

Accounting and Auditing Standards Panel

annual report 2008

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>

Further copies of this document are available for download at

www.cipfa.org.uk/panels/accounting/annual_report.cfm

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 sector perspective. It works with other expert CIPFA panels to advise on specific issues within the public sector.

The pace of standards development has been steadily increasing, and during 2007 and 2008 more than half of CIPFA's public responses to consultations were made to standard setters in financial reporting and auditing. The need to maintain awareness of standards developments has been emphasised by the adoption of auditing standards based on internationally developed ISAs in 2004, and the move to IFRS for EU listed groups in 2005 and most UK government financial reporting from 2009-10. Both auditing and financial reporting standards have been subject to increasing media attention, and during the current financial crisis standards have moved firmly on to the political agenda. In the international arena the Panel takes a close interest in and is very supportive of CIPFA's engagement with IFAC in the development of International Public Sector Accounting Standards (IPSAS).

In this changing environment it is vital for the accountancy profession to be supportive of measures which will help during the financial crisis, while guarding against short term fixes which will damage accountability and transparency in the long run. Against this background other CIPFA panels have provided specific advice on matters which affect the public sector (mainly in the local government sector) and AASP has monitored developments more generally, while also keeping track of and contributing to longer term initiatives such as the development of a conceptual framework for public sector financial reporting.

As well as providing advice to CIPFA, the Accounting and Auditing Standards 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 briefing. 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.

Martin Sinclair
Chair, Accounting and Auditing Standard's Panel

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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 from the public benefit sector, which advises on and helps develop CIPFA's position on technical issues relating to standards matters. While the Panel does not provide advice on local authority accounting matters where CIPFA is directly involved in the development of the Code on Local Authority Accounting and other guidance, briefing material is shared with the CIPFA/LASAAC board, and during 2008 two AASP members were also members of CIPFA/LASAAC. AASP also 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.
- 1.1.3 There were three meetings of the Panel during 2008, in February, 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.

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 Consultations by international standard setters have become increasingly relevant, and since 2007 CIPFA has responded to more international consultations than UK based ones. Even within the UK and Ireland, APB auditing standards are already based on International Standards on Auditing, and the ASB is consulting on various options to move UK financial reporting to standards based on International Financial Reporting Standards (IFRS). From 2009/10, central government financial statements and Whole of Government Accounts will be prepared using adapted IFRS.
- 1.2.3 Against this background, the main priorities of the AASP in 2008 were:
- Supporting the ASB, the Financial Reporting Advisory Board (FRAB) and other stakeholders in the UK's convergence with and adoption of International Financial Reporting Standards
 - Monitoring developments in the International Accounting Standards Board's conceptual framework, identifying and commenting on areas where there may be difficulties in applying these to public service bodies, and supporting related work by the International Public Sector Accounting Standards Board (IPSASB) in developing a public sector framework; and
 - Supporting the overhaul and redrafting of International Standards on Auditing in the 'clarity project', and related work by the APB in the UK context.
- 1.2.4 AASP also pursues other projects as part of CIPFA's thought leadership and promotion of good practice, which include a project on public service Narrative Reporting and a publication on the various standard setting and interpretation frameworks which are relevant to the public benefit sector.

2 Activities Relating To Financial Reporting Standards

2.1 Determining The Focus Of CIPFA And AASP Work

- 2.1.1 CIPFA Policy and Technical directorate brief the Panel on standards developments on an ongoing basis. AASP review developments and advise on which consultations CIPFA should respond to, having regard to public benefit sector and wider financial reporting issues. Every four months and Accounting and Auditing Standards Update is published on the CIPFA website, noting new standards which have been issued, and recent exposure drafts, discussion papers and consultation papers, including the Panel's view on which consultations CIPFA should respond to.

2.2 AASP Work Relating To IFRS Development

- 2.2.1 IFRS will be used as the basis for government financial reporting from 2009-10, except for local government where implementation will be for 2010-11. CIPFA is interested both in the development of new and existing IFRS and specific issues relating to public sector implementation.
- 2.2.2 During 2008, AASP advised on responses to five consultations by the International Accounting Standards Board (IASB), variously relating to routine 'improvements' to IFRS, pensions reporting, development of an improved conceptual framework, and financial instruments.
- 2.2.3 CIPFA attaches particular importance to the IASB development of an improved Conceptual Framework, and significant consultations included a discussion paper on 'Reporting Entity' and an exposure draft on 'Objectives' and 'Qualitative Characteristics'. CIPFA noted concerns over the reduced emphasis on 'stewardship' and the replacement of 'reliability' with 'faithful representation'; while similar points were made by some other respondents, CIPFA has specific concerns that these change might make future IFRS less suitable for public sector financial reporting.
- 2.2.4 A significant portion of IASB work during 2008 related to financial instruments. While AASP advised on a CIPFA response to an early discussion paper on reducing complexity in financial instruments, no responses were made to various 'quick fix' amendments which were made by the IASB as a reaction to suggestions that IAS 39 and similar US standards might have pro-cyclical effects which exacerbated the financial crisis. CIPFA concentrated on more public sector specific issues, notably through advice provided by the Local Authority Accounting Panel on the implications for investments in Icelandic banks, and other work on CIPFA's Treasury Management Code of Practice.
- 2.2.5 AASP did not make any direct comments on or other input to IFRS implementation in the UK public sector, although AASP members are also members of both the Financial Reporting Advisory Board (FRAB) or the new CIPFA/LASAAC Local Authority Code Board, which will be developing an IFRS based Code for 2010-11 accounts, under revised governance arrangements which will obtain assurance through the FRAB rather than the ASB SORP process.

