

BROAD OVERVIEW OF PROJECT TYPES – STANDARD-SETTERS IN IPSASB MEMBER JURISDICTIONS

**PUBLIC SECTOR PROJECTS AS AT JUNE 2005
(COMPILED FROM INFORMATION PROVIDED BY IPSASB MEMBERS/TECHNICAL ADVISORS)**

TOPIC	Arg	Aust	Can	Fra	Ger	Ind	Israel	Jap	Mal	Mex	NZ	Nor	SA	UK	USA FAS AB	USA- GASB
<i>Conceptual Type Projects</i>																
Performance Reporting – and aspects of including: Non-fin. service/performance indicators			✓											✓		✓
Fin. reporting formats and statements and discussion /analysis and economic condition reporting.		✓					✓							✓	#	✓
Conceptual Framework or aspects thereof, including Financial Reporting Entity	✓		*								✓			✓	✓	✓
Measurement in fin. statements – including valuation and revaluation of property, plant and equipment, present value			✓				✓							✓	✓	✓
<i>IPSASB active program</i>																✓
Non-Exchange Revenues and components thereof - Transfers, Contributions, Contributions in kind, External Assistance Received for accrual accounting		✓	✓				✓								✓	✓
Social Policy Obligations		*	*													
Budgetary Reporting – Compliance		*	✓											*		✓
Development Grants and Other Aid (External Assistance, cash accounting only)															✓	
Heritage Assets		✓											✓			#
Asset Impairment – Cash-generating Assets													✓			

TOPIC	Arg	Aust	Can	Fra	Ger	Ind	Israel	Jap	Mal	Mex	NZ	Nor	SA	UK	USA FAS AB	USA- GASB
Other IASB/IPSAS Convergence projects that overlap with IPSASs, including inventories, sale/lease back, property, plant and equipment, joint ventures, consolidated and separate financial statements, associates			✓				✓				✓		✓		✓	#
GAAP/GFS Convergence		✓														
Projects considered by IPSASB not yet actioned																
Service Concessions		✓					*				✓		✓			
Employee Benefits (IAS 19)							✓				✓					
Other Projects														✓		
Budget Reporting – prospective information	*										✓					#
Earthworks																
Projects that overlap with existing IPSASs, including segments, rel. parties, liabilities, contingent liabilities, hyperinflation economies, disclosure of fin instruments, exchange revenues (and similar)			✓				✓	✓			✓		✓			#
IASB overlap projects (No IPSAS), including:			✓				✓				✓					
Termination benefits							✓							✓		✓
Financial Instruments recognition/measurement or aspects thereof – Derivatives and Hedging			✓								✓			✓		
Government / Business Combinations		✓					✓				✓					#
Intangible Assets		✓					✓						✓			✓
Capital Assets/Infrastructure Asset			✓				*									✓
Simplified/Abbreviated Financial Reporting															✓	✓
Net Assets / Fund Balance Reporting			✓													#
Other Post-Employment Benefits (OPEB)																✓
Pollution Remediation Obligations																✓
Fiduciary Responsibilities																#

TOPIC	Arg	Aust	Can	Fra	Ger	Ind	Israel	Jap	Mal	Mex	NZ	Nor	SA	UK	USA FAS AB	USA- GASB
Disclosures about Administered Items		✓														✓
Electronic Reporting															✓	✓
Securitizations and Other Transfers																
GAAP, including hierarchy of guidance			✓													✓
Review of National Standards for Government		✓	✓													✓
Management Commentary											✓					✓
Puttable Options (Co-operative Shares)		✓									✓					
Joint Ventures											✓					

* Consideration of National Standards for Governments (including Local Governments) and Government Departments in a number of jurisdictions is likely to involve at least some consideration of these issues.

#- Standards have been issued.

**IFAC INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD
IFAC IPSASB MEETING – July 2005**

COUNTRY REPORT – AUSTRALIA
(Prepared 17 June 2005)

In general, this Country Report only notes events since the last Report was prepared for the March 2005 IPSASB meeting. For a more comprehensive description of some of the projects on the AASB's work program, see the web site www.aasb.com.au.

Projects for which substantial progress has been made are outlined in the following.

GAAP/GFS Convergence

The AASB is continuing to implement the Financial Reporting Council's strategic direction to give urgent priority to GAAP/GFS harmonisation and is close to finalising an Exposure Draft *Financial Reporting of General Government Sectors by Governments* that will be issued for a 3-month comment period.

The Exposure Draft is expected to propose (the following is based on an extract from the draft Preface to the draft ED):

- (a) that the GGS of a government is a reporting entity for which a stand-alone general purpose financial report (GPFR) should be prepared. Consistent with the IMF's *Government Finance Statistics Manual 2001* (GFSM 2001) principles, the financial report does not consolidate GGS controlled entities that are classified by GFSM 2001 into other sectors – it only consolidates entities that are classified within the GGS, as defined in GFSM 2001. To the extent that the GGS coincides with the scope of the government's budget, the GGS financial report is a statement of budget outcome. It does not purport to present the overall whole of government result or position;
- (b) that, because of the nature of the departure from the *Conceptual Framework* arising from the proposal for the GGS to not consolidate certain controlled entities in a GPFR, the summary of significant accounting policies note to the financial statements should:
 - (i) state this Accounting Standard is the Accounting Standard under which the GGS financial report is prepared;
 - (ii) state the purpose for which the GGS financial report is prepared;
 - (iii) describe the GGS, and refer to a list of entities within the GGS, and any changes therein since the previous reporting date;
 - (iv) describe how the GGS financial report differs from the whole of government, fully consolidated, GPFR;
 - (v) provide a cross-reference to the whole of government GPFR that has been prepared for the same period as the GGS financial report; and
 - (vi) refer to GFSM 2001 as being the basis for information that is pertinent to GFS included in the financial report;

- (c) that the GGS asset “investment in controlled entities” that arises as a consequence of the non-consolidation of controlled entities in other sectors should be measured at fair value where fair value is measurable reliably and at the government’s proportional share of the net assets where fair value is not measurable reliably. In the latter case, net assets are those that are consolidated into the whole of government GPFR. Changes in the resulting carrying amount of the “investment in controlled entities” are treated in a manner consistent with the carrying amount being fair value and therefore subject to the requirements in the Australian equivalent to IFRS AASB 139 *Financial Instruments: Recognition and Measurement* (although see (e) below in relation to the options in AASB 139);
- (d) that, with the exception of the non-consolidation of controlled entities in the public non-financial corporations (PNFC) and public financial corporations (PFC) sectors and certain other exceptions specified in the Exposure Draft, for definition, recognition, measurement and classification purposes, GAAP requirements, as reflected in the Australian equivalents to International Financial Reporting Standards (IFRSs), should be applied. Differences from the GFSM 2001 definition, recognition, measurement and classification requirements should be disclosed as convergence differences (as noted in (f) below);
- (e) that, where an Australian equivalent to an IFRS allows for optional treatments and at least one of those treatments aligns with the GFSM 2001 treatment, the treatment(s) that aligns should be mandated for the purposes of GGS financial reporting;
- (f) that, where GFS-related information is included in the financial report because it is required by this Standard or provided at the discretion of the government, the principles and rules in GFSM 2001 for determining that information should be applied;
- (g) that, where the GFS-related information corresponds to, but differs from, the information prepared in accordance with Australian Accounting Standards, a reconciliation to the GFS-related information should be provided;
- (h) principles for the format of the financial statements. The financial statements should include on their face information that is required by GAAP, together with key GFSM 2001 amounts, determined in accordance with GFSM 2001 principles and rules. In particular, in relation to the:
 - (i) balance sheet: information that accords with GAAP on-the-face requirements should be presented on the face. Presenting items in a liquidity order within a financial/non-financial classification as defined in Australian Accounting Standards would satisfy the requirements in the Australian equivalent to IFRS AASB 101 *Presentation of Financial Statements*. In addition, the key GFSM 2001 amount net worth should be presented on the face. To the extent there are differences between GFSM 2001 amounts and corresponding amounts used in the determination of equity, they should be disclosed as “convergence differences”, either on the face or in the notes. Appendix B to the Exposure Draft includes an example of an acceptable format that comprises three columns: GFS assets/liabilities; convergence differences; and GAAP assets/liabilities/equity;
 - (ii) operating statement: information that is consistent with GAAP on-the-face requirements should be presented on the face, but in a form that presents, in addition to the operating result, the comprehensive result (comprising all non-

