DATE: 30 May 2006

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).

PSAB 25TH ANNIVERSARY
1981 - 2006

2006 marks PSAB's 25th birthday – a significant event for both PSAB and the Canadian Public Sector.

From its first meeting in 1981, PSAB has seen changes in its size, composition and scope. However, its overall general objective has not changed – its current mission statement reads:

We serve the public interest by setting standards and providing guidance for financial and other performance information reported by the public sector. We do this by:

- *establishing independent, conceptually based standards and other guidance through consultation, and communication; and*
- *contributing to the development of internationally accepted standards.*

Today, the CICA Public Sector Accounting Handbook is recognized as GAAP for governments. Federal, Provincial and Territorial governments apply full accrual accounting, with local governments scheduled to do the same. Further, standards exist for key financial statement items.

PSAB looks forward to continuing its work with constituents to improve accountability to Canadians. At the same time, it also looks forward to further supporting the work of the IPSASB.

On-Going Projects

Performance Reporting

Status: Comment period for Draft Statement of Recommended Practice (SORP) expired

Issued in March 2006, the Draft SORP *Public Performance Reporting* had a comment date of May 12, 2006.

Approved in January 2006, it provides recommended practices for reporting performance information in a public performance report. It is neither prescriptive about a report's structure or a template.

The project's principles are based on those in the CCAF-FCVI's (formerly known as the Canadian Comprehensive Auditing Foundation) publication entitled "Reporting Principles - Taking Public Performance Reporting to a New Level".

The main issues in developing the draft SORP have been:

- need to provide guidance that helps users operationalize the principles;
- desire to allow practice to develop and progress aided by the non prescriptive nature of the guidance; and
- need for leadership in getting the SORP implemented.

Overall, comments have been very supportive with no new significant issues raised.

PSAB is scheduled to approve a final SORP June 2006.

Reporting Model and Tangible Capital Assets (formerly Tangible Capital Assets (Local Government))

Status: Reporting Model – Exposure Draft (ED) approved
Tangible Capital Assets – Comment period for Exposure Draft (ED) expired

Reporting Model

Approved in March 2006, the ED, *Reporting Model* revises Sections:

- PS 1000, *Financial Statement Concepts — Federal, Provincial & Territorial Governments;*
- PS 1100, *Financial Statement Objectives — Federal, Provincial & Territorial Governments*; and
- PS 1200, *Financial Statement Presentation — Federal, Provincial & Territorial Governments*.

It expands the scope of the reporting model proposing to include federal, provincial, territorial and now local governments. Among other things it also:

- proposes a definition of revenue; and
- excludes art and historic treasures from being recognized in the financial statements.

The ED follows from the two Statements of Principle (SOPs) *Financial Statement Concepts*, *Section PS 1000* and *Financial Statement Presentation*, *Section PS 1200* issued November 2005 (see Canada's country report of February 2006 for more information about the SOPs).

The ED was issued May 2006 with a comment date of 15 August 2006.

Tangible Capital Assets (TCAs)

In advance of revising the reporting model, PSAB has been focusing on the specific issue of accounting for TCAs by local governments.

Issued in March 2006, the ED, *Tangible Capital Assets*, had a comment date of April 30, 2006.

The ED essentially broadens the scope of existing Section PS 3150 *Tangible Capital Assets* to include local governments. In broadening the scope, some amendments to the Section are also proposed.

Local government responses have generally been supportive of the need to account for TCAs with one of the salient concerns being the practicalities associated with their inaugural recognition (identification, measurement, etc).

PSAB is scheduled to approve a final Handbook Section June 2006.

<u>Financial Instruments</u>

Status: Comment date for Statement of Principles (SOP) expired

Approved in January 2006, the SOP, *Recognition and Measurement of Derivatives* had a comment date of 21 April, 2006.

The SOP, evaluated measurement and recognition of derivatives in relation to PSAB's conceptual framework. It is intended to provide a clear direction for continuing efforts to develop public sector financial instruments standards proposals.

While at the time of writing responses were still being analyzed, some key observations are:

- Support for the proposed definitions of financial instrument (equivalent to IPSAS 15/IAS 32) and derivative (equivalent to IAS 39);

- Support for the principle that derivatives are assets and liabilities and that PSAB should develop a hedge accounting standard broader than the present standard for currency based risks; and
- Some objections to a requirement that derivatives be reported at fair value.

These objections principally arise from those who hold that accounting should reflect the intentions of the government (synthetic instrument accounting is presently entrenched in practice), concerns legislators and lay users will find reporting difficult to understand, creation of further differences when comparing budgets and financial reports; and, the impact on existing key measures in PSAB's reporting model.

PSAB is scheduled to approve a second statement of principles November 2006.

Government Transfers

Status: Exposure Draft (ED) under development.

PSAB continues in its endeavours to develop an ED for this project.

In March 2006, PSAB gave direction to develop an ED consistent with its conceptual framework. As such, deferred amounts stemming from government transfers would not be permitted on the statement of financial position.

This was a reconsideration of their January 2006 decision to develop an ED based substantially on the proposals in their Associates Exposure Draft 2 (See Canada's country report of February 2006 for further discussion about AED 2 and AED 1).

The Board felt to date, no option was likely to please a majority of the government community so the more theoretically defensible option made the most sense.

PSAB is scheduled to approve an ED June 2006.

Tax Revenue (formerly Revenue)

Status: Invitation to Comment (ITC) issued.

At its March 2006 meeting, PSAB approved an ITC, *Tax Revenues*. Consistent with PSAB's intention to leverage off the IPSASB's work in this area, the ITC seeks feedback on the IPSASB's Exposure Draft 29, *Revenue from Non-Exchange Transactions (Including Taxes and Transfers)* (ED 29), issued January 2006.

Salient features of the ITC are:

- It proposes to adopt the definitions and standards in ED 29, for tax revenues in Canada.
- It provides a link to ED 29 on the IPSASB's website.
- It summarizes the main features of ED 29.

- It does not seek comment on the transfers proposals in ED 29 (PSAB has a separate project on this).
- Comments received will be sent to the IPSASB (unless confidentiality is requested).

The ITC, issued in April 2006 has a response date of June 30, 2006

Introduction to the CICA Public Sector Accounting Handbook

Status: Project Proposal Approved

The project will revise the Introduction to the CICA PSA Handbook. The main objectives of the project will be to:

- improve the usefulness of the CICA PSA Handbook by making the Introduction more comparable with the Introductions to the CICA HANDBOOK-ACCOUNTING and CICA HANDBOOK-ASSURANCE – most notably with respect to how those Handbooks reflect their respective Sections on hierarchies for generally accepted accounting principles/generally accepted auditing standards; and

- re-evaluate existing guidance in the Introduction as to what basis of accounting some categories of entities that are part of the ‘public sector’ should be applying in preparing their own general purpose financial statements.

See Canada’s country report from the November/December 2005 IPSASB meeting for more information on this project.

May 2006

Country Report - India

INTRODUCTION

This report contains details on the status of activities of (i) Accounting Standards Board (ASB), and Committee on Accounting Standards for Local Bodies established by the Council of the Institute of Chartered Accountants of India and (ii) Government Accounting Standards Board (GASAB) established by the Comptroller & Auditor General of India.

ASB and CASLB formulate accounting standards within the framework of accrual basis of accounting. GASAB formulates accounting standards within the framework of cash basis of accounting.

In general, this Country Report only notes events since the last Report was prepared for the March 2006 IPSASB meetings. For a more comprehensive description of some of the projects on the ASB and CASLB work program, please see the website www.icai.org. Similarly for GASAB work program, please see the website www.gasab.gov.in .

COMMITTEE ON ACCOUNTING STANDARDS FOR LOCAL BODIES (CASLB) DEVELOPMENTS

The Committee on Accounting Standards for Local Bodies was constituted in March 2005 primarily for formulation of Accounting Standards for Local Bodies.

Recently, it has been decided that the Committee, apart from formulation of Accounting Standards for Local Bodies would also take steps in facilitating improvement in accounting methodology and systems of Local Bodies, and would act as a forum to receive feedback from Local Bodies regarding problems faced by them in the adoption of accrual accounting and in application of the Accounting Standards.

The Ministry of Urban Development (MoUD) has constituted a Governmental Level Technical Committee under the aegis of MoUD and C & AG, which would recommend the Accounting Standards for Local Bodies, issued by ICAI, for acceptance by the state governments. Apart from accounting standards, the ICAI will also support the Technical Committee in its endeavours towards various other aspects of financial reporting including preparation of asset registers, performance measurement, budgeting, costing, internal control and audit.

