued by the European Financial Reporting Advisory Group (EFRAG) on *Accounting for Business Combinations under Common Control*. While the EFRAG paper was principally focused on private sector company reporting, there are important parallels with public sector combinations and reorganisations.

2.1.4 As regards IFRS implementation, some AASP members were also members of the CIPFA/LASAAC Local Authority Code Board.

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 six IPSASB consultations during 2012, some of which were very substantial. These included

- a Conceptual Framework consultation on 'presentation' in public sector financial reports
- two exposure drafts on reporting which extends or goes beyond the information in financial statements, dealing with financial statement discussion and analysis and with long-term fiscal sustainability
- two consultation papers on public sector combinations, and on reporting service performance
- a consultation on IPSASB's work programme for 2013-2014

2.2.3 The responses broadly supported each of the proposals, which represent important progress in the development of a complete reporting package under international standards developed specifically for the public sector.

2.2.4 AASP also provided input to wider CIPFA consideration of two other consultations relevant to IPSASB standard setting – an IFAC governance consultation, which set out new proposals for IFAC's monitoring and reviewing the work of the IPSASB, and a consultation carried out by Eurostat on behalf of the European Commission, reviewing the suitability of the IPSASs for adoption in the EU. CIPFA is keen that IPSASB's governance should be demonstrably transparent and fair, in order to facilitate and legitimise wide adoption of the IPSAS standards. CIPFA also strongly supported the Eurostat initiative considering adoption of accrual IPSAS, which would represent a significant improvement over current reporting in most EU member countries where incomplete accounting under a cash basis is the norm.

2.3 AASP Work Relating To Developments in UK GAAP

2.3.1 AASP advised on responses to four FRC exposure drafts developed by the ASB and its replacement, the Accounting Council during 2012, as follows:

- FRED 46 Application of Financial Reporting Requirements (draft FRS 100);
- FRED 47 Reduced Disclosure Framework (draft FRS 101)
- FRED 48 The Financial Reporting Standard applicable in the UK and Republic of Ireland (draft FRS 102); and
- Amendment to Financial Reporting Exposure Draft 48

2.3.2 These responses took forward longstanding discussions between AASP and CIPFA's specialist panels on matters relating to the social housing sector, the education sector, and the charities and social enterprise sector. The 2012 exposure drafts responded to a key message from CIPFA and other respondents to consultations in 2011, which was that it would not be beneficial for new UK GAAP to adopt accounting which was markedly less good than existing UK GAAP.

3 Activities Relating To Auditing Standards

3.1 AASP Work Relating To Developments in IAASB standards

- 3.1.1 During 2012 the IAASB mainly focussed on strategic matters, audit quality, and the auditor's report, and only two consultations were undertaken, one of which continued into 2013. AASP therefore developed only one response during 2012, relating to the IAASB's Invitation to Comment *Improving Auditor Reporting*, noting the rather different character of going concern assessment in the public sector context, and our concern over issues which might arise when applying investor focussed reporting solutions to public sector audits.

3.2 AASP Work Relating To Developments in UK auditing standards and guidance

- 3.3.1 During 2012, the Auditing Practices Board and its successor, the FRC Audit and Assurance Council mainly pursued developments relating to governance and reporting, with a view to alleviating concern over the role of auditors in respect of the financial crisis.
- 3.3.2 AASP advised on responses relating to two consultation papers: one proposing additional reporting by auditors to audit committees; the other proposed changes to ISA 610 (UK & Ireland) *Using the work of the internal auditor* in line with anticipated changes to the IAASB standard.

4 Other Panel Activities

4.1 Publications

- 4.1.1 During 2012, three Accounting and Auditing Standards Updates were published on the AASP website. These provide information on new and amended standards issued by international and UK standard setters, consultations on standards development, and CIPFA's responses to consultations on standards.
- 4.1.2 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 2013

- 5.1.1 AASP work in the financial reporting area will reflect
- IASB finalisation of standards for leases, revenue, financial instruments and insurance contracts., and recommencement of work on its revised conceptual framework
 - IPSASB's substantial progress on its conceptual framework for public sector financial reporting.
 - The FRC's issuance of FRS 102 which represents the new UK GAAP for lower tier entities, and the consequent development of revised SORPs for charities, social housing and education.
- 5.1.2 In the audit area, the IAASB is taking forward proposals to improve audit quality and auditor reporting 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 2013 will be:
- Supporting the IPSASB's completion of a public sector conceptual framework; responding to the IASB on its framework development.