- owner movements in equity – in contrast to the requirements in AASB 101). Income and expenses are required to be classified by nature, determined in a manner consistent with GFSM 2001 where appropriate, on the face of the operating statement. In addition, key GFSM 2001 amounts should be presented on the face, being net operating balance, net change in non-financial assets, net change in financial assets, net change in liabilities, net lending/borrowing and total other economic flows. To the extent there are differences between GFSM 2001 amounts and corresponding amounts used in the determination of comprehensive result, they should be disclosed as “convergence differences”, either on the face or in the notes. Appendix B to the Exposure Draft includes an example of an acceptable format that comprises four columns: GFS transactions; GFS other economic flows; convergence differences; and GAAP comprehensive result; and
- (iii) cash flow statement: information that accords with GAAP on-the-face requirements should be presented on the face, together with the key GFSM 2001 amount cash surplus/deficit and its derivation, determined in accordance with GFSM 2001 principles and rules. Because the GFS cash surplus/deficit presented should be determined in accordance with GFSM 2001 principles and rules, it should not include the effect of notional cash flows relating to finance leases and similar arrangements. Appendix B to the Exposure Draft includes an example of an acceptable format comprising a single column, with the derivation of GFS cash surplus/deficit at the foot of the statement;
- (i) to require disclosure of a list of entities within the GGS, and any changes to that list since the end of the previous annual reporting period and the reasons for those changes; and an explanation of key technical terms used in the financial report;
- (j) to require disclosure of a description of each function of the GGS as specified in GFSM 2001, and the GAAP assets and liabilities, and revenue, expenses (excluding losses) and net gains/(losses) included in operating result, that are reliably attributable to those functions. This information would be aggregated and reconciled to agree with the related information in the financial statements;
- (k) that, where financial and non-financial performance indicators are disclosed, they are relevant, reliable, comparable and understandable – being the qualitative characteristics identified and explained in the *Framework for the Preparation and Presentation of Financial Statements*. Proposed commentary encourages:
- (i) reporting of performance indicators that describe and disclose the outputs of goods and services (aggregated where appropriate) in terms of quantity, quality, time, location and cost;
- (ii) preparers not to place undue emphasis on easily measured dimensions; and
- (iii) presentation of budgeted performance indicators (established by a formal process) against actual performance indicators (determined on a consistent basis);
- (l) to require the inclusion of the original budget relating to the reporting period, restated if necessary to align with the basis of the financial statements and notes prepared in accordance with this Standard. It also proposes to require disclosure of explanations of material budget variances between the original GGS budget and actual amounts; and

- (m) transitional requirements, whereby the first financial report prepared in accordance with the proposals in the Exposure Draft would, with the exception of the requirement to disclose a reconciliation of previous GAAP to new GAAP, be prepared in accordance with the principles underlying the Australian equivalent to IFRS AASB 1 *First-time Adoption of Australian Equivalents of International Financial Reporting Standards* as if it were the GGS's first Australian-equivalents-to-IFRSs financial report. A consequence of this is that comparative period information, prepared as if this Standard had applied, is required to be presented in the first financial report.

As reported in the last Country Report, the AASB has deferred decisions on the extent to which its decisions on GGS financial reporting should be adopted into financial reporting by whole of governments, PNFC sectors, PFC sectors, government departments, statutory bodies, local governments, universities, government business enterprises and other public sector entities.

Review of AAS 27 “Financial Reporting by Local Governments”

The Board has finalized its review of submissions on ED 125 *Financial Reporting by Local Governments* and is now in the process of developing the Standard that will replace AAS 27.

In addition to the decisions reported in previous country reports, some of the specific decisions made by the Board include:

- (a) to require ex post disclosure, on the face or in the notes, of the original budget that was made publicly available by the local government in the same format as the original budget, even if that format differs from the format of the financial statement prepared in accordance with Accounting Standards. The Board also decided to require a description of the budget basis and how it differs from the accounting basis where the bases differ. To facilitate a comparison of actuals against the budget, the Board also decided to require actuals to be presented in the same format as the original budget and to require an explanation of the major variances but not to require disclosure of a numerical reconciliation of the budget basis to the accounting basis. The Board also decided to monitor the IPSASB Budgetary Reporting project and noted that that project may result in a reconsideration of the foregoing decisions;
- (b) to require disclosure of information about each broad function or activity – attributing assets, liabilities, income and expenses to those functions/activities where it can be done reliably. The AASB notes that the Classification of the Functions of Government (COFOG) adopted by the IMF in GFSM 2001 provides a basis on which local governments could identify functions for the purposes of making disclosures. The AASB will compare these decisions with the requirements in IPSAS 18 *Segment Reporting* and how it might address any inconsistencies at a future meeting;
- (c) to allow a 12-month ‘window’ in relation to initial accounting determined provisionally in accounting for restructuring of local governments; and
- (d) to address land under roads in AASB 116 *Property, Plant and Equipment* rather than in an industry-based (local government) standard. The Board will propose that AASB 116 be amended to require land under roads to be recognized at cost of acquisition, but only where cost is measurable reliably, and prohibit revaluation.

Review of AAS 29 “Financial Reporting by Government Departments”

The AASB is continuing its review of AAS 29. The Board is close to finalising its views on administered items (see below) for the purposes of the ED and intends moving through the following outstanding issues in order of priority before issuing the ED:

- (a) incorporating the key aspects of UIG Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*;
- (b) accounting for the restructuring of administrative arrangements;
- (c) disclosure of compliance with parliamentary appropriations;
- (d) disclosure of disaggregated information on outputs and programs (including service costs and achievements) and performance indicators;
- (e) compliance with Australian equivalents to IFRSs and other applicable AASB Standards;
- (f) compliance with legislative and other authoritative requirements; and
- (g) restricted assets.

In relation to budgetary reporting, the Board decided that consideration of the topic should form part of the project and noted that progress on the topic could benefit from the work currently being conducted by the IPSASB. Accordingly, to the extent appropriate and contingent upon the timing, developments arising out of the IPSASB’s project on Budget Reporting would form part of these considerations.

In relation to cultural and heritage assets, the Board noted the significance of the issue and decided that it should be commenced as a separate project, initially as a research project, leveraging off the research work of other bodies.

The Board noted that ultimately it would consider its decisions in relation to government departments in the context of the GAAP/GFS convergence project.

In relation to the review of current requirements in AAS 29 relating to the reporting of administered items, since the last Country Report, the Board decided that:

- (a) administered items should be reported with appropriate prominence in the general purpose financial reports of government departments;
- (b) the disclosure requirements for administered items should fully emulate the disclosure requirements for controlled items;
- (c) where the substance of the arrangement is for the government department to administer its government’s equity interest in a subsidiary and not the underlying net assets, the subsidiary should not be consolidated into the administered financial statements; and
- (d) the nature and amount of the government department’s activities relating to items managed on behalf of an entity other than its government, and whether arrangements exist to ensure that such activities are managed independently from the government department’s other activities, should be disclosed in a note in a manner that clearly distinguishes this information from administered and controlled items;

Revenue Recognition by Not-for-Profit Entities

The AASB considered its approach to developing a standard on revenue recognition for not-for-profit entities, to replace AASB 1004 *Contributions*. The AASB noted that the IPSASB is working on a draft ED on Non-Exchange Revenue Transactions. The Board decided to closely monitor the IPSASB work and issue an Australian ED using the IPSASB ED as a basis. As an interim measure, the AASB will consider Australian guidance based on the proposals in ED125 *Financial Reporting by Local Governments* to accompany AASB 1004 explaining some of the circumstances when contributions received will be initially recognized as a liability or revenue.