A. EXPOSURE DRAFT ISSUED

- Preface to the Statements on Accounting Standards for Local Bodies

The Exposure Draft of Preface sets out the objectives and operating procedures of the Committee on Accounting Standards for Local Bodies (CASLB) and explains the scope and authority of the Accounting Standards for Local Bodies.

B. Drafts of pronouncements being finalised for circulation among the Council Members of ICAI and specified outside bodies (limited exposure)

- Framework for the Preparation and Presentation of Financial Statements by Local Bodies
- Proposed Accounting Standard for Local Bodies on Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies.

C. Subjects on which Accounting Standards for Local Bodies are under preparation

- Presentation of Financial Statements
- Cash Flow Statements
- Construction Contracts
- Revenue Recognition
- Borrowing Costs
- Property, Plant and Equipment
- Segment Reporting
- Accounting for Grants
- Events After the Reporting Date
- Inventories
- Accounting for Retirement Benefits in the Financial Statements of Employers
- Provisions, Contingent Liabilities and Contingent Assets

D. Other projects under progress

- Study on Transition from Cash basis to Accrual Basis

ACCOUNTING STANDARDS BOARD (ASB) DEVELOPMENTS

A. NEW PRONOUNCEMENTS RELEASED

The Institute of Chartered Accountants of India (ICAI) has recently issued the following pronouncement:

Guidance Note on Recognition of Revenue by Real Estate Developers

With a view to address the issues regarding recognition of revenue by Real Estate Developers, the Institute of Chartered Accountants of India (ICAI) has issued a Guidance Note on Recognition of Revenue by Real Estate Developers. This Guidance Note provides detailed guidance on application of principles of Accounting Standard (AS) 9, *Revenue Recognition*, in case of real estate sales by the enterprises engaged in such activities (commonly referred to as 'real estate developers', 'builders' or 'property developers'), particularly the transfer of risks and rewards of ownership to the buyer in a case where the seller has entered into an agreement to sell. The Guidance Note also provides specific guidance on recognition of revenue in a situation where the seller is obliged to perform any substantial acts after the transfer of all significant risks and rewards of ownership.

The above pronouncement is available on the website of the Institute, i.e., www.icai.org.

B. Since January 2006, the Accounting Standards Board of the Institute is working relentlessly for finalisation of the draft of the proposed Accounting Standard on ***Financial Instruments: Recognition and Measurement.*** The preparation of the draft took three meetings of the ASB. The draft Standard is based on International Accounting Standard (IAS) 39, *Financial Instruments: Recognition and Measurement* and purports to lay down recognition and measurement principles for all financial instruments, including derivative instruments, in a comprehensive manner. The draft of the said Standard would be circulated shortly among the Council members of the Institute, the specified outside bodies and other interest groups, for comments. Considering the comments received, the Board would finalise the Exposure Draft of the proposed Accounting Standard which would be issued for public comments.

C. IMMINENT RELEASES

(i) Accounting Standard on 'Financial Instruments: Presentation'

The ASB has finalised the Draft of the proposed Accounting Standard on Financial Instruments: Presentation on the basis of the comments received on its Exposure Draft. It has been decided that the all the three Accounting Standards on Financial Instruments, i.e. (i) Financial Instruments: Recognition and Measurement (ii) Financial Instruments: Presentation and (iii) Financial Instruments: Disclosures will be issued together.

(ii) Revised Accounting Standard (AS) 10, Tangible Fixed Assets

(iii) Limited revision to AS 2, Valuation of Inventories

(iv) Revised ASI 14, Disclosure of Revenue from Sales Transactions (Re.: Accounting Standard (AS) 9, Revenue Recognition)

D. Drafts of proposed/revised Accounting Standards being finalised for circulation among the Council Members of ICAI and specified outside bodies (limited exposure)

- Revised AS 1, Presentation of Financial Statements

- Revised AS 5, Accounting Policies, Changes in Accounting Estimates and Errors
- Revised AS 12, Accounting for Government Grants
- Revision of 'Guidance Note on Terms Used in Financial Statements'

E. Subjects on which new Accounting Standards are under preparation

- Share-based Payment
- Insurance Contracts
- Agriculture
- Financial Instruments: Disclosures
- Accounting and Reporting by Retirement Benefit Plans
- Non-Current Assets Held for Sale and Discontinued Operations
- Investment Property

F. Accounting Standards under revision

(i) Accounting Standard (AS) 4, Events After the Balance Sheet Date
(ii) Accounting Standard (AS) 9, Revenue Recognition
(iii) Accounting Standard (AS) 14, Accounting for Amalgamations

G. Other projects under progress

- Examination of revisions made in the International Accounting Standards, pursuant to the Improvement project of IASB, to determine whether corresponding Indian Accounting Standards need revision.

ABOUT THE GOVERNMENT ACCOUNTING STANDARDS ADVISORY BOARD (GASAB)

The Government of India has undertaken various initiatives for implementation of accrual accounting in Union Government, State Governments and Union Territories with Legislatures. The recommendation of the Twelfth Finance Commission of India also highlights the benefits of accrual accounting.

Consequent upon the recommendation of the Twelfth Finance Commission (hereinafter referred to as the TFC) for adoption of accrual accounting, the Central Government has accepted the recommendation in principle. In its explanatory memorandum as to the Action Taken on the recommendation of the TFC, Finance Minster had stated that the Government Accounting Standards Advisory Board (hereinafter GASAB) in the Office of the Comptroller and Auditor General of India would recommend an operational framework and detailed road map for its implementation. GASAB's Report on Road Map and Transition path of accrual accounting has already been forwarded to the Government for further consideration.

Further the Government Accounting Standards Advisory Board (GASAB) has constituted a Committee under the convenorship of the President, ICAI for finalisation of ‘Operational Framework for implementation of accrual accounting in Government’. One meeting of the Committee has already been held and a draft ‘Operational Framework’ with guidance for its effective implementation is under preparation for circulation amongst the members of the Committee.

Apart from the Central Government, so far eight State Governments have accepted the idea of accrual accounting in principle. These States are Assam, Bihar, Kerala, Madhya Pradesh, Maharashtra, Sikkim, Uttranchal and West Bengal.

Status of various Indian Government Accounting Standards being prepared by GASAB under cash basis of accounting

First Indian Government Accounting Standard awaiting notification

The first Indian Government Accounting Standard (IGAS 1) on ‘Guarantees given by Governments: Disclosure Requirements’ proposed by the Board and approved by the Comptroller and Auditor General of India is under consideration by the President of India for notification.

Draft Standards under preparation after considering responses on the Exposure Drafts of the stakeholders

- Accounting and Classification of Grants-in-aid
- Cash Flow Statements

Exposure Drafts issued for comments of the stakeholders

- Presentation of Financial Reports
- Components of the Financial Reports

Exposure Drafts/ Documents under consideration of Board

- Preface to the Indian Government Accounting Standards

Invitation to Comment (ITC) circulated for comments of select persons

- Loans and Advances made by Governments
- Foreign Currency and Loss / Gain by Exchange Rate Variations

Invitation To Comment (ITC) & Exposure Drafts under preparation by the GASAB Secretariat

- Classification of Transactions in Accounts
- Public Debt and Other Liabilities of Govt. – Disclosure Requirements
- Government Investment
- Contingent Liabilities (other than Guarantees and Letter of Comfort) and Contingent Assets: Disclosure Requirements

STATE OF ISRAEL
MINISTRY OF FINANCE, ACCOUNTANT GENERAL'S OFFICE
THE ACCOUNTING DIVISION
&
Israel Government Accounting Standard Board

May 24, 2006

To: **IPSASB Members, Technical Advisors, Observers & Staff**

Subject: **Country Report May 2006**

Section I: The process of adopting International accounting standards

(1) Work of the Israel Government Accounting Standards Board

The Israel Government Accounting Standards Board (hereinafter: "the Board"), operates as a professional board and is made up of six members.

The Board's work is based mainly on the work of IFAC's International Public Sector Accounting Standards Board (the IPSASB), and its goal is to provide for government reporting methods that lead to maximum transparency and comparativeness in relation to previous years and to other countries, in order to provide a reliable tool for evaluating government's financial position.

The Board's professional committee held four meetings during the months of March 2006 through May 2006. The topics discussed at the meetings were:

(a) Exposure draft of standard no. 14 - *Events after the Reporting Date.*

(b) Exposure draft of standard no. 3 - *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies.*

(c) Exposure draft of standard no. 12 - *Inventories.*

(d) Exposure draft of standard no. 17 - Property, *Plant and Equipment.*

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(e) Appoint a professional adviser to the committee.

