

ACCOUNTING AND AUDITING STANDARDS

February 2008 update

reflecting developments from October 2007 to January 2008

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This update provides information on standards developments in the fields of accounting and audit (in this context normally referring to 'external' or 'independent' audit). The update reflects standards, other guidance and consultations developed or reviewed by

- UK standard setters including the Financial Reporting Council (FRC) and particularly its operating bodies the Accounting Standards Board (ASB), and the Auditing Practices Board (APB)
- International standard setters, including the International Accounting Standards Board (IASB), International Public Sector Accounting Standards Board (IPSASB) and the International Auditing and Assurance Standards Board (IAASB)
- Interpreters of financial reporting standards, including SORP making bodies, HM Treasury and other 'relevant authorities' for the devolved administrations and health sectors, and the Financial Reporting Advisory Board (FRAB)
- Other bodies developing, interpreting or commenting on standards matters relevant to financial reporting and audit

The activity summary within this update includes clickable weblinks under the 'issue date' heading, providing information from the issuer's website where this is available.

CIPFA is one of the leading professional accountancy bodies in the UK and the only one which specialises in the public services. CIPFA's members work in public service bodies, in the national audit agencies and major accountancy firms. CIPFA also provides a range of high quality advisory, information, and training and consultancy services to public service organisations. As such, CIPFA is the leading independent commentator on managing and accounting for public money.

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>

In Brief

Financial Reporting

New Standards and Guidance

Accounting Standards Board

The ASB has published additional guidance on narrative reporting, which will assist private sector companies in the production of a Business Review. A revised SORP for Registered Social Landlords was issued in January 2008.

International Accounting Standards Board

The IASB has published a revised IFRS 3 'Business Combinations'. Among other things, this requires that all combinations are treated as acquisitions rather than 'pooling resources'. CIPFA's response to the 2005 consultation noted that the acquisition approach is problematic for many mergers of public benefit entities.

International Public Sector Accounting Standards Board

The IPSASB has updated its Cash-Basis IPSAS, 'Financial Reporting under the Cash Basis of Accounting' to provide additional disclosures for recipients of external assistance.

Financial Reporting Advisory Board

In December the FRAB approved a partial draft IFRS based FReM, which reflects matters raised in consultation to September 2007. Additional work is still required on matters which were not in the consultation draft, which include accounting for PFI projects, on which IFRIC 12 'Service Concessions' provides no guidance for public sector grantors.

CIPFA Responses to Consultations

Accounting Standards Board

Responses were made to ASB exposure drafts on Hedge Accounting and on Related Parties, both of which reflect parallel changes to related IFRS. The proposals were mainly generic, although CIPFA did observe that suggested Related Party disclosures may need adaptation for the different regulatory environment in certain government sectors.

International Accounting Standards Board

CIPFA responded to the IASB's Discussion Paper 'Preliminary views on Insurance Contracts, and exposure drafts on Hedge Accounting, Joint Arrangements, and the Board's first annual improvements exposure. The IASB proposals were mainly on generic or for-profit focussed issues.

Public Benefit Sector

CIPFA responded to two consultations with specific relevance to the public benefit sector

- the discussion document 'Valuing Our Heritage', produced for the Royal Institution of Chartered Surveyors; and
- an updating amendment to International Public Sector Accounting Standard 4, bringing it into line with IAS 16 as at 31 December 2005

Financial Reporting (continued)

Open Consultations

<i>Accounting Standards Board</i>	The ASB has issued a Discussion Paper, 'The Financial Reporting of Pensions', which discusses possible changes to the way pension fund assets and liabilities are calculated and reported. The paper aims to stimulate debate and to influence the IASB review of IAS 19.
<i>International Accounting Standards Board</i>	Exposure drafts and draft IFRICs have been issued relating to cost of investment in a subsidiary, share based payment, non-cash distributions, and customer contributions. These are of marginal relevance to public benefit entities and CIPFA will not be responding to these consultations.
<i>Public Benefit Sector</i>	A discussion paper on PPP/PFI accounting has been circulated to FReM stakeholders