IASB Convergence (by 2005)

As previously reported, on 15 July 2004 the AASB made all but one of the Australian equivalents to the IASB standards that will be applicable on or after 1 January 2005, including a number of Australian standards needed to deal with the grandfathering of various treatments. The remaining Australian equivalent standard (on extractive activities) applicable for 2005 was made in December 2004. Since “finalising” the 2005 set of standards, the AASB has been making amendments to those standards to keep up with changes made by the IASB and to deal with implementation issues that have arisen in the Australian reporting environment. An example of an implementation issue is the restricted fair value option being introduced by the IASB into IAS 39. The AASB decided that, on sector neutral grounds, public sector entities should be subject to the same restricted option that applies to private sector entities.

Non-Financial Liabilities

In late June 2005, the AASB expects to issue an Exposure Draft that will be the Australian equivalent of the IASB *Exposure Draft of Proposed Amendments to IAS 37 Non-financial Liabilities (formerly known as Provisions, Contingent Liabilities and Contingent Assets) and IAS 19 Employee Benefits*. These proposed revisions are a result of the IASB's short-term convergence project with the FASB as well as decisions made as part of the Business Combinations Phase II project. The AASB is recommending that the proposals in the IASB ED be adopted without amendment except for the usual materiality and application paragraphs that are inserted in all Australian equivalents of IASB pronouncements. Consistent with the requirements of the existing AASB 137 (the Australian equivalent to the existing IAS 37), the ED's proposals are intended to apply to the for-profit, not-for-profit and public sectors. As the existing AAS 31 *Financial Reporting by Governments* contains commentary that effectively exempts governments from recognising liabilities for the provision of non-exchange social benefits, the Australian ED will not propose specifically excluding the provision of non-exchange social benefits from the scope of a revised AASB 137 (i.e. in the same manner as those liabilities are presently excluded from the scope of IPSAS 19).

Employee Benefits

The AASB reconsidered Australian “Aus” paragraphs included in AASB 119 that addressed whether an entity that is the sponsor of a defined benefit plan should include any future taxes such as contributions tax in the calculation of the entity’s defined benefit liability (or asset). The AASB decided that the actuarial assumptions used in the calculation of the defined benefit obligation should include any future contributions tax payable (or savings in future contributions tax) in respect to a deficit (surplus) in the defined benefit plan to the extent that it is probable that the entity will be required to pay the contributions tax or avail itself of savings in contributions tax, for example, when the entity is on a “contribution holiday”. Consequently, the Board decided that AASB 119 paragraphs Aus55.1 and Aus55.2 will be deleted and Australian Guidance will be included in AASB 119 explaining the situation. Amendments to AASB 119 were approved by the AASB at its June 2005 meeting.

URGENT ISSUES GROUP (UIG)

The UIG deals with accounting issues of relevance to the private sector and/or the public sector. Interpretations agreed by the UIG are subject to approval by the AASB before they can be issued. The authoritative status of UIG Interpretations is established through AASB 1048 *Interpretation and Application of Standards*, which lists the UIG Interpretations that are to be applicable from 1 January 2005, divided into two sets, those equivalent to IASB Interpretations and those that are not. This ‘service standard’ needs to be re-issued whenever UIG Interpretations are issued or revised. Accordingly, AASB 1048 was reissued in June 2005 to incorporate all UIG Interpretations issued to then.

Since the previous Country Report, the UIG has concentrated on developing Interpretations equivalent to new IFRIC Interpretations and on concluding the revision of existing Abstracts for consistency with the Australian equivalents of IASB Standards where the Abstracts will be retained for application alongside the Australian equivalent Standards. The following UIG Interpretations have been issued:

Interp’n	Title	Intern’l Equiv.
1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	IFRIC 1
2	Members’ Shares in Co-operative Entities and Similar Instruments	IFRIC 2
3	Emission Rights	IFRIC 3
4	Determining whether an Arrangement contains a Lease	IFRIC 4
5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	IFRIC 5
1013	Consolidated Financial Reports in relation to Pre-Date-of-Transition Stapling Arrangements	–
1052	Tax Consolidation Accounting	–

The topic of accounting for commodity pooling arrangements has now been discussed again by the UIG, which agreed to discontinue the project as there is no longer the diversity in practice that existed when the issue was first raised with the UIG.

The issue of distinguishing not-for-profit entities and for-profit entities is important because there are some different requirements in AASB Accounting Standards as between NFP and FP entities. Auditors-General have produced a paper on the distinction, and the Heads of Treasuries Accounting and Reporting Advisory Committee is expected to produce another paper similar in substance to that of the Auditors-General. These papers will be reviewed to consider whether the UIG should address the issue, as it is not restricted to the public sector.

The UIG will address adding fair value measurement requirements to the existing Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*. At present, there is a range of potential measurement bases under existing Standards in Australia.

COMMONWEALTH GOVERNMENT, STATES AND TERRITORIES

Current Status

As reported in the March 2005 Country Report, most Australian jurisdictions prepare budgets and budget outcomes using an accrual GFS basis. Victoria and the ACT use GAAP. The Commonwealth uses both GFS and GAAP, but accrual GFS predominates.

In addition, the Commonwealth government prepares general purpose reports at the whole of government level and for individual reporting entities on an accrual accounting basis. All States/Territories prepare general purpose financial reports for the whole of government and for departments and agencies on an accrual basis.

Consequently, all jurisdictions seek harmonisation of GFS and GAAP.

HoTARAC (Heads of Treasuries Accounting and Reporting Advisory Committee - essentially the chief accountants from each jurisdiction) meets to discuss and consider accounting and financial reporting matters, and strives to achieve comparability in accounting and reporting across jurisdictions.

Commonwealth Government

As reported in the March 2005 Country Report, the Commonwealth Government's Accounting Policy Branch, established within its Department of Finance and Administration, sets accounting and financial reporting policy for Commonwealth reporting entities. In addition, it is responsible for reviewing accounting policies for all GAAP and GFS reporting.

State & Territory Governments

Each State and Territory Government is autonomous and therefore has similar arrangements residing in their Departments of Treasury & Finance.

DATE: 20 June 2005
TO: Members of the International Public Sector Accounting Standards Board
RE: Country Report – Canada

INTRODUCTION

This report contains details on the status of public sector accounting activities of the Canadian Public Sector Accounting Board (PSAB).

Completed Projects

Sale-Leaseback Transactions

Status: New Public Sector Guideline (PSG) Issued

In March 2005, PSAB approved PSG – 5 Sale-Leaseback Transactions – Expense Based.

Using fair value information for both the asset and lease contract, PSG-5 differs to current Canadian GAAP for sale-leaseback transactions as it assumes objective separation of the sale and subsequent leaseback can be done. This ‘components approach’ better enables the economic substance of the transaction to be reported.

Also, because of the need to comply with PSAB’s conceptual framework, PSG-5 further differs to current practice by not prescribing deferral of gains and losses as they don’t meet PSAB’s definitions of an asset or liability. Under certain circumstances, PSG-5 allows their immediate recognition.

The most significant issue on approval was the availability of fair value information for the sometimes unique/specialized public sector assets which could be subject to PSG-5. PSG-5 provides guidance on determining fair value to help should this happen.

PSG-5 applies:

- to Federal, Provincial and Territorial Governments;
- as of 1 April 2005; and
- to new sale-leaseback transactions only.

For local governments, PSG-3 Sale-Leaseback Transactions still applies.

On-Going Projects

Performance Reporting

Status: Comment Period for Associate's Draft Statement of Recommended Practice (SORP) Closes.

Overall, the project is designed to develop a set of basic principles that will guide the future development of performance reporting.

