

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

COUNTRY REPORT – AUSTRALIA
(Prepared 11 October 2006)

In general, this Country Report only notes events since the last Report was prepared for the July 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 July 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 the unique features and unique needs of these sectors.

The Financial Reporting Council (FRC), the Australian body that specifies the strategic direction of the AASB, issued in June 2006 the report of a consultant on the issue of sector-neutral accounting standard-setting in Australia. Comments have been requested by the FRC by the end of October 2006. The AASB will be making a submission.

TECHNICAL ISSUES

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

GAAP/GFS Harmonisation

The AASB issued Australian Accounting Standard AASB 1049 *Financial Reporting of General Government Sectors by Governments* in September 2006, which is applicable to the Australian Government and each State and Territory Government. The Standard has a mandatory operative date of years beginning on or after 1 July 2008, with early adoption permitted. The Board will now proceed to consider the extent to which the principles reflected in AASB 1049 should be extended to other public sector entities' financial reports.

The Standard is a result of the AASB implementing the Financial Reporting Council's broad strategic direction relating to the harmonisation of Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS). It specifies requirements for the form and content of General Government Sector (GGS) financial reports. In particular, it adopts many GFS concepts and key fiscal aggregates specified in the GFS Manual issued by the Australian Bureau of Statistics. By amending GAAP to accommodate GFS, the Standard substantially reduces the number of differences between GAAP and GFS that previously existed. A key feature of the Standard is that it makes clear that GGS financial reports do not replace whole-of-government financial reports, which are prepared on a full-consolidation basis. Indeed, the Standard requires a government to make its whole-of-government financial report available at the same time as it makes its GGS financial report available.

Review of AAS 27 Financial Reporting by Local Governments, AAS 29 Financial Reporting by Government Departments and AAS 31 Financial Reporting by Governments

As reported in the July 2006 Country Report, in implementing its strategy of incorporating financial reporting requirements into topic-based rather than industry-based Standards, the AASB is developing an exposure draft proposing the withdrawal of AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments* and the transfer of those Standards' requirements into topic-based Standards.

In October 2006, the AASB met with public sector constituents to discuss their views on the treatment of particular issues arising out of the short-term review of the requirements in AASs 27, 29 and 31. Although the focus of the discussion related to the short-term project, many of the comments made by constituents confirmed the Board's view that there will be a need for a more fundamental review of some public sector issues once the short-term project has established a platform from which the longer-term work can progress.

At that meeting, the AASB considered a series of topic-based consultation papers (which are available on the AASB website) including:

- Contributions (Non-exchange Revenue)
- Control in the Public Sector
- Administered Items
- Segment-like Reporting
- Heritage Assets
- Restructure of Administrative Arrangements
- Accounting for Restructures of Local Governments
- Obligations arising from Local Government and Government Budget Policies, Election Promises and Statements of Intent

The Board subsequently provided staff with directions for drafting an exposure draft for consideration at a future meeting that proposes amendments to a number of Standards, to pick up the issues currently addressed in AASs 27, 29 and 31 but not adequately addressed in other Australian Accounting Standards. In some cases the Board decided to create new topic-based Standards that are applicable only to particular not-for-profit public sector entities.

Administered Items

At its June 2006 meeting, the AASB considered a draft exposure draft that, among other things, would clarify the distinction between ‘controlled’, ‘administered’ and ‘custodial’ items and proposes requiring not-for-profit public sector entities to report administered items in their general purpose financial reports with equal prominence to, but separately and readily distinguishable from, controlled items. The draft exposure draft effectively treats a not-for-profit public sector entity, such as a government department, as performing functions on behalf of its government.

While considering the draft proposals, a number of AASB members suggested that a distinction between controlled and administered items is inconsistent with the manner in which public sector entities in Australia are managed and possibly does not provide the most useful information for users. On this basis, the Board agreed that it should give further consideration to the nature of reporting entities in the public sector, particularly given the accountability function of financial reports prepared by not-for-profit public sector entities.