- Supporting public sector and public benefit stakeholders in the implementation of new UK GAAP through the SORP process.
- Responding to the work of the IAASB and related work by the FRC which seeks to improve audit quality and auditor reporting

5.1.4 AASP will also be developing an updated and revised edition of *Accounting And Auditing Standards – A Public Services Perspective*.

ACCOUNTING AND AUDITING STANDARDS PANEL

PANEL MEMBERSHIP DURING 2012

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

Lynn Pamment Partner, Government and Public Sector, PricewaterhouseCoopers, and a member of CIPFA/LASAAC.
(until May 2012)

Mike Langley Senior Technical Manager, Financial Reporting, Audit Commission, and a member of CIPFA/LASAAC
(until May 2012)

John Layton Local Space HA
(until May 2012)

Iolo Llewelyn Head of Technical Team, Wales Audit Office

Hilary Lower Head of Financial Reporting
Financial Audit Practice and Quality, National Audit Office

Paul Mason Assistant Director, Policy and Technical, CIPFA

Kieran Rix Deputy Director of Group Financial Strategy, Department for Transport
(until May 2012)

Chris Welford Chief Executive, ENTRUST

Harry Wilkinson Independent Consultant

There were three meetings of the Panel during 2012, 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 Social Housing, Education and Charity SORP making bodies.

GLOSSARY AND LIST OF ACRONYMS

<i>Accounting Council</i>	The Accounting Council advises the FRC Codes and Standards Committee on matters relating to financial reporting standards.
<i>ASB</i>	Accounting Standards Board. Replaced by the Accounting Council from July 2012.
<i>APB</i>	Auditing Practices Board. Replaced by the Audit and Assurance Council from July 2012.
<i>Audit and Assurance Council</i>	The Audit and Assurance Council advises the FRC Codes and Standards Committee on matters relating to auditing standards.
<i>CAPE</i>	Committee on Accounting for Public-benefit Entities. This committee advises the Accounting Council on public benefit entity reporting issues.
<i>CIPFA/LASAAC</i>	The CIPFA LASAAC Local Authority Code Board is a partnership between CIPFA and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). The board is responsible for preparing, maintaining, developing and issuing the Code of Practice on Local Authority Accounting for the United Kingdom.
<i>EFRAG</i>	European Financial Reporting Advisory Group. This group advises the European Commission on the adoption of IFRS in the European Union.
<i>Eurostat</i>	Eurostat is the statistical office of the European Union
<i>FRC</i>	The Financial Reporting Council sets the framework of codes and standards for the accounting, auditing, actuarial and investor communities in the UK and oversees the conduct of the professionals involved. Some FRC pronouncements apply in the Republic of Ireland.
<i>FRS</i>	Financial Reporting Standard. FRSs are the principal form of pronouncement on UK financial reporting issued by the FRC.
<i>FRED</i>	Financial Reporting Exposure Draft. FREDs are the principal consultation document for UK financial reporting issued by the FRC.
<i>IAASB</i>	International Auditing and Assurance Board, a standard setting board of IFAC.

<i>IASB</i>	International Accounting Standards Board
<i>IFAC</i>	The International Federation of Accountants.
<i>IFRS</i>	International Financial Reporting Standards. These are issued by the IASB. This term also encompasses older International Accounting Standards (IAS).
<i>IFRS for SMEs</i>	The International Financial Reporting Standard for Small to Medium-sized Entities.
<i>INTOSAI</i>	International Organisation of Supreme Audit Institutions. An umbrella body for 'supreme' (as distinct from 'regional') institutions responsible for public sector audits.
<i>IPSAS</i>	International Public Sector Accounting Standards.
<i>IPSASB</i>	International Public Sector Accounting Standards Board, a standard setting board of IFAC.
<i>ISA</i>	International Standard on Auditing, issued by the IAASB.
<i>ISA (UK & Ireland)</i>	Modified or additional ISAs applicable in the UK & Ireland, issued by the FRC.
<i>SORP</i>	Statement of Recommended Practice, providing guidance on the application of UK GAAP to specific economic sub sectors.
<i>UK GAAP</i>	UK Generally Accepted Accounting Practice. This is mainly taken to be based on standards issued by the FRC, although the term is sometimes taken to encompass UK use of EU adopted IFRS.

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