Approved in March 2005, the draft SORP offers guidance on the qualitative characteristics of performance information and provides a framework for preparing a public performance report. It is not part of GAAP.

Comments on the SORP closed 15 June 2005 and are currently being analyzed.

In November 2004, PSAB approved a draft Introduction to cover the series of planned SORPs on Public Performance Reporting. The draft Introduction establishes the context of public performance reporting and identifies common terminology that will be used throughout the project.

The principles for the project are based on the nine principles of the Canadian Comprehensive Auditing Foundation as set out in its publication entitled "Reporting Principles - Taking Public Performance Reporting to a New Level".

Local Government Financial Statement Reporting Model

Status: Associates Exposure Draft (AED) and a Draft Public Sector Guideline (PSG) approved.

The AED on Tangible Capital Assets and the draft PSG on Tangible Capital Assets of Local Governments, both approved in June 2005, are cornerstone pieces of the overall project to revise the local government reporting model.

Local governments are currently exempt from CICA PSA Handbook Section 3150 TANGIBLE CAPITAL ASSETS – as such fixed assets are not recognized on their statements of financial position.

The AED essentially broadens the scope of Section 3150 to include local governments. In broadening the scope, some complementary amendments are also proposed.

The draft PSG is intended to promote disclosure of fixed asset information and act as a vehicle to encourage local governments to begin collecting information.

Both documents are due to be issued for comment in July 2005 with a response date of August 31 2005. It is proposed they become effective January 1, 2008.

Financial Instruments

Status: Draft Public Sector Guideline (PSG) approved – interim guidance. Final standard(s) continue in development

The draft PSG, approved in June 2005, focuses on providing interim reporting guidance for governments with entities that have implemented the commercial financial instruments standards.

Commercial oriented entities that form part of the government's reporting entity (most notably, Government Business Enterprises - GBEs) are required to follow private sector GAAP. New private sector standards on financial instruments may result in these entities reporting 'other comprehensive income' (OCI). (OCI comprises revenues, expenses, gains and losses recognized in comprehensive income but excluded from net income).

The governments share of the net assets and income of a GBE is reported in government financial statements via the modified equity method.

Given PSAB is yet to fully explore the implications/application of fair value reporting in government financial statements, as well as concerns about including OCI in the government's statement of operations, the draft PSG proposes recognition of OCI in two places – in:

- a reconciliation of accumulated surplus/deficit; and
- the existing statement of change in net debt.

The draft PSG is scheduled to be released for Associate comment by August 2005.

Meanwhile, work continues on the development of a complete set of financial instrument standards for the CICA PSA Handbook. PSAB has approved a work plan with next steps being developing principles that will guide standards development. The new financial instrument standards of the CICA Accounting Standards Board are being taken into consideration.

Segmented Reporting

Status: Public Exposure Draft (PED) approved

Approved in June 2005, the PED focuses on disclosure of additional information about segments of the government reporting entity in their summary financial statements. The objective of the disclosures is to help users better understand the different types of activities that governments engage in.

The main issue so far has been the usefulness of allocating assets and liabilities by segment – there is concern about the potential for arbitrary allocation (eg: allocating public debt) and its subsequent meaningfulness.

Unlike the earlier Statement of Principles, the PED does not require recognition of assets and liabilities by segment though does acknowledge its potential usefulness.

The PED is scheduled to be issued for comment in July 2005 with a response date in September 2005.

Government Transfers

Status: Associates Draft 2 (AED2) approved

Approved in June 2005, AED2 is another attempt to build increased consensus in the government community on one key issue - accounting for multi-year government grants; diverse and strongly held views exist.

Views essentially stem from two lines of thought – adherence to the conceptual framework (in particular definitions of asset and liability) versus applying the concept of ‘matching’ with possible deferred amounts resulting on the balance sheet. Those on both sides of the controversy generally believe that substance over form is best achieved by following their approach.

At a general level, AED2 does not prohibit the recognition of assets and liabilities resulting from multi-year grants. Instead it prescribes their immediate recognition as an expense/revenue by the transferor/recipient unless it can be shown that the nature and extent of the stipulations associated with the grant mean that it meets the definition of an asset/liability. The onus is on the parties involved to satisfy the definitions rather than the proposed standard prescribing when an asset/liability would arise.

This is a less prescriptive more ‘principles-based’ approach compared to proposals in the first AED (AED1), which proposed a concept called “exchange-type transfers”.

A government that paid a transfer meeting the definition of an exchange-type transfer in advance of the recipient meeting the transfer stipulations acquired an asset. That asset comprised a right to compel another party to provide services or acquire or develop service capacity in accordance with the transferor’s terms. This concept was narrowly defined and very prescriptive and thus did not garner support in the government community. AED2 relies on the use of professional judgment and diligent application of the asset and liability definitions.

AED2 is scheduled to be issued for comment in late June 2005 with a response date in September 2005.

Revenue

Status: Awaiting developments on IPSASB Exposure Draft

This project is leveraging and building upon the work being done on this topic by the IPSASB.

As such, PSAB is awaiting the outcome of the IPSASB's anticipated review of the draft ED on Revenue from Non-Exchange Transactions (incl Taxes and Transfers) at its July 2005 meeting.

Upon being released for comment PSAB will review the ED identifying any issues for Canada. It will distribute the ED with comments asking its Associates group to provide input to both PSAB and the IPSASB on the ED - input that will also be useful for the Canadian project. A Canadian advisory group will be recruited to provide PSAB with input on the appropriateness of the proposed international standard for Canadian governments.

The CICA PSA Handbook does not currently include a definition of revenue for governments though a general revenue recognition principle is included in the general standards of financial statement presentation for both senior and local governments.

The CICA PSA Handbook does have specific Sections regarding restricted assets and revenues (Section PS 3100) and government transfers (Section PS 3410 - which is currently being revised – see above).

However, the existing standards do not specifically address many other types of government revenue, such as income and property taxes. Canada's revenue project will address this gap by building on the proposed international standards for non-exchange revenue.

New Projects

Subsequent Events

Status: Project Proposal Approved

Approved in June 2005, the project was prompted primarily in response to work being done by the CICA Accounting Standards Board (AcSB) on the subject (in March 2005, the AcSB released a Re-Exposure Draft on the topic).

A key AcSB proposal is extension of the subsequent event period from the date of completion of the financial statements to their date of authorization to meet user expectations and converge private sector Canadian accounting standards with the improved IAS 10.

In addition, the CICA Auditing and Assurance Standards Board is expected to propose revisions to auditing standards as a result of the AcSB project.

Having already sought the views of its Associate community on key aspects of the AcSB proposals as they effect commercial oriented public sector entities, the project approval helps ensure PSAB is well placed to act on developments on the matter as required.

Country Report for Japan

Update of the previous report

June 2005

1. Introduction of the accounting standards for impairment of non-cash-generating assets

In Japan, since 2001 several institutions, which used to belong to the central government, and some special public corporations have been reorganized into the newly established government-funded entities called “Independent Administrative Institutions (IAIs)”. The Japanese government basically adopts the cash-based accounting system, but these entities have started to prepare their financial statements on the accrual basis.

The accounting standards for impairment of cash-generating assets for private companies have been introduced at the beginning of this financial year (01 April 2005). Considering the balance with private companies, MOF and MIC (The Ministry of Internal Affairs and Communication) organized the working team to develop the appropriate standards for impairment of assets held by the IAIs.

MOF and MCI recently published the exposure draft of the standards for impairment of non-cash-generating assets and asked for public comments. The draft says that the working team developed the standards referring to IPSAS21.

The main features of these standards are:

- An entity is required to make a formal estimate of recoverable service amount when the key indications that an impairment loss may have occurred are present.
- Once the assets are impaired, the entity is required to reduce the carrying amount to the recoverable service amount.

The new standards will be developed after consideration of responses to the ED and published at the end of June.