Auditing

New Standards and Guidance

<i>Auditing Practices Board</i>	The APB has issued three revised Practice Notes, including PN 16 on bank reports, and two sets of sector specific notes on the audits of <ul style="list-style-type: none">- smaller entities; and- investment businesses
<i>International Auditing and Assurance Board</i>	The IAASB has issued 4 new standards which have been redrafted under its Clarity conventions. These include a very substantially revised ISA 600, which has been refocussed on the audit of group financial statements. The implementation date for "clarified" ISAs has been confirmed as financial periods commencing on or after 15 December 2009.

CIPFA Responses to Consultations

<i>International Auditing and Assurance Board</i>	CIPFA provided responses to eight consultations on nine standards which have been redrafted (and in some cases revised) in accordance with IAASB Clarity conventions. CIPFA also responded to the Board's consultation on IAASB Strategy for 2009-11, mainly to suggest that the significant and beneficial work on public sector considerations should be properly acknowledged.
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Auditing (continued)

Open Consultations

Auditing Practices Board

Consultations to which CIPFA will be responding include:

- proposals relating to the audit of group financial statements, dealing with specific matters relating to the UK and EU regulatory environments, and also asking more general questions about whether improvements in IAASB standards should be adopted in advance of the completion of the Clarity Project.
- a Discussion Paper 'The Auditor's Report: Time for a Change' , which follows up issues raised in the Financial Reporting Council's 2007 discussion paper 'Promoting Audit Quality'

CIPFA will not be responding to two consultations relating to the audits of banks and credit unions in the Republic of Ireland.

International Auditing and Assurance Board

CIPFA will be responding to a further nine exposure drafts produced in line with IAASB Clarity conventions. These include the first clarity exposure of an International Standard on Assurance Engagements (ISAE), relating to controls at service organisations.

Activity Summary: Financial Reporting Standards

UK standards and guidance				
Issuer	Issue Date	Standard or Other Pronouncement	Effective Date	Sector Relevance
ASB	10.10.2008	Additional guidance on narrative reporting The link between legislative requirements and guidance in the ASB's reporting statement on the OFR	Immediate	Private sector
Charity Commission	05.12.2007	Charities SORP 2005 Information Sheet – Number 1	Immediate	Charities
National Housing Federation	28.01.2008	Statement of Recommended Practice (SORP): Accounting for registered social landlords 2008	01.04.2008	Registered Social Landlords
International standards and guidance				
Issuer	Issue Date	Standard or Other Pronouncement	Effective Date	Sector Relevance
IASB	10.01.2008	Revised IFRS 3 Business Combinations Amended IAS 27 Consolidated and Separate Financial Statements	01.07.2009	All sectors
	17.01.2008	Vesting Conditions and Cancellations— Amendments to IFRS 2 Share-based Payment	01.01.2009	Share issuers

Activity Summary: Financial Reporting Standards

International standards and guidance

Issuer	Issue Date	Standard or Other Pronouncement	Effective Date	Sector Relevance
IPSASB	11.01.2008	Amendment to Cash-Basis IPSAS 'Financial Reporting under the Cash Basis of Accounting', requiring new disclosures for external assistance.	01.01.2009	Public sector bodies using the Cash Basis IPSAS

UK consultations

Issuer	Issue date	Consultations, Discussion		Sector Relevance	Should CIPFA* respond?
		Papers and Exposure Drafts	Response Date		
ASB	24.10.2007	Amendments to FRS 26 (IAS 39) 'Financial Instruments: Recognition and Measurement – Exposures Qualifying for Hedge Accounting'	11.01.2008	All sectors	(Response sent)
	22.01.2008	Amendments to Financial Reporting Standard (FRS) 20 (IFRS 2) 'Share-based Payment – Group Cash-settled Share-based Payment Transactions'	17.03.2008	Share issuers	No
	31.01.2008	The Financial Reporting of Pensions	14.07.2008	All sectors	Yes
UITF	01.10.2007	UITF Draft Abstract 'Hedges of a Net Investment	09.11.2007	For profit	No

