

Accounting and Auditing Standards Panel

# **annual report 2013**

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

The focus of the work of CIPFA's Accounting and Auditing Standards Panel (AASP) continues to be on leading CIPFA's response to issues relating to accounting and auditing standards across sectors. During 2013, as this report outlines, AASP's activities once again were largely driven by developments in the standards area:

- the continuing development by both the International Public Sector Accounting Standards Board and the International Accounting Standards Board of their conceptual frameworks;
- the implementation of new UK GAAP, aligned with international standards, across the wider public service sectors and working with CIPFA's charities, social housing, and education panels; and
- adoption and implementation of international standards frameworks: International Financial Reporting Standards (IFRS), International Public Sector Accounting Standards (IPSAS) and International Standards on Auditing (ISAs).

As I noted in my Foreword to the 2012 annual report, AASP supports CIPFA's involvement in the development of IPSAS, which are now seen as a means of improving governments' financial data and several countries are in the process of adopting accruals-basis IPSAS – some at an early stage and others further along the journey. Following the consultation conducted by Eurostat, the European Commission proposed in 2013 that new accounting standards (European Public Sector Accounting Standards (EPSAS) should be developed for use by all member states. CIPFA supports the view that EPSAS should be firmly rooted in IPSAS and I foresee AASP playing a vital role over the coming years in ensuring that these new standards will promote the highest standards of public sector financial reporting in the EU.

As the report notes, the work of the Panel is vital in that developments in both accounting and auditing standards will have an impact on the work of many CIPFA members and students. The Panel is keen to engage CIPFA members in its deliberations and would welcome views on any developments in accounting and auditing matters as they arise.

Material on developments in standard setting is regularly posted on the CIPFA website 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). Please take time to look at the material; where the development is likely to affect your work, let us know what concerns you might have or whether you support the proposals. CIPFA also publishes its responses to public consultations online at [www.cipfa.org/policy-and-guidance/responses-to-consultations](http://www.cipfa.org/policy-and-guidance/responses-to-consultations), so you will be able to see what we have said to the standard setters.

I hope you find the contents of this report helpful.

**David Watkins**

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

# **Accounting and Auditing Standards Panel ANNUAL REPORT 2013**

- 1 About The Panel**
- 2 Activities Relating To Financial Reporting Standards**
- 3 Activities Relating To Auditing Standards**
- 4 Other Panel Activities**
- 5 Looking Forward To 2014**

**Appendix A AASP Membership During 2013**

**Appendix B Glossary and List of Acronyms**

# 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 and not for profit sectors, which advises on, and helps develop, CIPFA's position on technical issues relating to standards matters.
- 1.1.2 AASP does not provide advice on local authority accounting matters: CIPFA is directly involved in the development of the Code on Local Authority Accounting and AASP briefing material is shared with the CIPFA/LASAAC Local Authority Code board. During 2013 three AASP members were variously members of CIPFA/LASAAC and CIPFA's Local Authority Accounting Panel (LAAP).
- 1.1.3 AASP works with other CIPFA panels to advise on sector specific issues, including providing input to the development of Statements of Recommended Practice ('SORPs') for charities, education and social housing.
- 1.1.4 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. AASP's work is important. The UK public sector uses International Financial Reporting Standards as the basis for the various manuals (for example, the Financial Reporting Manual for central government and the Code of Practice for Local Authority Accounting). The interpretations of standards set for the private sector will also use International Public Sector Accounting Standards as a reference point. In the audit field, the auditing standards used by public sector auditors are all based on International Standards on Auditing. It is essential, therefore, that CIPFA contributes to the development of standards that will impact on the work of so many CIPFA members and students.
- 1.2.2 The main priorities of the AASP in 2013 were:
  - Supporting the IPSASB's completion of a public sector conceptual framework, and responding to the IASB on its framework development.
  - Supporting the FRC and public sector and public benefit stakeholders in the implementation of new UK GAAP based on IASB standards, including the development of SORPs based on new UK GAAP.
  - 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 helped develop an updated and revised edition of 'Accounting And Auditing Standards – A Public Services Perspective'.