2. New accounting standards for non-profit organizations

The current accounting standards for non-profit organizations in Japan which focus on the cash-flow compared with the budgets has continued unchanged since they were published in 1977 and they have been revised once in 1985. However, according to the change of social and economical environments around non-profit organizations, the accountability for efficient and effective management of these organizations has been strongly required.

In response to public outcry, MIC decided to change these accounting standards completely.

The main changes are as follows:

1. The financial statements are changed from those which focus on the cash-flow in comparison with the budgets to the basic financial statements including balance sheets, the change of net assets (same as profit/loss statements) and the list of assets/liabilities.
2. Larger entities are required to prepare a statement of cash-flow.
3. The net assets are required to be classified into designated net assets and general net assets.

The new accounting standards will be implemented from the financial year starting on 1st April 2006.



DATE: 28 June 2005

MEMO TO: MEMBERS OF THE IFAC INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

FROM: Greg Schollum
NEW ZEALAND REPRESENTATIVE

SUBJECT: **UPDATE ON RECENT DEVELOPMENTS IN NEW ZEALAND**

Introduction

This memorandum updates Members of the International Public Sector Accounting Standards Board (IPSASB) on recent developments in New Zealand, specifically relating to:

- Generally Accepted Accounting Practice;
- Auditing and Professional Standards;
- Central Government; and
- Local Government.

Generally Accepted Accounting Practice

Control and Autonomous entities

Application of FRS-37 *Consolidating Investments in Subsidiaries* has highlighted questions around whether the definition of control is working as originally intended in respect of certain entities within the public sector that are given statutory autonomy (such as Universities).

The FRSB is currently developing a Discussion Paper aimed at soliciting comments on the definition of control and its application to “autonomous entities”. The Discussion Paper will address the definition of control in IAS 27 and its appropriateness for public benefit entities with a view to using this material to amend FRS-37. The Discussion Paper will also consider whether it would be appropriate to issue application guidance for NZ IAS 27 and whether amendments are required to be made to FRS-37.

Revision of FRS-29 Prospective Financial Information

The FRSB has issued for comment an exposure draft ED 103 *Prospective Financial Information*. ED 103 is a revision of existing financial reporting standard FRS-29 *Prospective Financial Information* (FRS-29).

The proposed standard will apply to the following published general purpose prospective financial information:

- (a) prospective financial information required to be published by public sector entities for example, forecast financial statements of the Crown, forecast financial statements of government departments and Crown entities, and forecast financial statements in annual plans and Long-Term Council Community Plans (10 year plans) of local authorities;
- (b) prospective financial information published in accordance with securities legislation or regulations and any prospective financial information published in conjunction with such information; and



- (c) prospective financial information published in a prospectus, investment statement, advertisement for an offer of securities or other similar documents.

FRS-29 currently distinguishes between forecasts and projections. The ED proposes to remove this distinction and to require entities to more clearly highlight the uncertainties and assumptions in relation to such information. The ED also aims to address a number of public sector reporting issues including those related to requirements under the Local Government Act 2002.

The Local Government Act 2002 requires local authorities to prepare a Long Term Council Community Plan every three years covering a period of not less than 10 consecutive financial years. Forecast information included in that plan is required to be prepared in accordance with generally accepted accounting practice. In addition, from 2006, such plans are required to be audited.

The ED and accompanying Discussion Paper are available on the Institute's web site www.icanz.co.nz.

PBE Working Group

The FRSB has established a Public Benefit Entity (PBE) Working Group to assist it to identify and address financial reporting issues affecting public benefit entities¹. The Working Group has yet to meet but issues that have already been identified include:

- Revision of the NZ equivalent to the IASB Conceptual Framework for the Preparation and Presentation of Financial Statements.
- Reporting non-financial performance information.
- Financial reporting by not-for-profit entities. The Institute's Not-for-profit task force is expected to issue a report that will identify financial reporting by not-for-profit entities as a key issue to be considered by the Working Group.

PBE Application guidance

Earlier this year the FRSB issued for comment ED 101 *When is an Entity a PBE?* Comments were due 15 June 2005 and the FRSB will consider the submissions at its July meeting.

This guidance is necessary in New Zealand because the NZ equivalents to IFRS have been amended in NZ largely to ensure that the standards can be applied by all public sector entities.

NZ Equivalent to the IASB Framework for the Presentation and Preparation of Financial Statements (Conceptual Framework)

The Framework is narrower than the existing Statement of Concepts in operation in NZ. The FRSB plans to review the NZ equivalent to the IASB Framework in the second half of 2005. One of the main issues, that the review is likely to consider, is the framework for non-financial performance reporting.

Differential Reporting

In December 2004 the FRSB issued for comment ED-98 *Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to International Financial Reporting Standards Reporting Regime (2005) (Framework for Differential Reporting)*.

FRSB approved the Differential Reporting Framework in May 2005 and it was approved by the Accounting Standards Review Board (ASRB) in June 2005.

This Differential Reporting Framework explains differential reporting and its application in the context of New Zealand equivalents to IFRS, the specific Financial Reporting Standards

¹ Public benefit entities are those not considered to be profit oriented entities.



applicable to entities that have adopted New Zealand equivalents to IFRS and the New Zealand Equivalent to the IASB *Conceptual Framework for the Preparation and Presentation of Financial Statements*. This *Framework for Differential Reporting* sets out the concessions available under this reporting regime to qualifying entities required to prepare general purpose financial statements that comply with Generally Accepted Accounting Practice in New Zealand.

This *Framework for Differential Reporting* represents an interim approach to the development of differential reporting concessions for entities applying New Zealand equivalents to IFRS. It is based on the *Framework for Differential Reporting* initially developed in 1994. A discussion of the assumptions used in developing that Framework and supporting the use of the surrogates for assessing the benefits and costs of financial reporting requirements are set out in sections 3 and 4 of that Framework. In developing the latest *Framework for Differential Reporting* the FRSB has not re-examined these assumptions. The FRSB has not re-examined these assumptions because a review of qualifying entities and differential reporting concessions is likely to be required in the short term.

IASB Projects - Management Commentary

The New Zealand Institute of Chartered Accountants is leading the IASB project on Management Commentary in the research phase, working alongside representatives from fellow Partner Standard Setters Canada, Germany and the UK. The IASB has also allocated staff along with the Board members responsible for liaising with the relevant standard setters.

The IASB is to consider a discussion paper at its meeting in June 2005.

Auditing and Professional Standards

International Convergence

The Institute's Professional Practices Board (PPB) recently considered the IAASB proposed amendments to the International Federation of Accountants' Statement of Membership Obligation (SMO) #3 "International Standards, Related Practice Statements and Other Papers Issued by the IAASB".

The underlying purpose of the proposed amendments is to give guidance on the requirement that members of IFAC should use their best endeavours to:

- incorporate the International Standards and related Practice Statements issued by the IAASB into their national standards; and
- assist with the implementation of International Standards and related Practice Statements, or national standards and related other pronouncements that incorporate International Standards and related Practice Statements.

The PPB discussed the potential effect of proposals concerning 'permitted modifications' to IAASB pronouncements on achievement of the central IFAC objective of achieving international convergence, in the context of the International Standards.

Adoption of ISAs

The PPB considered the effect of the IAASB proposals concerning its Clarity of Standards Project.

In view of the planned re-exposure of all the ISAs over the next couple of years (to implement proposed improvements to the language and structure of the standards), the PPB decided to revise its approach to adoption of ISAs. The PPB now proposes to follow the project timeline the IAASB is expected to implement to complete the Clarity of Standards Project. This will avoid the need to expose ISAs for comment on two occasions in New Zealand over the next



couple of years. It is felt that this approach will better facilitate acceptance and adoption of ISAs here.

The PPB now plans to release its Invitation to Comment on the Consultation Paper for Adoption of ISAs (reflecting this revised approach) immediately after conclusion of the next IAASB meeting.

Audit Implications of Adopting International Financial Reporting Standards

The PPB has approved a project to issue guidance on the audit implications of adopting IFRS in New Zealand. This guidance is currently under development for consideration by the PPB.

