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## **POLICY PROPOSAL: THE FUTURE OF UK GAAP**

The Audit Commission welcomes the opportunity to comment on the policy proposal on the future of UK GAAP.

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services in England to deliver better outcomes for everyone. We appoint auditors to over 700 major public bodies that are moving to prepare accounts under IFRS. Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies. As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

### **The Commission's Response**

We note that public sector bodies are specifically exempted from the policy proposal but the Commission welcomes the approach taken by the Board in proposing a three tiered framework for UK GAAP in the future.

The Commission also welcomes the proposed creation of a standard for public benefit entities (PBEs) that will converge financial reporting in the different PBE sectors with an IFRS-based UK GAAP. This will have practical advantages: a significant number of bodies subject to the Commission's regime and in the future preparing accounts based on IFRS have charitable funds where the body is a corporate trustee. Under IFRS many of these bodies will need to consider the consolidation of the linked charities in group accounts and this process will be simplified if the underlying accounting policies are more closely aligned.

We note that the preferred starting point for the proposed PBE standard is IFRS for SMEs. We would be concerned if this resulted in a set of PBE accounts that are prepared using different recognition and measurement bases than those used by parent bodies using full IFRS other than where this was appropriate for the specific circumstances of PBEs. Such a position would further complicate the accounts preparation and consolidation process for PBEs with a fully IFRS compliant parent.

We would therefore expect the PBE standard to depart from full IFRS only in terms of presentation and disclosure requirements and the omission of any issues clearly not relevant to PBEs and the circumstances of specific PBEs. Any difference in the measurement and recognition requirements for transactions would only complicate the consolidation process and increase the burden on accounts preparers

### **Specific matters for comment**

Questions 1 to 10, relating to sections 1 and 2 of the proposal are not relevant to bodies within the Commission's regime and we note that public sector bodies are specifically outside the scope of the proposal.

We have focused on questions relating to proposals for public benefit entities. Our responses to specific questions are included in the attached appendix.

If you wish to follow up any of the points raised in this response, please contact Steve Warren at [s-warren@audit-commission.gov.uk](mailto:s-warren@audit-commission.gov.uk).

Yours sincerely

Martin Evans

Managing Director -Audit

## Appendix 1 – Detailed responses

### **Question 11 – Do you agree with the Board’s proposal to develop a public benefit entity standard as part of its plans for the future of UK GAAP? If not, how should (converged) UK GAAP address public benefit entity issues?**

We agree with the proposal to develop a separate public benefit entity standard. As noted in the policy document, IFRS are not drafted with public benefit entities in mind, so a separate standard for PBE reporting is logical.

### **Question 12 – If you do agree with the proposal to develop a public benefit entity standard, should the standard cover all the requirements for preparing true and fair view accounts or should it cover only those issues where IFRS or the IFRS for SMEs needs to be supplemented for the public benefit entity sector?**

If one of the aims of a separate PBE standard is to reduce the administrative burden on bodies, a standard that encompasses all areas required to give a true and fair view is a logical starting point. There is no reason why a single standard cannot replicate relevant sections of existing IFRSs where applicable and appropriate to PBEs. This would provide a more useful reference document than a skeleton document that references existing standards and only focuses on areas of differences for PBEs. We would suggest an approach similar to that of the FRSSSE, which covers the standard accounting requirements but defaults to the full standards when dealing with anything not covered.

### **Question 13 – Do you agree the issues listed in the above table are distinctive for the public benefit entity sector and should therefore be covered in a public benefit entity standard? What other issues might the proposed standard include?**

We agree that the issues referred to are distinctive and should be covered in a PBE standard. Work on developing the standard should take account of the work of the International Public Sector Accounting Standards Board (IPSASB) and its resulting IFRS-converged IPSASs. IPSASB’s agenda addresses many of the areas referred to in the table and other issues relevant to the public benefit entity/ not for profit sector.

### **Question 14 – The Board accepts there may be a continuing need for guidance to supplement a public benefit entity standard in sectors such as charities, housing and education. Where this is the case, do you think the Board should provide a Statement confirming the guidance is consistent with UK GAAP, including the public benefit entity standard?**

We agree that there should be some oversight mechanism to ensure guidance currently covered by the various SORPs is consistent with UK GAAP, including any PBE standard. As the Board is currently responsible for such matters we see no reason why this should not continue to be the case.