## 2 Activities Relating To Financial Reporting Standards

### 2.1 AASP Work Relating To IPSAS Development

- 2.1.1 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 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.
- 2.1.2 AASP advised on responses to four IPSASB consultations during 2013, some of which were very substantial. These included
- a consultation on the extent to which IPSAS can or should promote convergence with Government Financial Statistics
  - three exposure drafts taking forward work on the IPSASB Conceptual Framework for public sector financial reporting, setting out the proposed content of chapters on
    - Elements and Recognition
    - Measurement
    - Presentation
- 2.1.3 AASP and CIPFA broadly supported each of the proposals, but we had some concerns that IPSASB's framework might move too far away from reporting on financial position based on concepts of control. In the light of CIPFA's concerns and similar responses from a number of other respondents, IPSASB are redrafting their chapter on *Elements and Recognition* in a way which will better assist understandability, especially when considered against similar reporting in the private sector.

### 2.2 AASP Work Relating To IFRS Development

- 2.2.1 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.
- 2.2.2 During 2013, AASP advised on CIPFA's response to the longstanding and important Exposure Draft setting out proposals for the accounting for leases and also three minor consultations.
- 2.2.3 As regards IFRS implementation, some AASP members were also members of the CIPFA/LASAAC Local Authority Code Board.

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

- 2.3.1 From CIPFA's perspective the main strands of development in UK GAAP are those relating to Statements of Recommended Practice (SORPs) which will be implemented under FRS102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.
- 2.3.2 AASP advised on a CIPFA response to Strategic Report Guidance developed by the FRC, but its main work was with CIPFA's specialist panels on social housing, charities and education to provide input to preliminary development of a revised Housing SORP, and input to CIPFA responses on exposure drafts of new SORPs for the charities sector and for further and higher education. A key element of our response to the Charities SORP consultation was to recommend that additional emphasis should be placed on linking non-financial and financial information through the Trustees annual report, and we were very glad to see this being picked up in the drafting of the final SORP guidance.

## **2.4 AASP Work Relating To Wider Reporting**

- 2.4.1 CIPFA's work on integrated reporting is led by its Sustainability Working Group (SWG). AASP provided input to SWG development of CIPFA's response to the International Integrated Reporting Council (IIRC) on its draft *Framework for Integrated Reporting <IR>*. Our engagement with the IIRC has been very constructive and in 2014 CIPFA is helping the IIRC develop its framework for public sector use, promoting and collecting information on good practice through the establishment of a Public Sector Pioneer Network

## **3 Activities Relating To Auditing Standards**

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

- 3.1.1 During 2013, the IAASB continued its focus on audit quality and the auditor's report. CIPFA responded to consultations on these issues.
- 3.1.2 CIPFA also commented on proposals to update and improve the ISA concerning auditor responsibilities relating to 'other information' in documents containing or accompanying financial statements.
- 3.1.3 CIPFA supported the intention of the proposed revisions, but in common with other stakeholders was concerned about
- Overlong and unclear drafting in the proposed framework for audit quality; and
  - Unintended increases in the workload relating to 'other information'.
- 3.1.4 While the points made by CIPFA were thematically similar to points made by private sector stakeholders, our response letters focussed on public sector issues which might otherwise not have been addressed. The IAASB has subsequently produced an improved framework for audit quality, and is consulting further on how improved audit work on 'other information' can be carried out without disproportionate additional cost.

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

- 3.3.1 During 2013, the FRC Audit and Assurance Council continued to pursue developments relating to governance and reporting, with a view to alleviating concern over the role of auditors in respect of the financial crisis. Relatively little of the output from this affected standards or mandatory guidance.
- 3.3.2 AASP advised on a response to proposed changes to ISA 610 (UK & Ireland) *Using the work of the internal auditor*. In contrast to the earlier consultation paper which reflected anticipated changes to the IAASB standard, the FRC has ruled that internal auditors cannot provide 'direct assistance' to the statutory auditors of financial statements.