At each meeting, the committee discussed an Exposure draft, along with a discussion of the implementation issues regarding implementation presented by the Exposure draft, after which the Exposure draft was approved by all the members present at the meeting.

The following became final standards:

(a) Standard no. 1 - *Presentation of Financial Statements.*

(b) Standard no. 14 - *Events after the Reporting Date.*

(c) Standard no. 3 - *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies.*

(d) Standard no. 12 - *Inventories.*

An exposure draft 17 has now been published for comments from the public.

(2) The Ad - Hoc Teams' Work

During March through May of 2006, a number of Ad-Hoc teams were active. All these teams included representatives from the largest accounting firms in Israel, representatives of the Accountant General's office, government ministry representatives, etc.

Each team is charged with discussing the degree to which an exposure draft is understandable and the degree to which it can be implemented. The technical director of the Board is responsible for the teams' work.

The following is a specification of their work.

March 2006

Property, Plant and Equipment - this team is working on the adoption of IPSAS 17.

The team completed its work in April 2006 and the exposure draft *was approved at the Board's meeting in early May.*

April 2006

Revenue from Exchange Transactions - this team is working on the adoption of IPSAS 9.

The team completed its work in May 2006 and the exposure draft *will approve at the Board's meeting in early June.*

May 2006

Consolidated Financial Statements and Accounting for Controlled Entities - this team is working on the adoption of IPSAS 6.

The team expects to finish its work in May of 2006 and the exposure draft will be discussed at a meeting of the Board at June 2006.

Section II: <u>Financial statements for 2005</u>

The Hebrew text of the State of Israel's financial statements for 2005 was published on April 30, 2006. An English translation will be published shortly.

The financial statements constitute an additional step in the accounting reform that the Accountant General has been carrying out over the past two years. This reform has focused in the main on a general adoption of international accounting standards, a principal element of which is appropriate disclosure.

The statements reflect an additional wide-reaching change regarding government reporting. For the first time, the statements present an in-depth analysis of the data regarding the State budget's execution.

Section III: A public tender for auditing of the financial statements of a number of government ministries

As part of the abovementioned accounting reform, an assimilation process has been carried out through which a number of government ministries have moved over to the accrual method accounting while adopting public sector accounting standards. The Accountant General has just published a tender for auditing services for the financial statements of those government departments that use the MERKAVA system ("MERKAVA" is the Hebrew acronym for "inclusive horizontal system for all Government ministries"), and in which the first stage of the above-described assimilation process has been completed.

Through the tender, the Accountant General intends to contract with three accounting firms to receive external auditing services for the following three government departments: the Ministry of Justice, the Water Commission and the Courts Administration. These departments will be the pioneers of an overall process of external auditing of the financial statements of all government ministries and of the government's consolidated financial statements.

Sincerely,

Ron Alroy, C.P.A.

Chief Accountant
Ministry of Finance

Haya Prescher, C.P.A.

Project Manager - Government Accounting,
Ministry of Finance

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Country Report – Malaysia

This report summarizes the activities:

(i) Malaysian Accounting Standards Board (MASB) and
(ii) Public Sector Accounting Standards Committee (PSASC).

MASB formulates accounting standards within the framework of accrual basis of accounting whereas PSASC formulates accounting standards within the framework of cash basis of accounting.

MASB Profile

The Malaysian Accounting Standards Board (MASB) is established under the Financial Reporting Act 1997 (the Act) as an independent authority to develop and issue accounting and financial reporting standards in Malaysia.

The MASB, together with the Financial Reporting Foundation (FRF), make up the new framework for financial reporting in Malaysia. This new framework comprises an independent standard-setting structure with representation from all relevant parties in the standard-setting process, including preparers, users, regulators and the accountancy profession.

The functions and powers of the MASB as provided under the Act are to:

- issue new accounting standards as approved accounting standards and to review, revise or adopt existing accounting standards as approved accounting standards;
- issue statements of principles for financial reporting;
- sponsor or undertake development of possible accounting standards;
- conduct public consultation as necessary;
- develop a conceptual framework for the purpose of evaluating proposed accounting standards;
- make such changes to proposed accounting standards as considered necessary;
- seek the view of the FRF in relation to new and existing standards, statement of principles, and changes to proposed standards;
- determine scope and application of accounting standards; and
- to perform such other function as the Minister of Finance may prescribe.

A. Approved Accounting Standards Issued

Financial Reporting Standards [FRS]

The MASB approved accounting standards and interpretations set out below [hereinafter referred to as Financial Reporting Standards (**FRS**)] are mandatory for all entities other than private entities.

A private entity is a private company, incorporated under the Companies Act 1965, that -

- is not itself required to prepare or lodge any financial statements under any law administered by the Securities Commission or the Bank Negara Malaysia; and

- is not a subsidiary or associate of, or jointly controlled by, an entity which is required to prepare or lodge any financial statements under any law administered by the Securities Commission or the Bank Negara Malaysia.

The meaning of ‘subsidiary’, ‘associate’ and ‘jointly controlled’ are as respectively defined and explained in FRS 127 Consolidated and Separate Financial Statements, FRS 128 Investments in Associates and FRS 131 Interests in Joint Ventures.

An entity may only be treated as a private entity in relation to such annual periods or annual periods through out which it is a private entity.

Standard	**Title**
FRS 1	First-time adoption of Financial Reporting Standards
FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Presentation of Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 107	Cash Flow Statements
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events After the Balance Sheet Date
FRS 111	Construction Contracts
FRS 112	Income Taxes
FRS 114	Segment Reporting
FRS 116	Property, Plant and Equipment
FRS 117	Leases
FRS 118	Revenue
FRS 119	Employee Benefits
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
FRS 121	The Effect of Changes in Foreign Exchange Rates
FRS 123	Borrowing Cost

FRS 124	Related Party Disclosures
FRS 126	Accounting and Reporting by Retirement Benefit Plans
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 129	Financial Reporting in Hyperinflationary Economies
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 134	Interim Financial Reporting
FRS 136	Impairment of Assets
FRS 137	Provisions, Contingent Liabilities and Contingent Assets
FRS 138	Intangible Assets
FRS 139	Financial Instruments: Recognition and Measurement
FRS 140	Investment Property
FRS i-1	Presentation of Financial Statements of Islamic Financial Institutions
FRS 201	Property Development Activities
FRS 202	General Insurance Business
FRS 203	Life Insurance Business
FRS 204	Accounting for Aquaculture
IC Interpretations	**Title**
	Preface
107	Introduction of the Euro
110	Government Assistance – No Specific Relation to Operating Activities
112	Consolidation – Special Purpose Entities

113	Jointly Controlled Entities – Non Monetary Contributions by Venturers
115	Operating Leases – Incentives
121	Income Taxes – Recovery of Revalued Non-Depreciable Assets
125	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders
127	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
129	Disclosure – Service Concession Arrangements
131	Revenue – Barter Transactions Involving Advertising Services
132	Intangible Assets – Web Site Costs
201	Preliminary and Pre-operating Expenditure

B. Exposure Drafts Issued

Exposure draft listed below had been issued for public comments are as follows:

ED	Title
Draft IC Interpretation	IC Interpretations 1, 2, 5

C. Exposure Drafts Pending

Exposure draft listed below had been issued for public comments, the exposure period of which had lapsed. The draft remained outstanding pending further review by the board or pending conclusion by the IASB / issuance of similar standard by IASB."

ED	Title
ED 48	Exploration for and Evaluation of Mineral Resources
ED 49	Amendment to FRS 119 Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures
Ed 50	Agriculture
ED 51	Insurance Contracts

Public Sector Accounting Standards Committee Profile

The Public Sector Accounting Standards Committee is established in the year 1992 in order to enhance accountability and improve standards of government financial reporting. Public Sector Accounting Standards Committee is responsible for issuing of Government Accounting Standards

(GAS) in Malaysia. The objectives of these Standards are to prescribe the basis for presentation of general purpose financial statements in order to ensure comparability and also to comply with the Federal Constitution and Financial Procedure Act 1957 which are being enforced. Public Sector Accounting Standards applies to Federal Government and all States Governments.