As a separate but related project, the PPB will also issue guidance on reporting compliance with IFRS. This guidance will follow the existing guidance on this topic issued by the IAASB, International Auditing Practice Statement 1014 "Reporting by Auditors on Compliance with International Financial Reporting Standards".

Central Government

The Central Government Budget was delivered on May 19th. The Budget includes forecast financial statements prepared in accordance with GAAP. Details can be found at <http://www.treasury.govt.nz/budget2005/> A general election is required to be held no later than 24 September, and a Pre-election economic and fiscal update, providing revised forecasts, also prepared on the same basis, will be published prior to the election.

In the May financial statements, released on Friday 1 July, the Government made a provision in its financial statements in respect of its commitments under the Kyoto Protocol. This provision recognised the fact that the protocol has been ratified by sufficient countries to become binding, the completion of significant work to produce a robust estimate of the amount of the number of emissions in deficit that New Zealand is likely to face and the fact that a market in the emission allowances has developed.

Local Government

Local authorities are preparing for the adoption of NZ IFRS - in particular establishing the opening balance sheet position (as at 1 July 2005) for the comparative period. Local authorities will be publishing their first set of NZ IFRS financial statements for the period ended 30 June 2007. For local authorities that are choosing to hedge account (for interest rate swaps etc), they are also in the process of setting up hedging documentation by 1 July 2005.

Local authorities are also preparing for the next Long Term Council Community Plan (LTCCP) and the audit thereof. The next LTCCP (10 year plan) will start from 1 July 2006.

If you have any questions about any of these matters please feel free to raise them with me.

Greg Schollum
NEW ZEALAND REPRESENTATIVE

IFAC COUNTRY REPORT: UNITED KINGDOM

A. ACCOUNTING STANDARDS BOARD DEVELOPMENTS

1. New Accounting Standards

Operating and Financial Review

Following the issue of an Exposure Draft in November 2004, on 10 May 2005 the Accounting Standards Board (ASB) issued Reporting Standard (RS) 1 ‘The Operating and Financial Review’.

RS1 is the first Reporting Standard issued by the ASB under its new legal powers. The process of developing the standard was begun in May 2004, when the UK Government announced its proposals for a statutory OFR and indicated that it intended to specify the ASB as the body to make reporting standards for the OFR.

The standard applies to quoted companies in Great Britain and to any other entities that purport to prepare “Operating and Financial Reviews”. It is a principles-based standard, which in particular makes clear that the OFR shall reflect the directors’ view of the business. The objective is to assist shareholders to assess the strategies adopted and the potential for those strategies to succeed. The information in the OFR will also be useful to a wide range of other users.

RS 1 sets out a framework of the main elements that should be disclosed in an OFR, leaving it to directors to consider how best to structure their review, in the light of the particular circumstances of the entity. Similarly, RS 1 does not specify any specific Key Performance Indicators (KPIs) that entities should disclose, nor how many, on the grounds that this is a matter for directors to decide.

The standard is accompanied by Implementation Guidance, which sets out some illustrations and suggestions of specific content and related KPIs that might be included in an OFR.

Whilst the RS has a strong private sector focus, it is likely that it will have an impact on narrative reporting in the UK public services. The Financial Reporting Advisory Board (FRAB) convened by the UK Ministry of Finance will be considering the impact of the new RS on the current OFR requirements for central government. Further CIPFA has just commissioned a discussion paper to consider how such requirements might apply across the whole of the UK public sector.

Financial Reporting Standard for Smaller Entities (FRSSE)

In April 2005 the ASB published an update of its FRSSE, effective for accounting periods beginning on or after 1 January 2005.

The standard brings together in a single document the accounting standards and the accounting requirements of company law applicable to smaller companies.

Urgent Issues Task Force (UITF) 40

UITF 40 deals with revenue recognition and service contracts, giving guidance on the recognition of turnover derived from contracts for professional and other services.

The Abstract explains that as a matter of principle there is no difference between the accounting required for long-term contracts and other contracts for services. The overriding consideration is whether the seller has performed, or partially performed, its contractual obligations. A principal conclusion of the Abstract is that where the substance of a contract is that the seller's contractual obligations are performed gradually over time, revenue should be recognised as contract activity progresses to reflect the seller's partial performance of its contractual obligations. In these circumstances it is inappropriate to defer recognition of revenue until contract completion.

2. Exposure drafts

Financial Instruments

In April the ASB issued an exposure draft proposing amendments to its existing standard FRS 26 'Financial Instruments: Measurement'. The proposed changes will:

- extend the scope of the standard to include all entities other than those applying the Financial Reporting Standard for Smaller Entities (FRSSE); and
- implement the recognition and derecognition material in the international financial reporting standard IAS 39 'Financial Instruments: Recognition and Measurement'.

Corresponding amounts

In March the ASB issued FRED 35 'Corresponding Amounts'. The proposals in the FRED reflect the draft Regulations issued by the Department of Trade and Industry (DTI), which remove from the law the requirements to restate corresponding amounts where they are not comparable.

3. ASB Discussion Paper on an Interpretation of the Statement of Principles for public benefit entities

The ASB published this discussion paper in 2003 to provide a coherent framework of reference to be used in the development of guidance for public benefit entities to assist preparers and auditors faced with new or emerging issues. A variety of views were expressed in response to the draft and the ASB is currently working on a revised version to issue as an exposure draft later in 2005.

Issues currently being debated include:

- Defining class of user for the financial statements of public benefit entities;
- The interpretation of the definition of a liability;
- The nature of business combinations;
- Contributions that should be treated as additions to residual interest;
- When capital grants should be recognised as gains;

- Whether notional transactions should be recognised;
- Whether voluntary gifts of assets or services should be recognised as a gain;
- How restrictions and intentions to limit the future application of assets should be reflected in disclosure about the assets and residual interest.

4. Policy Statement

In March the ASB published an Exposure Draft of its Policy Statement ‘Accounting Standard-setting in a Changing Environment: The Role of the Accounting Standards Board’ setting out for consultation, the ASB’s views on its future role.

The draft Policy Statement argues that the most significant future role of the ASB will be in contributing to the development, with IASB and others, of a set of high quality global accounting standards. The ASB sees itself as having the capacity as an established national standard-setter to be a valuable source of accounting thought and insight for the IASB and an influential voice in debates on new accounting standards.

The ASB will contribute to the development of IFRS in a number of ways on different projects: contributing directly as part of the IASB team; communicating its views on IASB proposals; and, especially through EFRAG, contributing to the exchange of views within Europe. In all of its work the ASB says it is conscious of the importance of maintaining a two-way dialogue with its constituents, so that the ASB will develop its own views on the merits of IASB proposals, reflecting the views and concerns of its constituents.

The other major activities of the ASB include:

- a. Influencing European Union policy on accounting standards, including the endorsement of IFRS
- b. Achieving convergence of UK accounting standards with IFRS;
- c. Improving other aspects of UK accounting standards;
- d. Improving communication between companies and investors, including developing and implementing standards for the OFR.

B. AUDITING PRACTICES BOARD DEVELOPMENTS

1 Consultation Draft Practice Note 10 on The Audit of Financial Statements of Public Sector Bodies in the United Kingdom (Revised)

On 19 June 2005, the APB issued this consultation draft, which proposes changes to the 2001 version of Practice Note 10.

The changes are primarily with the intention of providing guidance for auditors on their audit procedures following the replacement of the UK Statements of Auditing Standard (SASs) with the International Standards on Auditing (ISAs) (UK and Ireland). It also takes account of a small number of legal and regulatory developments affecting public sector bodies in the United Kingdom since the current Practice Note 10 (Revised) was issued in April 2001.

Principal changes are in the following areas:

- Fraud and documentation
- Changes related to UK devolution
- Changes resulting from the UK Freedom of Information Act and the Proceeds of Crime Act

UK bodies will be considering their responses over the summer period and the closing date for comments is 16 September 2005.

