

Background to International Public Sector Accounting Standards - IPSASs

1 How the work of IPSASB may assist the convergence of UK GAAP and IFRSs for public benefit entities

- 1.1 The SORP Committee has previously considered the planned convergence of UK Generally Accepted Accounting Practice (UK GAAP) with International Financial Reporting Standards (IFRSs) and whilst the work of the International Public Sector Accounting Standards Board (IPSASB) is not directed at non-government not for profit organisations, the work of IPSASB may be helpful in identifying and resolving accounting issues arising from convergence.
- 1.2 The work of IPSASB will be helpful because even though the International Accounting Standards Board (IASB) has included a not for profit work stream in its work plan, it has set no date for progressing an Exposure Draft of any not for profit standards and any initiative is likely to occur only after the IASB has achieved convergence with US accounting standards. It is likely that UK GAAP will have already converged into an IFRS compliant form for some time, if not several years, before the IASB progresses any activity on public benefit entities.
- 1.3 IPSASB is very clear that their standards are focussed on the government sector. To quote from the terms of reference: 'IPSASB develops IPSASs which set out the requirements for financial reporting by governments and other public sector entities'.
- 1.4 The preface to IPSASs notes that: 'public sector entities include national governments, regional governments, local governments, and their component entities.' The identification of the boundary of government is helpful. In the UK context HM Treasury is developing an IFRS compatible Financial Reporting Manual (FReM). This important project has opened a debate because HM Treasury, in conjunction with the NAO, the Audit Commission, and CIPFA, view those charities where an NHS body or Local Authority is the corporate trustee, or appoints the majority of trustees, as being subsidiaries of the state and so not independent charities but controlled entities which merit consolidation into government accounts. The Commission in contesting this view has cited IPSASs in support of its view. The IPSASs themselves are also to be referred to in the development of the IFRS FReM.
- 1.5 Andrew Lennard, Chairman of the ASB Committee for Public Benefit Entities wrote to Andrew on 4 November 2008 requesting that the Charities SORP Committee consider making a response. In his letter he noted that CIPFA intended to develop a co-ordinated UK response.

Background to International Public Sector Accounting Standards - IPSASs

2 The purpose of the conceptual framework

- 2.1 The IPSASB conceptual framework is intended to underpin their IPSASs and provide a context in which those standards are developed and revised. The framework will establish the accounting concepts used to develop standards and general purpose financial reports.
- 2.2 The IASB is developing its own conceptual framework to underpin IFRSs and as part of the development of global commercial accounting standards for commercial entities operating in world capital markets. The framework addresses key issues, including who the financial statements are aimed at, what they are to convey and the underlying assumptions upon which they are complied.
- 2.3 IPSASB is very clear that its conceptual framework will not apply to other public benefit entities and so it will not be a solution for charities, however both government and the public sector, and charities, have a non profit focus and both seek to further the public benefit, albeit from a very different statutory basis and with a difference in objectives and purposes. The IPSASB conceptual framework may therefore prove very useful in addressing some of the more common problems of applying IFRSs, which are commercial standards, to a non-profit context.

3 CIPFA's request to act as the UK lead on the consultation

- 3.1 The IPSASB's standards are developed to meet the accounting and reporting needs of public sector bodies. By restricting their application to state and related government entities, the standards reflect the comparative homogeneity of the state sector and its accountability relationship to the public and so cater for comparatively large entities which are large employers and often have budgets in excess of all but the very largest registered charities. CIPFA together with LASAAC (Local Authorities Scotland Accounting Advisory Committee) are the SORP making body for local government in the UK and are partners with HM Treasury on the Financial Reporting Advisory Board (FRAB) which oversees the development of the IFRS compatible FReM.
- 3.2 Martin Sinclair, Chair of the CIPFA Accounting and Auditing Standards panel wrote to Andrew Hind as Chair of the Charity SORP Committee on 6 February 2009 requesting the Charity SORP Committee participate in a UK wide response co-ordinated by CIPFA in addition to any response the committee chooses to make to the consultation.
- 3.3 An advantage of an all UK response is that it may be seen as being more authoritative and so be more influential in the debate about the conceptual framework. A disadvantage is that the debate about the boundary of government and whether charities are subsidiaries might not

Background to International Public Sector Accounting Standards - IPSASs

be as fully expressed from a charity perspective if a separate response by the charity SORP Committee is not made.

4 Draft consultation response

- 4.1 A letter supportive of the development of the conceptual framework is drafted which highlights the importance of recognising that charities are independent non-governmental bodies established for exclusively charitable purposes.
- 4.2 An annex responding to each of the issues raised is drafted for inclusion with the letter which specifically draws out those aspects of interest to charities.

Questions:

- 1. Does the SORP Committee agree to CIPFA's request to include the Committee's response within CIPFA's UK wide response or does the Committee wish to make its own submission instead, or in addition?**
- 2. Is the Committee content with the covering letter as drafted?**
- 3. Does the SORP Committee agree with the annex to the letter responding to each consultation questions, or are changes necessary to one or more of the draft responses?**