The functions and powers of the PSASC are to:

- issue new accounting standards as approved public sector accounting standards;
- issue statements of principles for public sector financial reporting;
- undertake development of possible public sector accounting standards;
- develop a conceptual framework for the purpose of evaluating proposed public sector accounting standards;
- make such changes to proposed accounting standards as considered necessary;

A. Approved Accounting Standards Issued

The PSASC approved accounting standards set out below [hereinafter referred to as Government Accounting Standards (GAS)] are mandatory for Federal Government and all state Governments:

Standard	**Title**
GAS 1	Government Accounting Policies
GAS 2	Presentation of Financial Statements
GAS 3	Consolidated Revenue Accounts
GAS 4	Consolidated Trust Accounts
GAS 5	Consolidated Loans Accounts
GAS 6	Investments
GAS 7	Cash
GAS 8	Memorandum Accounts

B. Exposure Drafts

Currently, Public Sector Accounting Standards Committee is working on two new accounting standards that are as follows:

i. Effect of Changes Foreign Exchange Rate and
ii. Government Grants.

Exposure drafts on the new standards are expected to be issued in July 2006.

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NEW ZEALAND INSTITUTE OF CHARTERED ACCOUNTANTS

MEMORANDUM

DATE:	31 MAY 2006
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 AFFECTING THE PUBLIC SECTOR

Introduction

This memorandum updates Members of the International Public Sector Accounting Standards Board (IPSASB) on recent developments affecting the public sector New Zealand relating to:

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

Generally Accepted Accounting Practice

Accounting for non-exchange revenues
A two staged approach to developing a NZ standard for Public Benefit Entities on Accounting for Non-exchange Revenues has been adopted:

1. IPSASB ED 29 Accounting for Revenue from Non-Exchange Transactions has been issued in NZ with an accompanying discussion paper. This discussion paper seeks feedback from public sector and not-for-profit sector entities on the proposals in the ED;
2. Based on feedback from NZ constituents on ED-29 the Financial Reporting Standards Board (FRSB) is developing a submission to the IPSASB and will consider the form and content of guidance in New Zealand.

Heritage Assets
The FRSB issued for comment in New Zealand the IPSASB Consultation Paper *Accounting for Heritage Assets Under the Accrual Basis of Accounting.* The FRSB has contacted directly a number of NZ organisations that hold heritage assets and requested them to make submissions on the Consultation Paper.

Financial Reporting Guidance for Voluntary Sector Entities
A Working Group of the FRSB (The PBE Working Group) is preparing financial reporting guidance for voluntary sector entities to reflect the adoption of NZ IFRS. The objective of the project is to provide guidance on how not-for-profit entities can apply the standards.

The document is intended to provide educational guidance to assist people who are not familiar with the requirements of International Financial Reporting Standards (IFRSs).

The PBE Working Group considers that a model set of financial statements and a disclosure checklist would be useful companion documents to accompany the guidance. Development of these companion documents is considered to be outside the role of the PBE Working Group and the FRSB. However, the FRSB has asked the Institute to support the project and to approach other organisations with an interest in financial reporting in the voluntary sector with a view to raising resources to support the development of these documents.

Reporting equity by Public Benefit Entities

The PBE Working Group is developing a discussion paper on reporting equity by PBEs. The paper will focus on best practice and link to NZ IFRSs where possible.

Control

Application of FRS-37 has highlighted issues around whether the definition of control is working as originally intended, particularly for the public sector. There has been a significant debate in NZ about the appropriateness of consolidating universities by virtue of the control definition within FRS-37. In August 2005 the FRSB issued for comment a Discussion Paper *Control and Public Benefit Entities that have Autonomy and Independence*. The Discussion Paper raised issues for consideration by constituents and sought feedback on the preliminary views of the FRSB outlined in the Paper on the application of FRS-37 *Consolidating Investments in Subsidiaries* and NZ IAS 27 *Consolidated and Separate Financial Statements* to public sector entities created with statutory independence and autonomy.

The FRSB is considering submissions received on the Discussion Paper and based on the responses is developing an Exposure Draft of the proposed amendments to FRS-37. The Exposure Draft is expected to be issued in the 2nd half of 2006. The FRSB is also aware that the IASB will be considering the concept of control in its projects on business combinations and the Framework revision. These projects are being monitored and once the outcomes are more certain a more fundamental consideration of the application of control in the public sector will be considered. The FRSB is, therefore, very interested in the initiative of the IPSASB to develop a conceptual framework for public sector entities.

Conceptual Framework

The FRSB is monitoring progress on the IASB-FASB Framework revision project. Kimberley Crook, the Institute's Technical Director, is a member of the IASB-FASB project team to revise the IASB Framework.

In addition the FRSB has been receiving and considering reports prepared by Kevin Simpkins who has been monitoring the IASB project from a public sector point of view on behalf of standard setters from the UK, Canada, Australia and New Zealand.

The IASB project to revise the Framework is focussing on profit-oriented entities and at this stage is taking a narrow view of the objective of financial statements, relating it to meeting investors' decision making needs. The FRSB is concerned that this focus is likely to create difficulties in New Zealand given the current approach to developing a single set of standards applicable to all entities.

Summary Financial Statements

The FRSB is developing an ED to revise FRS-39 *Summary Financial Statements.* The purpose of the revision is to update the standard for the adoption of New Zealand equivalents to IFRSs. Local authorities are required to prepare summary financial reports.

Proposed amendments to IAS 23 Borrowing Costs
The IASB is proposing to amend IAS 23 to require the capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

The FRSB discussed a range of issues affecting the public sector, including capital charges payable by some public sector entities and whether these charges are borrowing costs as defined in IAS 23. The FRSB has prepared a Discussion Paper to accompany the New Zealand equivalent Exposure Draft. The discussion paper will seek the views of constituents on whether capital charges meet the definition of borrowing costs in IAS 23.

Auditing and Professional Standards

Adoption of International Standards on Auditing (ISAs)
In December 2005 the Professional Practices Board (PPB) released a communication on its project to adopt International Standards of the IAASB on Auditing, following the feedback received from its Consultation Paper: *Adoption of International Standards on Auditing in New Zealand*.

Audit Guidance Statements concerning the transition to NZ IFRSs
The PPB recently approved the Interim Audit Guidance Statement on Audit Reporting Issues addressing reporting issues arising on an entity's transition to use of New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs). The Interim Audit Guidance Statement will be published on the Institute's website.

The PPB is also currently developing an Audit Guidance Statement addressing wider audit implications of the transition to NZ IFRSs. This is expected to be tabled for PPB approval in the near future.

Central Government

On 19 May the NZ Government introduced to Parliament its budget for the year beginning 1 July 2006. The budget documentation includes whole-of-government and departmental forecast financial statements that comply with the New Zealand accounting standard FRS-29: *Prospective Financial Statements* and will be consistent with the financial statements prepared in accordance with NZ GAAP at the end of the year.

Central government public benefit entities are required to prepare NZ IFRS financial statements for the period beginning 1 July 2007, although they can adopt NZ IFRS earlier if they wish. The New Zealand Treasury has established a website dealing with matters relating to the transition of NZ GAAP to NZ IFRS. This can be accessed at http://www.treasury.govt.nz/nzifrs/ .

Local Government

Long Term Council Community Plans (LTCCPs) are currently being prepared by all local authorities in New Zealand covering a ten year period commencing 1 July 2006. These plans must contain forecast financial information for the ten year period prepared in accordance with generally accepted accounting practice. This is the first year that LTCCPs must be prepared under NZ IFRS. All LTCCPs are subject to audit by the Office of the Auditor-General.

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

Greg Schollum
NEW ZEALAND REPRESENTATIVE

Prof. Andreas Bergmann, Dr. oec.

Country Report Switzerland

(Paris Meeting, July 2006, prepared 29 May 2006)

A. Federal Government

After the critical decisions on the way to adopt IPSAS on the federal level had been taken last winter, the project is now concentrating on implementation. In May the last stage of the project, consolidation of controlled entities, has been initialised. Due to the extent of the entire project, full consolidation is scheduled to be implemented by January 1st 2009, two years after adopting IPSAS for the government and its agencies from January 1st 2007. Full consolidation is considered to be a major obstacle. Especially one of the two elements of control, the power condition, is difficult to identify in the Swiss jurisdiction which strongly emphasizes limitation of power, especially in the public sector. A first report, prepared by a group of experts under the auspices of the Institute for Public Management at Zurich University of Applied Sciences, identifying relevant characteristics of entities which are potentially to be consolidated, should be finalized by September.