2 Consultation Draft Practice Note 14 on the audit of Registered Social Landlords (RSLs) in the United Kingdom

This consultation draft was issued on 9 June 2005. The revision primarily provides guidance for auditors on their audit procedures following the replacement of UK SASs with the ISAs (UK and Ireland). It also takes account of a small number of legal and regulatory developments affecting RSLs since PN 14 (Revised) was issued.

UK bodies will be considering their responses over the summer period and the closing date for comments is 7 September 2005.

3 Proposed Revised ISAs (UK & Ireland)

In April 2005 the APB has issued for comment four draft International Standards on Auditing (UK & Ireland) as follows:

- ISA 260 The auditor's communication with those charged with governance
- ISA 600 The audit of group financial statements
- ISA 705 Modifications to the opinion in the independent auditor's report
- ISA 706 Emphasis of matter paragraphs and other matters and other matters paragraph in the independent auditor's report

These standards adopt the text of the proposed IAASB standards also out in exposure draft, and adds additional paragraphs applicable to the situation in UK and Ireland as appropriate.

The comment period closes on 1 July 2005.

4 Draft Bulletins

Draft Bulletin 2005/3 entitled – 'Guidance for Auditors on First-time Application of IFRSs in the United Kingdom and the Republic of Ireland'.

This draft Bulletin was published in April 2005.

In August 2004 the APB published a draft Bulletin that provided auditors with preliminary guidance on issues that might arise when companies (and other entities that are subject to audit) undertake the transition from UK/Irish GAAP to IFRSs. Since then a number of uncertainties have been resolved and there have been various developments in auditing and financial reporting that are reflected in this further interim guidance. Guidance has also been added on the auditor's review of interim financial information in the first year of adoption of IFRSs.

In spite of the progress made in resolving many of the legal and regulatory issues there are some remaining uncertainties. In particular, the specific wording to be used in the auditor's report when describing the financial reporting framework is still under debate. The wording used in the draft Bulletin is 'those IFRSs adopted for use in the European Union' but there is a continuing discussion within Europe on the best term to use. The APB favours a consistent approach to this matter within Europe and accordingly this Bulletin is being issued as interim guidance and the description of the financial reporting framework used in it may be changed if there is a European consensus for a different description.

The comment period for the draft bulletin closes on 1 July 2005.

Draft Bulletin 2005/4 entitled – 'Auditor's Reports on Financial Statements'

On 17 May 2005 the APB published this draft Bulletin, which updates and brings together into one Bulletin examples of auditor's reports on financial statements that were originally published in SAS 600 and which have since been updated by subsequent APB Bulletins.

The specimen auditor's reports included in the draft Bulletin take account of the following matters:

- The introduction of International Standards on Auditing (UK and Ireland).
- The inclusion in auditor's reports of 'emphasis of matter' paragraphs rather than 'fundamental uncertainty' paragraphs.
- The adoption by the EU of IFRSs for the consolidated accounts of publicly traded companies.
- Changes to the reporting and accounting provisions of the Companies Act 1985.
- Changes to the corporate governance reporting requirements following the publication of the 2003 FRC Combined Code.

This is the first edition of the Bulletin referred to in paragraph 21 of ISA (UK and Ireland) 700 'The auditor's report on financial statements'.

As discussed in Draft Bulletin 2005/3 the specific wording to be used in the auditor's report when describing the financial reporting framework is still under debate. As for Draft Bulletin 2005/3, the wording used in the draft Bulletin is 'those IFRSs adopted for use in the European Union'.

The comment period for this draft bulletin closes on 1 August 2005.

C. LOCAL GOVERNMENT

The Local Authority Accounting Statement of Recognised Accounting Practice (Sorp) for 2005 is due for issue on 5 July 2005 and covers periods beginning 1 April 2005. The new Sorp includes a significant raft of changes, in particular:

- The updating of *The Pension Fund Accounts* section of Chapter 4 following the issue of a revised Pension SORP.
- The requirement for English and Welsh local authorities to include with their statement of accounts a statement on the system of internal financial control

(SIFC) has been removed and replaced with a requirement to include a statement on internal control in accordance with Regulation 4(2) of the Accounts and Audit Regulation 2003 and Regulation 4(2) of the Accounts and Audit (Wales) Regulations 2005.

- Updating Appendix A *Application of Accounting Standards* for the new Financial Reporting Standards and Urgent Issue Taskforce abstracts issued up to 30 September 2004.
- Amendment to the guidance on the recognition of dividend income.
- Updating the Statement of Accounts for the impact of the Business Improvement District Scheme.
- Updating the Housing Revenue Account for Wales to reflect the decision of the National Assembly for Wales to introduce resource-based accounting for the HRA from 1 April 2005.
- Clarification of the meaning of '*Benefits*' and '*Substance over Form*' in relation to the flow chart for determining whether the reporting authority has interest(s) in subsidiaries, associates and joint ventures for the purpose of financial reporting.

The SORP applies formally in Great Britain to local authorities, police authorities, fire authorities, probation committees, joint committees and joint boards of principal authorities and (in England and Wales) parish, town and community councils with budgeted income of more than £500,000. In Northern Ireland it applies to all district councils.

In England and Wales, the local authority SORP constitutes a 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. In Scotland, the local authority SORP constitutes proper accounting practice under section 12 of the Local Government in Scotland Act 2003. In Northern Ireland the status and authority of the local authority SORP derives from section 77(2) of the Local Government Act Northern Ireland 1972 and through the relevant accounts direction issued by Department of the Environment (Northern Ireland).

D REGISTERED SOCIAL LANDLORDS

The National Housing Federation has issued an updated Statement of Recommended Accounting Practice (SORP) for Registered Social Landlords for periods commencing on or after January 2005.

The SORP interprets UK Generally Accepted Accounting Practice for social landlords and reflects changes in Financial Reporting Standards and other accounting practice together with key developments and practices in the social housing sector.

Key changes relate to

- FRS 17 Retirement benefits
- Detailed and explicit guidance on the capitalisation of fixed assets
- Operating and Financial Review

- The accounting treatment of agreements to purchase improved property from a third party.

E CHARITIES SECTOR

The Charities Commission has published the 2005 edition of the Charities Statement of Recommended Practice. The SORP provides guidance for charities' financial reporting for accounting periods on or after 1 April 2005. One of the most interesting areas addressed in the new SORP is the treatment of donated services and facilities. The SORP distinguishes between donated services and facilities usually provided by an individual or entity as part of their trade or profession for a fee and the contribution of volunteers. The former would be recognised in financial statements whilst the latter would not be recognised as the value of the contribution cannot be reliably quantified. The SORP also highlights a new approach to the presentation of the Trustees' Annual Report, stressing the reporting of activities and performance against a charity's objectives.

F FINANCIAL REPORTING COUNCIL

The United Kingdom Financial Reporting Council has just published the findings of its review of the continued appropriateness of the Turnbull Guidance on internal control. The review found that the Guidance had contributed to improvements in internal control in UK listed companies. It strongly endorses the principles-based approach of the Guidance, which allows companies to focus on the most significant risks facing them. It recommends only limited changes to the Guidance to bring it up date.

Liz Cannon

Technical Advisor, United Kingdom

30 June 2005

United States Country Report
Prepared for the IFAC Public Sector Committee
June 2005

Recent Activity of the Federal Accounting Standards Advisory Board (FASAB)

No activity.

Recent Activity of the Governmental Accounting Standards Board (GASB)

Statement No. 47. In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*, which provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are involuntarily terminated. Statement 47 specifies when governments should recognize the cost of termination benefits they offer in accrual basis financial statements. Benefits provided for *involuntary* terminations should be accounted for in the period in which a government *becomes obligated* to provide benefits to terminated employees, which is not necessarily the same period in which the benefits are actually provided. Regarding benefits provided to employees that voluntarily terminate employment, Statement 47 requires governments to recognize the cost of all such benefits when the termination offer is accepted. It also elaborates on how to measure the cost of termination benefits and requires disclosure of information about termination benefit arrangements, including a description of the plan and the cost of the benefits. Statement 47 is generally effective for financial statements for periods beginning after June 15, 2005.