At its September 2006 meeting, the AASB considered a draft issues paper articulating this alternative view, which treats a not-for-profit public sector entity, such as a government department, as a sector of government and all of its activities, whether of an operational nature or a regulatory function nature, as ‘controlled’ activities. The Board decided that this view has merit and is capable of being adequately articulated for the purpose of financial reporting by government departments. The Board also decided that, from a stewardship and accountability perspective, this view has the potential to provide a more effective depiction of a government department’s activities compared with the traditional approach reflected in the draft exposure draft.

The draft issues paper is currently being revised with a view to using it as a basis for consultation with constituents.

Land Under Roads

AASs 27, 29 and 31 permit local governments, government departments and governments to elect not to recognise land under roads as an asset. At its October 2006 meeting, the AASB made AASB 2006-3 *Amendments to Australian Accounting Standards [AASB 1045]*, which extends the current transitional provisions for land under roads for a further 12 months, so that they do not lapse prior to the issue of amended or new Standards arising out of the short-term review of the requirements in AASs 27, 29 and 31 (see report above).

In the context of the short-term review of the requirements in AASs 27, 29 and 31, the AASB decided to facilitate the transition of accounting for land under roads to AASB 116 *Property, Plant and Equipment* and to consider at a future meeting whether there is a need to address concerns about whether land under roads acquired at no cost some time ago can be reliably measured at fair value.

Segment Reporting

In January 2006, the AASB issued Exposure Draft ED 145 *Operating Segments* for comment by 20 April 2006. The Australian Preface to the exposure draft included 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 subsequently sought further input from public sector constituents to determine why the management approach is inappropriate before determining the basis of the approach to developing a separate AASB exposure draft. The AASB will discuss the feedback from these constituents at a future meeting.

IASB Convergence

As reported in the July 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).

The AASB is also developing an exposure draft that will propose making the requirements in Australian equivalents to IFRSs the same as those in IFRSs in respect of for-profit entities. The exposure draft will propose including the optional treatments in IFRSs that are presently not permitted to be used under Australian equivalents to IFRSs, and removing many of the additional Australian disclosures. The exposure draft does not deal with the not-for-profit paragraphs included in Australian equivalents to IFRSs, which will be reviewed as part of a separate project in conjunction with the New Zealand Financial Reporting Standards Board.

The Board is working toward issuing the exposure draft for comment in November.

INTERPRETATIONS

The AASB has now replaced the Urgent Issues Group with a new interpretations model under which the AASB itself has direct responsibility for Australian equivalents of IFRIC Interpretations and for any domestic Interpretations that the AASB considers necessary. Domestic Interpretations may be prepared to address accounting issues of relevance to the private sector and/or the public sector. The AASB decides on a topic-by-topic basis whether to appoint an *ad hoc* advisory panel to make recommendations for its consideration. The AASB has taken the view that a unique domestic interpretation of Australian equivalents to IASB

requirements (in respect of for-profit entities) would only be required in rare and exceptional circumstances. The new model commenced on 1 July 2006.

Since the previous Country Report, one Interpretation has been issued: Interpretation 10 *Interim Financial Reporting and Impairment*. This is the Australian equivalent of IFRIC Interpretation 10.

COMMONWEALTH GOVERNMENT, STATES AND TERRITORIES

Current Status

As reported in the July 2006 Country Report, all Australian jurisdictions prepare budgets and budget outcomes using an accrual basis. Most use GFS. 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 (Hheads 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 July 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, the Financial Reporting Branch of the Department of Finance and Administration is responsible for all budget-related accounting policy matters, including all GAAP and GFS (and harmonised) reporting.

State & Territory Governments

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

October 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(CASLB) 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 July 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.icaai.org. Similarly for GASAB work program, please see the website www.gasab.gov.in.

ACCOUNTING STANDARDS BOARD (ASB) DEVELOPMENTS

The main function of the Accounting Standards Board is to formulate Accounting Standards so that such standards may be established in India. The ICAI, being a full-fledged member of the International Federation of Accountants (IFAC), is expected, inter alia, to actively promote the International Accounting Standards Board's (IASB) pronouncements in the country with a view to facilitate global harmonisation of accounting standards. Accordingly, while formulating accounting standards in India, the ASB considers the International Financial Reporting Standards/International Accounting Standards issued by International Accounting Standards Board and tries to integrate them, to the extent possible, in the light of the laws, customs, practices and business environment prevailing in India. The ASB also issues guidance on issues arising from Accounting Standards. The ASB also reviews the Accounting Standards at periodical intervals and, if necessary, revises the same.