B. State (Canton) Governments

On the level of the Conference of State Ministers of Finance (short „Conference”) there is currently a model State Financial Management Act being drafted. This draft act should be used both by state governments adopting IPSAS, but also those rejecting this step for the time being. Currently about half of the states have started adopting IPSAS or showed interest in doing so in due course, while the other half is opposing this step, mainly due to political issues and tax rate mechanisms. The draft act is supposed to cater for both situations. Furthermore, the idea of establishing a Swiss standard setter has been proposed to the federal Ministry of Finance. Both, the Conference and the Ministry are likely to agree on implementing a national standard setter, however, in respect of the governance of this institution things remain unclear for the time being. Negotiations are likely to take place before July, but it’s not realistic, that representatives of the Swiss standard setter will already be able to join the meeting of the IPSASB with national standard setters in Paris.

In the State of Zurich the referendum committee has failed to submit the necessary number of 3'000 signatures (state population 1.3m). This shows the limited support of the opposition against the IPSAS amongst the citizens. Although the Act on Controlling and Accounting becomes effective in due course, the government has decided to postpone implementation of the standard based accounting by one year to January 1st 2008. There seem to be two reasons for this delay, one is accounting for tax revenues and the other accounting for employee benefits. In the first case the government has decided to wait for the IPSAS on Non-Exchange Revenues to be issued, in order to make sure the right decisions are taken, while the issue of employee benefits is slightly more difficult. Although both the Financial Management Agency and the external consultants suggested adopting IAS 19, the Auditor General identified "major conceptual flaws" in this standard and therefore suggested to abstain from using it.

The main issue is the classification of what is a defined contribution plan in the Swiss jurisdiction as defined benefit plan under IAS 19. It is controversial, whether there is a legal or constructive obligation to guarantee a specified return on average. Most employers, including those in the public sector, reject such an obligation whatsoever; while the unions even admit a legal obligation. Accounting experts and actuaries at least admit a constructive obligation and therefore classify the plans under IAS 19 as defined benefit. There are no court decisions, yet, as in history most pension plans have met the target rate of return, at least on average (the target rate is about equal to the rate of return of first-class bonds, currently 2.75%). There is a general expectation that the treatment of such plans as defined benefit plans would seriously prejudice the position in this dispute. Opponents against an adoption of IAS 19 would therefore prefer to exclude constructive obligations. In case of the State of Zurich government, there could be an expectation that a proposed change in legislation is sufficiently convincing to accountants and actuaries to abstain from classifying the plan as a defined benefit plan. However, there remains some doubt whether the federal jurisdiction leaves enough room for such a highly controversial and material variation on state level.

UNITED KIINGDOM COUNTRY REPORT

A. ACCOUNTING STANDARDS BOARD DEVELOPMENTS

1. New Accounting Standards

Standards Issued/ amended

Since March 2006 the UKASB has amended one Financial Reporting Standard:

- Amendment to Financial Reporting Standard (FRS) 26 (IAS 39) 'Financial Instruments: Measurement' – Recognition and Derecognition.

This implements the recognition and derecognition material in IAS 39 'Financial Instruments: Recognition and Measurement'.

Urgent Issues Task Force

Since March 2006 the UKASB UITF has issued

- UITF Abstract 41 'Scope of FRS 20 (IFRS 2)'
- UITF Abstract 42 'Reassessment of Embedded Derivatives'
- Information Sheet 79 Draft Abstract 'The interpretation of equivalence for the purposes of section 228A of the companies Act 1985'

UITF Abstract 41 implements IFRIC Interpretation 8 'Scope of IFRS 2' in the UK and the Republic of Ireland for entities preparing their financial statements in accordance with UK accounting standards and, in doing so, are applying FRS 20 (IFRS 2) 'Share-based Payment'. IFRIC 8 was developed to address situations where, for public policy or other reasons, companies give shares or share rights to individuals, organisations or groups that have not provided goods or services to the company. An example is the issue of shares to a charitable organisation for less than fair value, where the benefits are more intangible than usual goods or services. Abstract 41 confirms that such arrangements fall within the scope of FRS 20 (IFRS 2).

UITF Abstract 42 implements IFRIC Interpretation 9 'Reassessment of Embedded Derivatives' in the UK and the Republic of Ireland for entities preparing their financial statements in accordance with UK accounting standards and, in doing so, are applying FRS 26 (IAS 39) 'Financial Instruments: Measurement'. IFRIC 9 considers whether it is necessary to reassess the treatment of an embedded derivative throughout the life of a contract if certain events occur after an entity first becomes a party to the contract. It concludes that reassessment is not permitted unless there is a significant change to the terms of the contract.

Information Sheet 79 Draft Abstract addresses questions as to whether financial statements drawn up in accordance with IFRS, US GAAP and other GAAPs meet the requirement for 'equivalence' with the Seventh Directive. Such equivalence is a necessary condition for exemption from the UK Companies Act requirement for an intermediate parent undertaking to prepare consolidated accounts when its parent entity is not established under the law of an EEA state.

2. UKASB Exposure Draft amending FRS 20 (IFRS 2) 'Share-based Payment'

On 2 March 2006, the UKASB issued an exposure draft of an amendment to FRS 20 (IFRS 2) 'Share-based Payment – Vesting Conditions and Cancellations'. FRS 20 is in most respects identical to IFRS 2, and the exposure draft follows similar proposals issued in February 2006 by the International Accounting Standards Board. These clarify that, where options are cancelled by the employee (other than on leaving employment), such cancellations should be treated in the same way as cancellations by the employer.

3. UKASB Exposure Draft amending Financial Reporting Standard for Smaller Entities (FRSSE)

The UKASB has published for comment an Exposure Draft for amendments to its Financial Reporting Standard for Smaller Entities (FRSSE). The Exposure Draft contains proposals for revising the FRSSE to ensure that it is kept up to date and will lead to the fifth periodic revision to the FRSSE. It is proposed the amendments will be effective for accounting periods beginning on or after 1 January 2007.

4. UKASB Exposure Draft "Statement of Principles: Proposed Interpretation for Public Benefit Entities"

Consultation on this exposure draft has been completed and the UKASB has reviewed responses. Proposals for further development are expected shortly.

5. UKASB Discussion Paper on 'Heritage Assets'

The UK exposure draft was released in January 2006. The comment period ended on 31 May 2006, after which the UKASB will be considering the responses.

6. UKASB consultation on the Future Application of Reporting Requirements for UK Companies

On 10 May 2006 the UKASB issued tentative proposals to

- require all UK Public Quoted and other publicly accountable companies to apply full IFRS, irrespective of turnover and whether they present group accounts or not.
- extend the UKASB FRSSE to medium-sized entities.
- require UK subsidiaries of groups that apply full IFRS to apply full IFRS measurement and recognition, with reduced disclosure requirements

They also sought views on possible approaches for the "middle tier" of entities not compelled to follow IFRS, but too large to be covered by the UKASB FRSSE.

B. AUDITING PRACTICES BOARD DEVELOPMENTS

1 Revised ISAs (UK & Ireland)

Revised ISA (UK&Ireland) 720 covering Directors' Reports.

On 10 April 2006 the UKAPB issued ISA (UK and Ireland) 720 (Revised) which addresses the auditor's consideration of other information in documents containing audited financial statements, including the auditor's statutory reporting responsibilities in relation to directors' reports.

The revised standard has two sections:

Section A – "Other Information in Documents Containing Audited Financial Statements". This applies to all "other information", including the directors' report. This section is largely unchanged from the previous standard.

Section B – "The Auditor's Statutory Reporting Responsibility in relation to Directors' Reports". This introduces further standards and guidance in respect of the auditor's new statutory responsibility to report whether the information given in the directors' report is consistent with the financial statements. This takes account of changes to the UK Companies Act applicable to financial years which begin on or after 1 April 2005.

The exposure draft of this standard included a section with guidance in respect of a reporting on a statutory Operating and Financial Review. That section is not included in the final standard as the related legislation was repealed.

2 APB Practice Notes

Practice Note 12 (Revised), 'Money Laundering - Interim guidance for auditors in the United Kingdom'

This updated version has been submitted to the UK Finance Ministry (HM Treasury) for approval in accordance with sections 330 and 331 of the Proceeds of Crime Act 2002. When approval has been received from HM Treasury the UKAPB plans to publish in final form.

Practice Note 14 (Revised): "The Audit of Registered Social Landlords in the United Kingdom"

This updates the Practice Note to reflect changes in the legislative framework, and the replacement of Statements on Auditing Standards (SASs) with ISAs (UK & Ireland).