2.3 AASP Work Relating To IPSAS Development

- 2.3.1 CIPFA has a longstanding interest in the work of the International Public Sector Accounting Standards Board, and IPSAS standards became more relevant to the UK public sector during 2008, being placed second in the hierarchy for based financial reporting by government, to be considered in situations where IFRS does not provide guidance.

2.3.2 During 2008 AASP advised on four CIPFA responses to IPSASB consultations. One of these was a discussion paper setting out the public sector financial reporting for Service Concession Arrangements (relevant to PFI/PPP arrangements). The other three consultations all related to reporting on Social Benefits, including

- An Exposure Draft proposing a disclosure treatment for Cash Benefits to individuals and households
- A Discussion Paper on conceptual issues, where there is some concern that the private sector approaches to recognition and measurement of liability fail to provide useful information on the apparent obligations of government.
- A Project Proposal on Long Term Fiscal Sustainability Reporting, which will consider reporting on the balance between social benefit obligations and revenue raising capacity.

2.3.3 AASP and CIPFA broadly supported each of the proposals.

2.4 AASP Work Relating To Developments in UK GAAP

2.4.1 The UK Accounting Standards Board produced relatively little in the way of standards pronouncements or consultations during 2008. The ASB had consulted during 2007 on the potential application of the proposed IFRS for SMEs in the UK context, and further convergence of UK standards with IFRS waited upon further IASB development in that area. The Board updated UK FRS standards which are IFRS based standards, to reflect amendments in IFRS. The ASB also issued an updated version of the Financial Reporting Standard for Smaller Entities (FRSSE). Like the IASB, the ASB was substantially occupied by matters relating to the financial crisis.

2.4.2 AASP advised on 3 responses to the ASB during 2008, as follows:

- A Discussion Paper 'The Financial Reporting of Pensions' produced by the ASB under the auspices of Pro-Active Accountants in Europe (PAAinE). In contrast to the IASB consultation which was more limited in scope, the ASB / PAAinE paper was an exploratory paper which considered some more radical changes to pensions reporting.
- A Financial Reporting Exposure Draft 'Improvements to Financial Reporting Standards', mainly following the IFRS Improvements Exposure Draft, insofar as it related to UK FRS which were converged with IFRS.
- Financial Reporting Exposure Draft FRED 42 'Heritage Assets'. This took forward issues raised in successive consultations, including the 2006 Discussion Paper 'Heritage Assets: Can Accounting Do Better?' which CIPFA promoted through a joint discussion event with the ASB. However, FRED 42 reflects the ASB view that it was difficult to achieve a consensus on how to improve reporting on heritage assets, and mainly requires additional disclosures.

3 Activities Relating To Auditing Standards

3.1 Determining The Focus Of CIPFA And AASP Work

- 3.1.1 The same briefing and review processes as described at 2.1 are applied for Auditing Standards.

3.2 AASP Work Relating To Developments in IAASB standards

- 3.2.1 During 2008, AASP provided input to CIPFA responses to the final eight standards revised and redrafted by the International Auditing and Assurance Board as part of its clarity project. These final exposure drafts were relatively straightforward, as consultations on the standards which were more complex or which were in need of substantial revision were progressed during 2006 and 2007.

3.3 AASP Work Relating To Developments in APB standards and guidance

- 3.3.1 During 2008, the Auditing Practices Board continued to update its guidance for UK and Ireland, and to prepare for future developments in ISAs (UK & Ireland) based on IAASB standards, but with some adaptations for the UK context
- 3.3.2 AASP advised on responses relating to
- a revised Practice Note 11 on the Audit of Charities in the UK
 - a discussion paper followed by an exposure draft on the form and nature of the auditor's report under ISA 700 (UK & Ireland), where the developing ISA guidance was not considered optimal and to accommodate changes in the Companies Act
 - changes to ISA 600 (UK & Ireland) prompted by changes in law and improvements made to the IAASB ISA 600.
- 3.3.3 In general CIPFA was supportive. In common with other responses from UK stakeholders, CIPFA suggested that changes to ISAs (UK and Ireland) should be implemented as a single co-ordinated programme, and that piecemeal adoption of improvements from clarified ISAs would not be helpful.

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 joint CIPFA/ICAEW IFRS Forum in March 2008 'Planning to Succeed through Shared Experience', and presentations on IFRS adoption at the CIPFA Annual Conference and other events.