Concepts Statement No. 3. This Concepts Statement titled, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*, was issued in April 2005. The purpose of the Concepts Statement is to provide a conceptual basis for selecting communication methods to present items of information within general purpose external financial reports that contain basic financial statements. These communication methods include recognition in basic financial statements, disclosure in notes to basic financial statements, presentation as required supplementary information (RSI), and presentation as supplementary information.

Pollution Remediation Obligations Exposure Draft. In March 2005, the GASB issued a Preliminary Views (PV) document titled, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The PV highlights the Board's preliminary views concerning accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups. The PV proposes that, once any one of five specified obligating events occurs, governments would be required to estimate the components of expected pollution remediation outlays using an "expected cash flow" measurement technique, and determine whether outlays for those components should be accrued as a liability or, in limited instances, capitalized when goods and services are acquired. Most pollution remediation outlays would be accrued as a liability and

expenditure or expense, as appropriate, when a range of expected outlays is reasonably estimable. If a government cannot reasonably estimate the range of all components of the liability, it would recognize the liability as the ranges of each component (for example, legal services, site investigation, or required postremediation monitoring) become reasonably estimable.

Recent Activity of the Financial Accounting Standards Board (FASB)

Statement No. 154. In May 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3*. This Statement replaces APB Opinion No. 20, *Accounting Changes*, and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a change in accounting principle. It applies to all voluntary changes in accounting principle. Statement 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. Statement 154 requires that a change in method of depreciation, amortization, or depletion for long-lived, nonfinancial assets be accounted for as a change in accounting estimate that is effected by a change in accounting principle. Opinion 20 previously required that such a change be reported as a change in accounting principle. Statement 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

Interpretation No. 47. This Interpretation titled, *Accounting for Conditional Asset Retirement Obligations*, was issued in March 2005. It clarifies that the term *conditional asset retirement obligation* as used in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred—generally upon acquisition, construction, or development and (or) through the normal operation of the asset. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. This Interpretation is effective no later than the end of fiscal years ending after December 15, 2005.

GAAP Hierarchy Exposure Draft. In April 2005 the FASB issued an Exposure Draft titled, *Proposed Statement of Financial Accounting Standards*. This proposed Statement would identify the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental enterprises that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. The GAAP hierarchy is currently presented in American Institute of Certified Public Accountants

(AICPA) Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principle*. See related item in the section below titled, "Recent Activity of the AICPA Auditing Standards Board."

FASB Staff Positions. The following final staff positions were issued since February 2005 (all are available on the FASB Web site at www.fasb.org):

FSP FAS 143-1. *Accounting for Electronic Equipment Waste Obligations*. (June 8, 2005)

FSP EITF 00-19-1. *Application of EITF Issue No. 00-19 to Freestanding Financial Instruments Originally Issued as Employee Compensation* (May 31, 2005)

FSP FAS 19-1. *Accounting for Suspended Well Costs*. (April 4, 2005)

FSP EITF 85-24-1. *Application of EITF Issue No. 85-24, "Distribution Fees by Distributors of Mutual Funds That Do Not Have a Front-End Sales Charge," When Cash for the Right to Future Distribution Fees for Shares Previously Sold Is Received from Third Parties*. (March 11, 2005)

FSP FIN 46(R)-5. *Implicit Variable Interests under FASB Interpretation No. 46*, (revised December 2003). *Consolidation of Variable Interest Entities* (March 3, 2005)

Recent Activity of the AICPA Accounting Standards Executive Committee (AcSEC)

No Activity.

Recent Activity of the AICPA Auditing Standards Board (ASB)

Risk Assessment Exposure Draft. In June 2005, the ASB issued an exposure draft of eight proposed Statements on Auditing Standards (SASs). These proposed SASs, if adopted, would establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement in a financial statement audit, and the design and performance of audit procedures whose nature, timing, and extent are responsive to the assessed risks. The primary objective of the proposed SASs is to enhance auditors' application of the audit risk model in practice by specifying: (1) More in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate them; (2) More rigorous assessment of the risks of material misstatement of the financial statements based on that understanding; (3) Improved linkage between the assessed risks and the nature, timing, and extent of audit procedures performed in response to those risks. More detail on each of the eight SASs can be found at the following web address: <http://www.aicpa.org/members/div/auditstd/drafts.htm>.

Defining Professional Requirements Exposure Draft. In March 2005, the ASB issued a proposed SAS, *Defining Professional Requirements in Statements on Auditing Standards*, and a proposed Statement on Standards for Attestation Engagements (SSAE), *Defining Professional Requirements in Statements on Standards for Attestation Engagements*. The proposed SAS and SSAE define the terminology the ASB will use to describe the degrees of responsibility that the requirements impose on the auditor or the practitioner. The proposed SAS and SSAE define two

categories of professional requirements. The first is *requirements* which are required to be complied with and are indicated by the use of the words *must* or *is required*. The second is *presumptive requirements* which are presumed to be required and indicated by the term *should*. If an auditor or practitioner departs from a presumptive requirement, he or she must document the justification and how alternative procedures were sufficient to achieve the objective of the presumptive requirement.

GAAP Hierarchy. In May, 2005, the ASB issued an exposure draft titled, *Amendment to Statement on Standards No. 69, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles, for Nongovernmental Entities*. This proposed SAS, which applies only to nongovernmental entities, has been issued in response to the FASB's proposed Statement of Financial Accounting Standards entitled *The Hierarchy of Generally Accepted Accounting Principles*. It deletes the GAAP hierarchy for nongovernmental entities from SAS No. 69. See related item in the section above titled, "Recent Activity of the Financial Accounting Standards Board."

Recent Activity of the Public Company Accounting Oversight Board (PCAOB)

The PCAOB has issued the following policy statement and proposed auditing standard since February 2005. Additional information on these items can be found on the PCAOB Web site at www.pcaobus.org.

Release No. 2005-009. Policy Statement regarding implementation of Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements*. (May 16, 2005)

Release No. 2005-002. Proposed Auditing Standard, *Reporting on the Elimination of a Material Weakness*. (March 31, 2005)

Recent Activity of the U.S. Government Accountability Office (GAO)

CPE Guidance and Technical Amendment to Government Auditing Standards. In April 2005, the GAO issued implementation guidance related to the CPE requirements in *Government Auditing Standards*. The guidance document titled, *Guidance on GAGAS Requirements for Continuing Professional Education*, replaces the April 1991 document entitled *Interpretation of Continuing Education and Training Requirements*, and is effective for CPE measurement periods beginning on or after June 30, 2005, with earlier adoption encouraged. The technical amendment made to the CPE requirements in *Government Auditing Standards*, also issued in April 2005, amends the standards so that auditors who are only involved in performing field work but not involved in planning, directing, or reporting on the audit or attestation engagement and who charge less than 20 percent annually of their time to audits and attestation engagements conducted under generally accepted government auditing standards (GAGAS) are required to take 24 hours of training in each 2-year period in subjects and topics directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates but do not have to comply with the remainder of the 80-hour CPE requirement.

Guidance for Audits Performed Under PCAOB and GAO Standards. Certain entities are subject to the auditing standards of both the PCAOB and the GAO (for example, certain financial institutions). In May 2005, the GAO issued guidance for those entities in a document titled, *Guidance on Complying with Government Auditing Standards Reporting Requirements for the Report on Internal Control for Audits of Certain Entities Subject to the Requirements of the Sarbanes-Oxley Act of 2000 and Government Auditing Standards.* It defines the appropriate reporting on internal control under *Government Auditing Standards* when the entity has received an opinion on internal control under PCAOB standards.

Both of these documents can be found on the GAO Web site at:
<http://www.gao.gov/govaud/ybk01.htm>.