Consultations

Recent and ongoing consultations include

- Practice Note 10(I): 'Audit of Central Government Financial Statements in the Republic of Ireland'.
- Practice Note 19 'The audit of banks and building societies in the United Kingdom'.
- Practice Note (PN) 21: 'The Audit of Investment Businesses in the United Kingdom'.
- Practice Note (PN) 24: 'The Audit of Friendly Societies in the United Kingdom'

3 Bulletins

Bulletin 2006/3 'The Special Auditor's Report on Abbreviated Accounts in the United Kingdom' (April 2006)

Many small and medium sized companies submit abbreviated accounts to the Registrar of Companies. Their auditors make a 'special report` that the company is entitled to deliver abbreviated accounts and that they have been properly prepared. This Bulletin supersedes Bulletin 1997/1 and updates the UKAPB guidance:

- For changes in legislation;
- For the replacement of SAS 600 by ISA (UK and Ireland) 700; and
- To extend the guidance to Northern Ireland.

<u>Bulletin 2006/4 ‘Regulatory and Legislative Background to the Application of Standards for Investment Reporting in the Republic of Ireland’.</u>

The UKAPB has in issuance four Standards for Investment Reporting (SIRs), drafted for the United Kingdom. This Bulletin provides an explanation of the background to the legislative and technical references, referenced to the Irish equivalent**.**

C. LOCAL GOVERNMENT

Local Authority Statement of Recommended Practice (SORP) 2006 Consultation and Financial Instruments Discussion Paper

The LA SORP has been reviewed by the UKASB Committee on Accounting for Public Benefit Entities. Formal approval by the full UKASB is expected in June 2006.

D REGISTERED SOCIAL LANDLORDS

No significant developments to report (other than audit Practice Note)

E CHARITIES SECTOR

No significant developments to report (other than Heritage Assets).

F FINANCIAL REPORTING COUNCIL

<u>FRC and DTI Study “Competition and Choice in the UK Audit Market”</u>

The UKFRC and the Department of Trade and Industry (DTI) have published a study jointly commissioned by them, “Competition and choice in the UK audit market”.

The study considered the factors that contribute to the competitive environment for audit services to large listed companies in the UK. It aims to provide an objective, independent analysis of the market, based on extensive research among audit committees, companies, firms, investors and regulators.

Key findings from the study were presented at a meeting of stakeholders on 26 April 2006. This meeting was the first stage of a wider consultation into public interest issues that may arise from the existing competitive environment for audit services to large listed companies in the UK and how these issues might be addressed.

Liz Cannon

Technical Advisor, United Kingdom

Steven Cain

CIPFA secretariat, United Kingdom.

31 May 2006

United States Country Report
Prepared for the IFAC Public Sector Accounting Standards Board
June 2006

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

Recognition and Measurement of Asbestos-Related Cleanup Costs. In June, 2006, the FASAB released an exposure draft (ED) of Technical Bulletin (TB) 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs.* This proposed TB is intended to clarify the required reporting of liabilities and related expenses arising from friable and nonfriable asbestos-related cleanup costs. If adopted, the effect of this TB would be to clarify that federal entities should (1) estimate both friable and nonfriable asbestos-related cleanup costs and (2) recognize a liability and related expense for those costs that are both probable and reasonably estimable. It would also require federal entities to disclose information related to friable and nonfriable asbestos-related cleanup costs that are probable but not reasonably estimable in a note to the financial statements. Copies of the ED are available at the FASAB website at http://www.fasab.gov/exposure.htm.

Recent Activity of the Governmental Accounting Standards Board (GASB)

Derivatives. In April 2006, the GASB issued a preliminary views document (PV), *Accounting and Financial Reporting for Derivatives*, intended to improve state and local governments' accounting for and financial reporting of derivatives. Because the number and value of government derivative contracts have increased substantially, the PV would require more information on the risks inherent in these transactions and their potential impact on a government's financial position. It proposes that governments report in their financial statements the fair value of derivatives, as well as the change in that fair value. If a derivative is effectively reducing the risk it was created to address, however, the changes in its fair value would be deferred and reported in the balance sheet. Governments also would have to disclose additional information about their derivatives in the notes to their financial statements. The PV and a plain-English summary of its provisions can be downloaded at www.gasb.org.

Key Differences between Financial Reporting for Governments and For-Profit Business Entities. In March 2006, the GASB issued a White Paper titled, *Why Governmental Accounting and Financial Reporting Is—And Should Be—Different*. The paper asserts that individuals and organizations who are interested in the financial performance of state and local governments have substantially different information needs than those who follow the financial performance of for-profit entities. According to the paper, these different and more diverse needs result from basic environmental differences between governments and businesses. The primary purpose of governments is to enhance or maintain the well-being of citizens by providing services in accordance with public policy goals. In contrast, for-profit business enterprises focus primarily on wealth creation, interacting principally with those segments of society that fulfill their mission of generating a financial return on investment for shareholders. The paper goes on to cite several other crucial differences that generate user demand for unique information. The entire GASB White Paper can be found at: http://www.gasb.org/white_paper_full.pdf.

Recent Activity of the Financial Accounting Standards Board (FASB)

Bifurcation of Insurance and Reinsurance Contracts for Financial Reporting In May 2006, the FASB issued an Invitation to Comment (ITC) titled, *Bifurcation of Insurance and Reinsurance Contracts for Financial Reporting*, seeking comment on whether accounting for insurance and reinsurance contracts should specifically detail financial components. The issue relates to the way insurers account for so-called finite-risk policies, or contracts that significantly limit the actual amount of risk transferred. Current accounting rules for finite-risk contracts are unclear and such contracts are typically accounted for as insurance policies, which gives insurers and their customers more favorable tax treatment. Further, the FASB board is concerned about a possible lack of transparency in the financial statements of both policyholders and (re)insurance companies relating to the depiction of insurance risk associated with finite-risk contracts. In the ITC, the FASB is seeking comment on whether contracts should be split into insurance components and financing components for accounting purposes. FASB also wants to know whether such a division would improve financial reporting by providing users of financial statements with better information about the economic substance of insurance arrangements. The ITC is available at: http://www.fasb.org/draft/ITC_Bifurcation_Insurance.pdf.

Postretirement Benefit Obligations, Including Pensions. In March 2006, the FASB issued an ED titled, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R).* The objective of this project is to comprehensively reconsider guidance in FASB Statements No. 87, *Employers' Accounting for Pensions*, No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, and No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, in order to improve the reporting of pensions and other postretirement benefit plans in the financial statements by making information more useful and transparent for investors, creditors, employees, retirees, donors, and other users. The ED is available at: http://www.fasb.org/draft/ed_pension&postretirement_plans.pdf. In early May, the FASB staff issued an additional related document that includes illustrative examples to assist the readers of the ED in understanding how the guidance contained in the proposed Statement would be applied by not-for-profit organizations. The document titled, *Illustrative Examples for Not-for-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income*, includes examples that specifically illustrate how a not-for-profit organization would apply the retrospective application provisions of the proposed Statement at initial implementation and how such an entity would report actuarial gains or losses and prior service costs or credits in a statement of activities. This additional document is available at: http://www.fasb.org/draft/ed_pensions_addendum_for_nfps.pdf.

FASB Staff Positions. The following final FASB staff positions (FSP) were issued since February 2006 (all are available on the FASB Web site at www.fasb.org):

FSP FIN 46(R)-6. *Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)* (April 13, 2006)

FSP FTB 85-4-1. *Accounting for Life Settlement Contracts by Third-Party Investors* (March 27, 2006)

FSP FAS 123(R)-4. *Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event* (February 3, 2006)

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

No activity.

Recent Activity of the AICPA Auditing Standards Board (ASB)

SAS No. 112. In April 2006, the ASB issued Statement on Auditing Standards (SAS) No. 112, *Communication of Internal Control Related Matters Noted in an Audit (AU sec. 325)*. The final SAS, which revises guidance that previously appeared in SAS No. 60 of the same name, is expected to be available shortly and will be effective for periods ending on or after December 15, 2006. Earlier application is permitted. Among other things, SAS No. 112 will:

- Incorporate the definitions of the terms control deficiency, significant deficiency, and material weakness used in Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*.

- Require the auditor to communicate significant deficiencies and material weaknesses to management and those charged with governance.

- Require that the communication be in writing.

Communication with Those Charged with Governance. In March 2006, the ASB released an ED of a proposed SAS titled, *The Auditor's Communication With Those Charged With Governance*, which would replace SAS No. 61, *Communication With Audit Committees*, as amended. It establishes standards and provides guidance to an auditor on matters to be communicated with those charged with governance. The proposed SAS broadens the applicability of the SAS to audits of the financial statements of all nonissuers and establishes a requirement for the auditor to communicate with those charged with governance certain significant matters related to the audit. It also identifies specific matters to be communicated, many of which are generally consistent with the existing requirements in SAS No. 61. However, the proposed SAS includes certain additional matters to be communicated and provides additional guidance on the communication process. In addition to the proposed SAS, the ED includes a proposed amendment to SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, as amended. The proposed amendment requires the auditor to communicate to those charged with governance events or conditions that cause an auditor to conclude that there is substantial doubt about the entity's ability to continue as a going concern, as well as management's plans for addressing such events or conditions.