4.2 Engaging UK stakeholders in international consultations

- 4.2.1 AASP has long supported CIPFA initiatives to engage more stakeholders in matters relevant to them, and during late 2008 (and early 2009) held a mini-consultation within the UK to promote the first IPSASB consultation paper on a Conceptual Framework for public sector financial reporting, issued in September 2008 for response in March 2009. The Panel helped develop a draft response which was used as the basis for consultation with other UK stakeholders in public sector financial reporting, to inform a combined response.

4.3 Consultations on other than standards matters

- 4.3.1 CIPFA also responds to consultations which are not on accounting or auditing standards, and AASP advises on some consultations which are in related areas, particularly where these relate to measures designed to improve governance, and measures to improve or maintain the quality of audit. During 2008, AASP helped develop CIPFA responses to the FRC Working Group on Auditor liability limitation agreements, providing comments on the potential implications for charities and housing bodies, and to a CCAB developed Exposure Draft Voluntary Code of Practice on Disclosure of Audit Profitability.

4.4 Publications

- 4.4.1 During 2008 three Accounting and Auditing Standards Updates were published on the AASP website. The publication "Accounting And Auditing Standards – A Public Services Perspective (2007)" remained on sale.

5 Looking Forward To 2009

- 5.1.1 During 2009 financial reporting standards issues are expected to remain strongly focussed on IFRS, both as the UK government sector moves to produce shadow accounts under IFRS, and as the IASB responds to continuing pressure to reform the complex accounting for financial instruments. The UK Accounting Standards Board will also be setting out its views on the wider implementation of IFRS based standards within UK GAAP. We also look forward to the completion of the IPSASB project to converge with relevant IFRS by the end of 2009, and further consultation by IPSASB on its development of a conceptual framework for public sector financial reporting.
- 5.1.2 In the audit area, the main focus of attention is likely to be the implementation approach for ISAs (UK and Ireland) based mainly on the revised and redrafted ISAs developed by the IAASB during its Clarity Project.
- 5.1.3 In the light of these, the priorities of the Accounting and Auditing Standards Panel remain
- Supporting the ASB, the Financial Reporting Advisory Board (FRAB) and other stakeholders in the UK's convergence with and adoption of International Financial Reporting Standards
 - Monitoring developments in the International Accounting Standards Board's conceptual framework, identifying and commenting on areas where there may be difficulties in applying these to public service bodies, and supporting related work by the International Public Sector Accounting Standards Board (IPSASB) in developing a public sector framework; and
 - Supporting the overhaul and redrafting of International Standards on Auditing in the 'clarity project', and related work by the APB in the UK context.
- 5.1.4 The Panel will also be considering further work on narrative reporting, following up work on Public Benefit OFRs during 2006. The Panel will also consider the desirability of updating the CIPFA publication 'Accounting and Auditing Standards, A Public Services Perspective (Fully Revised Third Edition 2007)'.

ACCOUNTING AND AUDITING STANDARDS PANEL

PANEL MEMBERSHIP DURING 2008

Chair

Martin Sinclair Assistant Auditor General, National Audit Office, and a member of the Financial Reporting Advisory Board.

Members

Nigel Davies Deputy Head of Accountancy Policy, Charity Commission.

Tim Day Independent Consultant, and a member of CIPFA/LASAAC.

Mike Hathorn Partner, Moore Stephens and Chair of IPSASB.

Lynn Hine Partner, Government and Public Sector, PricewaterhouseCoopers, and a member of CIPFA/LASAAC.

Mike Langley Senior Technical Manager, Financial Reporting, Audit Commission.

John Layton Independent Consultant.

Iolo Llewelyn Head of Technical Team, Wales Audit Office.

Greg McIntosh Director, Public Sector Practice, KPMG.

Peter Morgan Audit Manager, Financial Audit Support Team, National Audit Office.

Catherine Park Finance Director, Hounslow Homes.

Kieran Rix Deputy Director of Group Financial Strategy, Department for Transport.

Chris Welford Finance Director, ENTRUST.

Harry Wilkinson Independent Consultant.

Chris Wobschall Assistant Director, Policy and Technical, CIPFA.

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.

AASP AND OTHER CIPFA ONLINE RESOURCES

AASP Webpages

Information on CIPFA's Accounting and Auditing Standards Panel is available on the CIPFA website at

www.cipfa.org.uk/panels/accounting/index.cfm

which include

New Developments in Standards

www.cipfa.org.uk/panels/accounting/newstandards.cfm

Accounting and Auditing Standards Updates

www.cipfa.org.uk/panels/accounting/standards_update.cfm

CIPFA responses on which AASP has advised

www.cipfa.org.uk/panels/accounting/responses_accounting.cfm

Publications

www.cipfa.org.uk/panels/accounting/publications.cfm

Useful Links

www.cipfa.org.uk/panels/accounting/links.cfm

Other CIPFA webpages

Other CIPFA webpages which are relevant to standards discussions include

IFRS pages

www.cipfa.org.uk/pt/ifrs/

CIPFA LASAAC

www.cipfa.org.uk/pt/cipfalasaac/index.cfm

Local Authority Accounting Panel (LAAP)

www.cipfa.org.uk/panels/laap

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