

Susan Kemp

From: Derek Scott [derek_scott_ca@hotmail.com]
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To: UK Gaap
Subject: August 2009 Consultation Paper

Following on David Loweth's very helpful presentations to ICAS members in Glasgow and Edinburgh yesterday, I offer my comments on the questions outlined in the above paper:

Question 1 - I prefer the Board's proposal (paragraph 2) but would hope that this could be reconciled to the UK legal definitions in some way, and would also like to see further consideration of so-called public benefit entities. ASB should also look at developments with the EU Prospectus Directive, for example per <http://www.faegre.com/showarticle.aspx?Show=10410>.

Examples cited around the subject of "public benefit entities" by other CAs in Edinburgh yesterday included public transport companies. While I would have expected that existing accounting should both identify levels of public subsidy enjoyed by some, but not necessarily all, of such business and enable comparisons of operating costs and other elements of performance to be made, my personal experience is otherwise. When appearing before the Competition Commission (and its predecessor, the MMC) on a number of occasions, I was struck by how difficult it was for public interest regulators and other stakeholders such as employee representatives to compare between large group operators (following IFRS) and smaller operators (following, presumably, so-called UK GAAP). The efficiencies of scale and economies of size which should have been brought out in financial statement analysis were not brought out because of deficiencies in the accounting bases and very limited, if any, disclosures under UK GAAP.

Taken together with recent concerns about accountability over expenditure paid wholly or in part from public funds (for example, MP expenses and before that, here in Scotland, MSP's expenses), I believe there needs to be much further thought given to accountability and disclosure of so-called public benefit entities, which tend to benefit from subsidies and grants in various forms. This is considered further below under question 11.

Question 2 - yes. In particular, and notwithstanding David's personal remarks yesterday about the implications of adopting IAS 26 in its present form, I feel this should apply to larger occupational pension schemes, which hold assets in a fiduciary capacity for a broad group of outsiders. Where the split between larger and smaller should fall may require further consideration. HMRC suggests at one level schemes with twelve members or less, whereas HMRC in one of its consultations on governance made a distinction between one thousand pensioners or less.

Question 3 - yes.

Question 4 - no.

Question 5 - yes. I was surprised to find that IFRS for SMEs is only 232 pages compared to 186 pages (down from 191 in January 2007) for the UK FRSSSE.

Question 6 - yes.

Question 7 - I would apply some sort of public interest regulation test to large N-PAE. In David Loweth's presentation, the examples of Thames Water and Virgin Airways were given. I would expect public interest regulators to require full IFRS from large, privately owned utility companies. But I could also see arguments in favour of these being extended to

others with large numbers of employees, although with the repeal of the former section 309 of the Companies Act 1985, I am not clear where or how employee stakeholder interests are regulated or protected.

Question 8 - yes, but only as an interim measure. Personally, I would move to adopt IFRS for SMEs over time.

Question 9 - yes.

Question 10 - yes, but I would disagree with the comment made about the Financial Reports of Pension Schemes. There is also IAS 26!

Question 11 - yes.

Question 12 - as I feel the preparation of true and fair accounts has been seriously weakened by developments in international auditing standards, making this a compliance-based requirement rather than a principles-based requirement of financial reporting, I would begin by covering only issues where IFRS needs to be supplemented.

Question 13 - yes. Other issues should include officeholders' expenses and value-for-money reporting in relation to subsidies and grants awarded. The ratio of expenses in the charity sector is another area of concern. Some charities operate with laudably low levels of expenditure, meaning that most of their endowment is spent on charitable causes, but others are not so efficient or even reasonable in what they appear to incur and pay for out of gross income or capital.

Question 14 - yes, if possible, but if the Board feels unable to do so in particular circumstances (and the extant SORPs suggest there may be areas where this may be the case) then appropriate alternatives should be considered.

Question 15 - as a professional pension trustee, my main interest would be in relation to larger occupational pension schemes. Personally I would be happy with the proposed Tier 1 (although I know that ASB may not be), and with IFRS based on IAS 26, while recognising that existing SORP guidance may continue for an interim period until phased out. My concern would be for smaller schemes, where the auditors and accountants and actuaries may make quite a meal, a feast even, out of moving from UK GAAP to IFRS. Where smaller schemes are administered by insurance companies or third party administrators, there will be some scope for economies of scale, but even after these there will be increased costs for little or no perceived benefit to end users.

Another of the frustrations of operating in regulated industries is the duplication and overlap between annual financial reporting and annual regulatory returns. While I am not advocating regulatory-based accounting, it would reduce some of the cost burdens on preparers if these requirements could be merged. There may be similar advantages when considering SME requirements for Companies House, HMRC and others?

If you wish me to expand on any of these comments, or to meet with ASB staff in London to discuss any of the aspects mentioned above, particularly in relation to occupational pension schemes but also public benefit entities, I shall be only too pleased to assist, if I may.

With kind regards, Derek Scott CA

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