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

Periodic Reporting by Registered Accounting Firms. In May 2006, the PCAOB proposed rules for annual and special reporting of information and events by accounting firms that are registered with the PCAOB. Based on Section 102(d) of the Sarbanes-Oxley Act of 2002, each registered public accounting firm shall submit an annual report to the Board, and may also be required to report more frequently, to provide information specified by the Board or the Securities and Exchange Commission. The reporting framework proposed by the Board includes two types of reporting obligations. First, the proposal would require each registered firm to provide basic information once a year about the firm and the firm's issuer-related practice over the most recent 12-month period. Second, the proposal identifies certain events that, if they occur with respect to a registered firm, must be reported by the firm within 14 days. The proposed rules allow, in certain circumstances, a successor firm to succeed to the registration status of a predecessor firm following a merger or other change in the registered firm's legal form. In other circumstances, the proposed rules would allow for temporary succession for a transitional period of up to 90 days while the firm seeks registration.

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

No Activity.

IFAC INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD
IFAC IPSASB MEETING – July 2006

COUNTRY REPORT – AUSTRALIA
(Prepared 6 June 2006)

In general, this Country Report only notes events since the last Report was prepared for the March 2006 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.

STRATEGIC ISSUES

Sector Neutrality

As reported in the March 2006 Country Report, the AASB has agreed a strategy that AASB standards should be 'transaction neutral' as between the for-profit, not-for-profit private and not-for-profit public sectors. That is, no matter in which of the sectors the transaction takes place, the Accounting Standards should require the same accounting treatment. However, the AASB has acknowledged that there are different business models in each sector. Consistent with the approach of the IPSASB, the AASB believes that the IFRSs should provide the core direction for the treatment of transactions and other events. In recognition of the fact that the IASB has written IFRSs specifically for the for-profit sector, and in view of the different business models in the other sectors, the AASB is prepared to modify the IFRSs, where necessary, in order that they are also appropriate for use in the other sectors. The AASB also considers it is responsible for making standards especially for use in the not-for-profit private and not-for-profit public sectors in order to reflect unique features and unique needs of these sectors.

It is also relevant to note that the Financial Reporting Council (FRC), the Australian body that specifies the strategic direction of the AASB, has engaged a consultant to review the issue of sector neutrality of accounting standards. At this stage, it is expected that the consultant's report to the FRC will finalised in the third quarter of 2006.

TECHNICAL ISSUES

Specific projects for which substantial progress has been made since the March 2006 Country Report are outlined in the following.

GAAP/GFS Convergence

The AASB is continuing to develop a Standard for the General Government Sector (GGS) of a federal, state or territory government based on the proposals in ED 142 *Financial Reporting of General Government Sectors by Governments* and amended, where appropriate, to take account of constituents' comments. It is possible that the Standard will be finalised before the end of this year.

The Board has almost finalised its consideration of the submissions on ED 142 and is scheduled to consider a draft Standard (a mark-up from ED 142) at its June 2006 meeting.

Since the previous Country Report, the Board has revisited the question of the relationship between General Government Sector (GGS) and Whole of Government (WoG) financial reports and decided that:

- the Standard should explicitly specify that a government is required to prepare both a partially-consolidated (GGS) financial report and a fully-consolidated (WoG) financial report and that the WoG report should be available at the same time as the GGS report. Given the current processes adopted for the preparation of WoG reports, the Board decided that it is appropriate to provide a transitional period before the requirement for the WoG report to be available at the same time as the GGS report becomes mandatory. The Board will consult with constituents before determining the length of the transitional period;
- if the WoG and GGS financial reports are presented separately, each report should refer to the existence and availability of the other; and
- it is not necessary for the Standard to specify whether the GGS is a reporting entity and whether the financial report is a General Purpose Financial Report (GPFR), given that the Standard itself will prescribe the particular requirements for the form and content of the financial report.

Other decisions that the Board has made since the last Country Report include:

- the GGS financial report should adopt GAAP definition, recognition and measurement principles (with GAAP options limited to the extent they are consistent with Australian Bureau of Statistics Government Finance Statistics (ABS GFS);
- recognised amounts determined in this way should be presented in the operating statement in a manner that reflects the GFS notions of transactions and other economic flows;
- the face of the financial statements should include key fiscal aggregates, such as net lending/borrowing, measured in a manner that is consistent with other amounts recognised on the face; and
- to the extent these key fiscal aggregates amounts differ from the corresponding amounts determined in accordance with ABS GFS, a reconciliation should be provided in the notes.

The AASB will consult further in finalising illustrative single-column format financial statements to be included in the Standard. The ongoing development of the illustration will include further consideration of how GAAP-derived amounts that do not have corresponding GFS amounts should be classified between transactions and other economic flows. The illustration will also present cash flows relating to investing in financial assets for ‘policy’ and ‘liquidity management’ purposes separately.

Given that the amount of dividends from a Public Non-Financial Corporation (PNFC) or Public Financial Corporation (PFC) entity may affect the operating result of the GGS, the Board will consider at its June meeting GGS disclosures necessary to provide further information about the dividends.

The Board decided to require disclosure of disaggregated information as proposed in ED 142 and agreed that the Standard should include an acknowledgement that the outcome of the AASB’s segment reporting project may lead in due course to an amendment to the requirements.

Review of AAS 27, AAS 29 and AAS 31 and the ongoing Public Sector Strategy

As reported in the March 2006 Country Report, consistent with the Board's strategy of incorporating financial reporting requirements into topic-based rather than industry-based Standards, the Board has finalised its paragraph-by-paragraph review of AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*. The Board has now identified those paragraphs that it will propose can be removed because they are adequately or more appropriately addressed in other Standards or the *Framework* or, given the progress in financial reporting, no longer needed. The Board has also identified those paragraphs that it will propose are not adequately addressed in other Standards and identified the Standards into which the contents should be incorporated (amended only to the extent necessary to integrate them into those Standards) and the status of that relocated content (black letter, grey letter or implementation guidance).

The Board will issue an ED proposing that AAS 27, AAS 29 & AAS 31 be withdrawn (although the original aim was for it to be mandated for reporting periods ending on or after 30 June 2007, with early adoption allowed, that timetable is unlikely to be achieved) without leaving a vacuum of guidance for federal, state, territory and local governments and government departments.

The noteworthy specific topics that will be discussed by the Board at its June 2006 meeting are the distinction between "controlled", "administered" and "custodial" items and the appropriate level of disclosure for administered and custodial items. The draft ED contemplates disclosing administered items with equal prominence to, but readily distinguishable from, controlled items on the face of the financial statements. It also contemplates disclosing custodial items in the notes in the financial statements.

Revenue Recognition by Not-for-Profit Entities

In March 2006, the Board issued IPSASB Exposure Draft ED 29 *Revenue from Non-Exchange Transactions (Including Taxes and Transfers)* for comment to the Board by 12 May 2006 and to the IPSASB by 30 June 2006. Ten submissions have been received. The respondents supported many of the proposals in ED 29. However, some respondents expressed disagreement with the proposed basis for distinguishing *restrictions on transferred assets* from *conditions on transferred assets*. Some respondents observed that a liability arising from a non-exchange transaction requires both a performance obligation and a return obligation, and said it is unclear how to measure such a combined obligation under IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.

Heritage Assets

In May 2006, the Board discussed the IPSASB Consultative Paper *Accounting for Heritage Assets Under the Accrual Basis of Accounting* at its meeting with the New Zealand Financial Reporting Standards Board. The Boards acknowledged the practical difficulties associated with accounting for heritage assets, but concluded that heritage assets are a subset of property, plant and equipment and should be subject to the same accounting principles as those applicable to property, plant and equipment. The Boards agreed that the practical difficulties are in the nature of a transitional issue.

At its June 2006 meeting, the Board will discuss a draft submission on the IPSASB Consultation Paper.

Segment Reporting

In January 2006, the Board issued Exposure Draft ED 145 *Operating Segments* for comment by 20 April 2006. It is the equivalent to IASB ED *Operating Segments* to replace IAS 14 *Segment Reporting*. The Australian Preface to the ED includes questions on the appropriateness and implications of adapting the IASB proposed 'management approach' to identifying segments for application by not-for-profit entities in either or both of the public sector or private sector. Responses to ED 145 from constituents indicated general support for adopting the proposals in respect of for-profit entities but that the management approach would be inappropriate for application by not-for-profit entities in the public and private sectors. The AASB proposes to consult further with public sector constituents to determine why the management approach is inappropriate before determining the basis of the approach to developing a separate AASB ED.