So far, the Institute of Chartered Accountants of India has issued 29 Indian Accounting Standards.

A. New Releases

The following announcement has been issued during the period

- Deferment of Applicability of Announcement on 'Accounting for exchange differences arising on a forward exchange contract entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction'

B. Imminent Releases

1. Revision of the Accounting Standards:

The following revised Accounting Standard (AS) is likely to be issued soon:

- Revised Accounting Standard (AS) 10, *Property, Plant and Equipment*

2. Limited Revisions to Accounting Standards:

A limited revision to the following Accounting Standard is likely to be issued soon:

- AS 2, *Valuation of Inventories*

C. Draft Accounting Standard finalised by the Board and to be issued with the proposed Accounting Standard on 'Financial Instruments: Recognition and Measurement'

- Financial Instruments: Presentation (corresponding to IAS 32)

D. Exposure Drafts under issue

- Financial Instruments: Recognition and Measurement
- Consequent proposed Limited Revisions to eight Accounting Standards, viz., AS 2, AS 11 (revised 2003), AS 21, AS 23, AS 26, AS 27, AS 28 and AS 29

E. Drafts of new/ revised Accounting Standards being finalised for circulation among the Council Members of ICAI and specified outside bodies

- Non-Current Assets Held for Sale and Discontinued Operations (corresponding to IFRS 5)
- 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 and Disclosure of Government Assistance

F. Drafts of new/ revised Accounting Standards and revised Guidance Note under consideration of the Board

- Insurance Contracts (corresponding to IFRS 4)
- Agriculture (corresponding to IAS 41)
- Guidance Note on Terms Used in the Financial Statements (revised)

G. New Accounting Standards under preparation

The drafts of the following proposed accounting standards are under preparation:

- Financial Instruments: Disclosures (corresponding to IFRS 7)
- Share-based Payment (corresponding to IFRS 2)
- Accounting and Reporting by Retirement Benefit Plans (corresponding to IAS 26)
- Investment Property (corresponding to IAS 40)

H. Accounting Standards under revision

The following accounting standards are under revision:

- AS 4, Contingencies and Events Occurring After the Balance Sheet Date
- AS 9, Revenue Recognition
- AS 14, Accounting for Amalgamations

Besides the above, the matter related to examination of revisions made in the International Accounting Standards, pursuant to the Improvement project of IASB, and to determine whether corresponding Indian Accounting Standards need revision is under consideration of the Board.

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. Apart from formulation of Accounting Standards for Local Bodies it 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 as set out in its Preface to the Statements of Accounting Standards for Local Bodies.

The Governmental Level Technical Committee constituted under the aegis of Ministry of Urban Development (MoUD), Government of India and C & AG, 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. Imminent Release

- Preface to the Statements on Accounting Standards for Local Bodies

The 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. Draft circulated amongst specified outside bodies and the ICAI Council members for comments

- Framework for the Preparation and Presentation of Financial Reports by Local Bodies

C. Drafts of Proposed Accounting Standards for Local Bodies being finalised for circulation among the Council Members of ICAI and specified outside bodies (limited exposure)

- Borrowing costs
- Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies.

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

- Presentation of Financial Statements

- Cash Flow Statements
- Construction Contracts
- Revenue from Exchange Transactions
- 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

E. Other projects under progress

- Study on Transition from Cash basis to Accrual Basis
- Booklet highlighting the benefits of accrual accounting in Local Bodies.

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

The Office of the Comptroller and Auditor General of India (C & AG) constituted Government Accounting Standards Advisory Board (GASAB) in August 2002 “in order to establish and improve standards of governmental accounting and financial reporting and enhance accountability mechanisms for Union and the State Government accounts.