## 4 Other Panel Activities

### 4.1 Publications

- 4.1.1 During 2013, 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. These include 'Narrative Reporting: A Public Services Perspective (2009)' and also a new edition of 'Accounting And Auditing Standards – A Public Services Perspective (2013)', updated to reflect changes in UK public services, standards and auditing regimes since the previous revision in 2010.

## 5 Looking Forward To 2014

- 5.1.1 CIPFA's involvement in the financial reporting area during 2014 will reflect:
- IPSASB's expected completion of its conceptual framework for public sector financial reporting, and increasing pressure from public sector stakeholders for the adoption of high quality accrual standards, including proposals for EPSAS.
  - IASB finalisation of standards for leases, revenue, financial instruments and insurance contracts., and recommencement of work on its revised conceptual framework
  - Any late opportunities for UK stakeholders to develop or refine guidance for use under the FRC's new UK GAAP regime, before the activation of FRS 102 on 1 January 2015.
- 5.1.2 In the audit area, the IAASB is continuing to respond to stakeholder demands for improved audit quality. The FRC is pursuing similar developments, having regard to the specific circumstances of the UK regulatory environment and EU developments. The IAASB will also be consulting on its strategy and work plan for 2014 onwards.
- 5.1.3 In the light of these developments, the priorities of the Accounting and Auditing Standards Panel for 2014 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, and providing a public sector perspective on the IAASB's strategy going forward

**ACCOUNTING AND AUDITING STANDARDS PANEL**

**PANEL MEMBERSHIP DURING 2013**

**Chair**

David Watkins	Independent (from May 2013) Senior Accountant at the Foreign and Commonwealth Office (until April 2013)
---------------	--

**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
Peter Dymoke from May 2013	EY Consulting (from July 2013) Independent Consultant (until June 2013)
John Gilchrist from May 2013	St Helena Audit Service Acting Chief Auditor (from November 2013) Audit Executive (until November 2013)
Paul O'Brien from January 2013	Technical Services Unit, Audit Scotland
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 to December 2013	Assistant Director, Policy and Technical, CIPFA
Catherine Park to October 2013	Independent Consultant
Alison Scott from December 2013	Assistant Director, Policy and Technical, CIPFA
Stephen Sheen from December 2013	Independent Consultant
Chris Welford	Chief Executive, ENTRUST
Harry Wilkinson	Independent Consultant

There were three meetings of the Panel during 2013, in January, May and October. 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 Housing, FEHE and Charity SORP making bodies, and many CIPFA and other CCAB body working groups.

**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. The Council replaced the previous developer of UK financial reporting standards and guidance, the Accounting Standards Board (ASB), 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. The Council replaced the previous developer of UK auditing standards and guidance, the Auditing Practices Board (APB), from July 2012.
<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>	<p>The CIPFA LASAAC Local Authority Code Board is a partnership between CIPFA and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC).</p> <p>The board is responsible for preparing, maintaining, developing and issuing the Code of Practice on Local Authority Accounting for the United Kingdom.</p>
<i>EPSAS</i>	European Public Sector Accounting Standards. The European Commission has proposed that Europe should develop accrual accounting standards using IPSAS as a reference point, following a consultation by Eurostat on whether IPSAS should be adopted directly.
<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>	<p>Financial Reporting Standard.</p> <p>FRSs are the principal form of pronouncement on UK financial reporting issued by the FRC.</p>
<i>FRED</i>	<p>Financial Reporting Exposure Draft.</p> <p>FREDS are the principal consultation document for UK financial reporting issued by the FRC.</p>
<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>IIRC</i>	The International Integrated Reporting Council
<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 &amp; 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](http://www.cipfa.org/Policy-and-Guidance/Technical-Panels-and-Boards/Accounting-and-Auditing-Standards-Panel)