IASB Convergence

As reported in the March 2006 Country Report, 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.

The AASB is continuing to monitor all of the IASB's projects and makes comment on IASB papers at relevant stages of their development. The AASB is progressing two research projects on behalf of the IASB (Intangible Assets and Extractive Activities) and is assisting with two active projects (Insurance phase 2 and Revenue Recognition). In March 2006, the IASB suspended indefinitely its AASB-led research project on Joint Ventures, because further progress on that project depends on the outcome of other IASB projects in progress.

Non-Financial Liabilities

In Australia, some of the responses to AASB Exposure Draft 140 (the Australian equivalent of the IASB Exposure Draft *Proposed Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and IAS 19 "Employee Benefits"*) recommended that the revised AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* include a scope exception for the provision of social policy obligations, similar to that provided in IPSAS 19. At present, this scope exception is provided by public-sector specific accounting standards AAS 27, AAS 29 and AAS 31. However, as reported in the March 2006 Country Report, with the AASB planning to withdraw AAS 27, AAS 29, and AAS 31 (see above), the AASB has indicated its intention to amend AASB 137 to scope out, in respect of not-for-profit public sector entities, obligations arising from local governments' and governments' budget policies, election promises or statements of intent, and to effectively grandfather current practice in relation to those obligations.

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 April 2006 to incorporate all UIG (and AASB) Interpretations issued to then.

Since the previous Country Report, three UIG Interpretations have been issued: Interpretation 7 *Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies"*, 8 *Scope of IFRS 2* and 9 *Reassessment of Embedded Derivatives*. These are the Australian equivalents of IFRIC Interpretations 7, 8 and 9.

The AASB has agreed to replace the UIG with a new interpretations model that would use advisory panels on a topic-by-topic basis to make recommendations for the AASB's consideration. The AASB has taken the view that a unique domestic interpretation of Australian equivalents to IASB requirements would only be required in rare and exceptional circumstances. The new model is to be in place from 1 July 2006.

COMMONWEALTH GOVERNMENT, STATES AND TERRITORIES

Current Status

As reported in the March 2006 Country Report, most Australian jurisdictions prepare budgets and budget outcomes using an accrual GFS basis. Victoria and the Australian Capital Territory 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 2006 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.

FIN
FINANSDEPARTEMENTET

The Norwegian Royal Ministry of Finance

Memorandum 1.3.2006 KKL

Fact Sheet on Recent Developments in Accrual Accounting in Norway

Central Government

In December 2003 the Norwegian Parliament agreed to the plans presented by the Ministry of Finance (FIN) to develop and test accrual accounting in the central government through a step-by-step approach, and based on continual evaluation of costs and benefits[1].

The first phase focuses on developing standards for accrual accounting, and trying out these standards in some pilot agencies from January 2005. A pilot project encompasses FIN as well as the Norwegian Government Agency for Financial Management, the pilot agencies and their relevant ministries. The pilot agencies are chosen on the basis of proposals put forward by the ministries responsible. There will be an assessment of experience and results after one year of trial, during the spring 2006. After the 2006 assessment, the Government and the Parliament will decide on potential further steps, as part of the budget process in the autumn of 2006.

By February 2006 the ten pilot agencies have introduced accrual accounting and have submitted their first annual report based on the accrual principle. The pilot agencies are:

- The Directorate of Fisheries
- The Norwegian Coastal Administration
- The National Rail Administration
- The Norwegian State Housing Bank
- The Norwegian Institute of Public Health
- The Geological Survey of Norway (NGU)
- The University of Bergen
- The University of Stavanger
- The Norwegian Institute of International Affairs (NUPI)
- The Defences Real Estate Administration (Forsvarsbygg)

By November 2005, FIN had established a set of central government accrual accounting standards based on the pilot projects. The standards have been implemented by the pilot agencies during 2005. The standards are mainly based on the relevant national private sector standards. However, for specifically governmental issues regarding accrual accounting, the standards take into consideration proposals and practice documented by the International Public Sector Accounting Standards (IPSAS), as well as by other countries which have implemented accrual accounting.

In order to take capital costs into consideration, the pilot agencies have established an opening balance. In the opening balance, fixed assets are by principle valued according to utility value based on a replacement cost approach, while other assets and liabilities are entered at fair value.

[1] Reference is made to the Budget Proposal to the Storting for 2004 (Gul Bok), and to the official committee proposal NOU 2003:6.

Based on the valuation and estimated useful life of the assets, a linear depreciation is calculated. The agencies are also required to give information on the alternative cost of the government capital employed in the agency, based on an internal interest rate.

The main intention of introducing accrual principles in Norwegian central governmental accounting is to provide better cost information and to establish an improved basis for assessing resource costing with regard to the achievement of policy objectives. One main aim is to establish a baseline for benchmarking costs, both between government agencies, and in relation to private organisations. Generating a more complete overview of the assets and liabilities of the central government is another objective of the project.

The trial project using accrual principles in the pilot agencies does not imply any changes in governance. The Parliament appropriations will still be made on a cash basis, and the agencies must report on a cash basis to the State Accounts and to their superior ministries. The present introduction of accrual accounting takes place at agency level only.

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Local Government

Based on a consultation meeting between the government and the Norwegian Association of Local and Regional Authorities, the issue of accounting rules was raised. In October 2005, The Ministry of Local Government and Regional Development (KRD) established a working group to consider whether the local government accounting system should be reformed, so as to focus more attention on the effective use of resources and the preservation of assets and maintenance and improvement of public services in local government. The working group is due to deliver a report by June 2006.

Currently, local government accounting is modelled on the local government budget system, and its main purpose is appropriation control. The accounting principles used in local government are regulated in a special byelaw, and are different from the principles used in the private sector and in central government. Some interest groups have proposed employing the accrual principle in local government accounting as well as regulatory steps to further preserve assets, maintain and improve public services on the local level.

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ITALY

The Italian legislation has got more than one Framework, because it varies according to the specific public entities regulation. Due to this, Italy presents diversified accounting models, such as:

- Local Governments accounting system;
- Non-market public agencies system;
- Government accounting model; and so on.

The Parliament is going to debate a Draft concerning the Accounting models harmonization and this act should take in consideration the International Public Sector Accounting Standards.
The most important Framework is the Local Government Accounting Framework issued by the "Osservatorio per la finanza e la contabilità degli enti locali".
The "Osservatorio per la finanza e la contabilità degli enti locali" enacted at the moment the following Accounting Standards:
PC 0 – *Framework (Finalità e postulati dei principi contabili per gli enti locali);*
PC1 - Budget (programmazione e previsione nel sistema del bilanci);
PC2 – Admisnitration and Management (Gestione nel sistema di bilancio);
PC3 - Financial Statements (Rendiconto degli enti locali).
Framework's aim is to give a general picture of financial statements qualitative characteristics in order to identify the stakeholders' needs. More specifically the sections of the mentioned Framework are:
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ITALIA
In Italia l'organo deputato ad emanare i principi contabili per il settore pubblico è l'Osservatorio per la finanza e la contabilità degli enti locali, istituito a suo tempo con l'art. 11 del decreto legislativo 23 ottobre 1998, n. 410 ora trasfuso nell'art. 154 del testo unico delle leggi sull'ordinamento degli enti locali. Esso ha emanato nell'anno 2004, i principi contabili per gli enti locali.
I Principi Contabili emanati sono:
PC 0 – *framework* - *finalità e postulati dei principi contabili per gli enti locali;*
PC1 - "programmazione e previsione nel sistema del bilanci";
PC2 - "gestione nel sistema di bilancio;
PC3 - "rendiconto degli enti locali".
Lo scopo del Framework è di fornire un quadro generale sistematico (framework) di postulati relativi al sistema di bilancio. Tali postulati sono soggetti ad evoluzione nel tempo, al fine di essere rispondenti alle crescenti esigenze dei destinatari dei bilanci per quanto concerne la qualità dell'informazione e l'attendibilità dei valori con il mutare delle situazioni.

Le funzioni dei principi contabili sono:
(a) quella di interpretare in chiave tecnica le norme di legge in tema di ordinamento finanziario e contabile, secondo i fini voluti dal legislatore; e
(b) quella di collegare a dette norme tutte quelle alle quali direttamente od indirettamente si fa o si deve far riferimento.