* The Accounting and Auditing Standards Panel takes a view on which consultations are sufficiently relevant to CIPFA to warrant a formal response. If you have a different view on which matters should be responded to, please contact Steven Cain, CIPFA's Technical Manager, Financial Reporting and Auditing Standards on steven.cain@cipfa.org

Activity Summary: Financial Reporting Standards

UK consultations					
Issuer	Issue date	Consultations, Discussion Papers and Exposure Drafts	Response Date	Sector Relevance	Should CIPFA* respond?
FRC	20.12.2007	Consultation on Combined Code	14.03.2008	Listed companies	No
FRAB	11.12.2007	Discussion Paper: Accounting for PPP arrangements including PFI contracts	(internal consultation)	FReM bodies	N/A
CIPFA/ LASAAC	31.10.2008	Local Authority SORP 2008	31.01.2008	Local Government	N/A
International consultations					
Issuer	Issue Date	Consultations, Discussion Papers and Exposure Drafts	Response Date	Sector Relevance	Should CIPFA* respond?
IASB	11.10.2007	IASB Annual Improvements Project	11.01.2008	Mixed	(Response sent)
	13.12.2007	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	26.02.2008	For profit	No
	13.12.2007	Amendments to IFRS 2 Share-based Payment and IFRIC 11 IFRS 2— Group and Treasury Share Transactions.	17.03.2008	Share issuers	No

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Activity Summary: Financial Reporting Standards

International consultations					
Issuer	Issue Date	Consultations, Discussion Papers and Exposure Drafts		Sector Relevance	Should CIPFA* respond?
			Response Date		
IFRIC	17.01.2008	IFRIC D23 Distributions of Non-cash Assets to Owners.	25.04.2008	For profit	No
	17.01.2008	IFRIC D24 Customer Contributions	25.04.2008	For profit	No

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Activity Summary: Auditing Standards

UK standards and guidance				
Issuer	Issue Date	Standard or other pronouncement	Effective Date	Sector Relevance
APB	24.10.2007	Practice Note 26: 'Smaller Entity Audit Documentation'	Immediate	Smaller private sector entities
	12.12.2007	Revised Practice Note 16: 'Bank reports for audit purposes in the United Kingdom'.	26.12.2007	All sectors
	19.12.2007	Revised Practice Note 21: 'The Audit of Investment Businesses in the United Kingdom.	Immediate	Investment Businesses
	18.01.2008	Bulletin 2008/1, Audit issues when financial market conditions are difficult and credit facilities may be restricted	Immediate	Mainly private sector
International standards and guidance				
Issuer	Issue Date	Standard or other pronouncement	Effective Date	Sector Relevance
IAASB	03.10.2007	ISA 600 (Revised and Redrafted), Special Considerations - The Audit of Group Financial Statement (Including the Work of Component Auditors).	15.12.2009	All sectors
	20.12.2007	ISA 230 (Redrafted), Audit Documentation	15.12.2009	All sectors
	20.12.2007	ISA 260 (Revised and Redrafted), Communication with Those Charged with Governance	15.12.2009	All sectors

Activity Summary: Auditing Standards

International standards and guidance

Issuer	Issue Date	Standard or other pronouncement	Effective Date	Sector Relevance
IAASB Continued	20.12.2007	ISA 720 (Redrafted), The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements	15.12.2009	All sectors

UK consultations

Issuer	Issue Date	Consultations, Discussion Papers and Exposure Drafts		Sector Relevance	Should CIPFA* respond?
			Response Date		
APB	02.11.2007	Consultation draft of revised Practice Note (PN) 19(I): 'The audit of banks in the Republic of Ireland'.	28.02.2008	ROI banks	No
	23.11.2007	Consultation draft of Practice Note 27(I) 'The audit of credit unions in the Republic of Ireland'.	31.03.2008	ROI credit unions	No
	13.12.2007	Proposed Addition to ISA (UK and Ireland) 600 Consultation on early promulgation of clarified IAASB standard on group audit	07.03.2008	All sectors	Yes

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Activity Summary: Auditing Standards

UK consultations					
Issuer	Issue Date	Consultations, Discussion		Sector Relevance	Should CIPFA* respond?
		Papers and Exposure Drafts	Response Date		
APB continued	18.12.2007	Discussion Paper 'The Auditor's Report: A Time for Change?'	28.03.2008	All sectors	Yes
International consultations					
Issuer	Issue Date	Consultations, Discussion		Sector Relevance	Should* CIPFA respond?
		Papers and Exposure Drafts	Response Date		
IAASB	15.10.2007	ED ISA 505 (Revised and Redrafted), External Confirmations	15.02.2008	All sectors	Yes
		ED ISA 620 (Revised and Redrafted), Using the Work of an Auditor's Expert	15.02.2008	All sectors	Yes
	21.12.2007	ED ISA 501 (Redrafted), Audit Evidence Regarding Specific Financial Statement Account Balances and Disclosures	31.03.2008	All sectors	Yes
		ED ISA 520 (Redrafted), Analytical Procedures	31.03.2008	All sectors	Yes

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Activity Summary: Auditing Standards

International consultations						
Issuer	Issue Date	Consultations, Discussion Papers and Exposure Drafts		Response Date	Sector Relevance	Should* CIPFA respond?
		IAASB continued	21.12.2007			
ED ISA 402 (Revised and Redrafted), Audit Considerations Relating to an Entity Using a Third Party Service Organization				30.04.2008	All sectors	Yes
ED International Standard on Assurance Engagements (ISAE) 3402, Assurance Reports on Controls at a Third Party Service Organization				31.05.2008	All sectors	Yes
14.01.2008	ED ISA 210 (Redrafted), Agreeing the Terms of Audit Engagements		15.04.2008	All sectors	Yes	
	ED ISA 710 (Redrafted), Comparative Information - Corresponding Figures and Comparative Financial Statements		15.04.2008	All sectors	Yes	

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Activity Summary: CIPFA Responses

Issuer	Subject of Consultation	Date of Response
ASB	FRED 41 'Related Party Disclosures' (IAS 24)	19.10.2007
	Amendments To FRS 26 (IAS 39) - Exposures Qualifying For Hedge Accounting	11.01.2008
IASB	Discussion Paper 'Preliminary views on Insurance Contracts'	14.11.2007
	IAS 39 - Exposures qualifying for Hedge Accounting	11.01.2008
	IASB Exposure Draft ED 9 Joint Arrangements	11.01.2008
	IASB Proposed Improvements to International Financial Reporting Standards	11.01.2008
IPSASB	ED 33 Amendments to IPSAS 4, "The Effects of Changes in Foreign Exchange Rates"	21.12.2007
RICS	Discussion Document 'Valuing Our Heritage'	19.10.2007
IAASB	ED ISA 510 (Redrafted) Initial Audit Engagements - Opening Balances	31.10.2007
	ED ISA 530 (Redrafted) Audit Sampling	31.10.2007
	ED ISA 700, The Independent Auditor's Report on General Purpose Financial Statements	30.11.2007
	ED ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report	30.11.2007
	ED ISA 706 (Revised), Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor's Report	30.11.2007
	ED ISA 800 (Revised and Redrafted), Special Considerations-Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement	30.11.2007
	ED ISA 805 (Revised and Redrafted), Engagements to Report on Summary Financial Statements	30.11.2007
	Proposed Strategy for 2009-2011	30.11.2007

Activity Summary: CIPFA Responses

Issuer	Subject of Consultation	Date of Response
IAASB continued	ED ISA 220 (Redrafted), Quality Control for an Audit of Financial Statements and ED ISQC 1 (Redrafted), Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements	20.12.2007

CIPFA responses on matters relating to accounting and auditing standards are also published at

http://www.cipfa.org/panels/accounting/responses_accounting.cfm

or in some cases, on the webpages of the CIPFA technical panel with lead responsibility for the relevant public services sector.