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 Minister 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'. The

draft Operational Framework has been circulated by the GASAB Secretariat amongst the State Governments for their comments. The GASAB has decided that the Committee would consider the comments received, if any, on the draft and, thereafter, submit to the GASAB the draft Operational Framework after modifications, if necessary.

Apart from the Central Government, so far ten State Governments have accepted the idea of accrual accounting in principle.

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

Country Report – Japan

October 2006

1. Accounting for Public Sector Entity

1) Interim Report on “Further Improvement of Accounting for Public Sector”

“Deliberation Board for Fiscal System”, which is established under the Ministry of Finance issued the interim report on “Further Improvement of Accounting for Public Sector” on June 14, 2006.

Contents of the interim report are summarized as follows;

- a Fostering utilization of accrual based financial statements of the Government.
Those financial statements are prepared in addition to the formal financial statements prepared on modified cash basis. The report indicates necessity of early preparation of those financial statements. It currently takes nearly one year from year-end because necessary data are picked up from various sources. These financial statements are not prepared from legal accounting record directly.
- b Disclosure of “Special Accounts”
There are many “special accounts” in addition to the general account in the Japanese fiscal system. The report recommends enhancement of disclosure for those special accounts. Among other recommendations, legal authorization of accrual based financial statements of each special account is recommended.
- c Coordination with Effort of Local Government
See 2. for further information
- d Relationship with International Standards
Consideration of SNA, GFS and IPSAS are referred to.

Consideration of Pension Plan

The report recommends reconsideration of accounting treatment of pension. Currently

a pension liability is not recognized in the financial statements.

2) New Policy of Ministry of General Affairs on Financial Reporting of the Local Governments

Ministry of General Affairs notifies its new policy on financial reporting of the local governments. The Ministry ask all the local governments to prepare accrual based financial statements in addition to their legal financial reports which are prepared on modified cash basis. All prefectures and big cities have already prepared such accrual based financial statements. The Ministry now ask other municipal governments whose population over 30 thousand to prepare accrual based financial statements within three years, and ask other municipal governments whose population less than 30 thousand to prepare accrual based financial statements within five years,

3) Statistical Group Pays Attention to Financial Reporting Standards

A study group on statistical reporting under the Cabinet Office now pays more attention to financial reporting of public sector. The group established sub-study group on public sector issues which will consider recent development in public sector accounting standards. The first meeting will be held on October 10, 2006. Mr. Tadashi Sekikawa, Japanese Board Member of IPSASB is one of members of the sub-study group.

1. Other Information That May Affect Public Sector Accounting

1) “Bankrupt” of the Local Governments Are Discussed.

In the past, local government bonds are considered to be substantially guaranteed by the Central Government. However, Ministry of General Affairs is now studying a scheme of “bankrupt” or “turnaround” of local governments. This aims fostering fiscal discipline of local governments.

Bond market recently shows 0.2 – 0.5% spread of bonds issued by the local governments against Central Government Bond.

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NEW ZEALAND
INSTITUTE OF
CHARTERED
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MEMORANDUM

DATE: 4 October 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 in New Zealand relating to:

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

Generally Accepted Accounting Practice

Guidance for public benefit entities applying NZ IAS 27 (the NZ equivalent to IAS 27)

When NZ IAS 27 was exposed for comment in April 2004, the Financial Reporting Standards Board (FRSB) proposed to include a New Zealand specific paragraph requiring public benefit entities to use guidance contained in IPSAS 6 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries* and FRS-37 *Consolidating Investments in Subsidiaries* for determining whether a public benefit entity controls another entity. This proposal was subsequently incorporated into NZ IAS 27 as a short-term measure until the IASB had considered a definition of "Control" in its project on Consolidations (including special purpose entities). However, the IASB project was subsequently delayed because of staff changes.

As a result of the delay in the IASB project on Consolidations, the FRSB has agreed to develop guidance for public benefit entities applying NZ IAS 27 *Consolidated and Separate Financial Statements* when preparing consolidated general purpose financial statements in accordance with NZ IFRSs.

The FRSB has also recently issued ED 109 which proposes amendments to FRS-37 *Consolidating Investments in Subsidiaries* and NZ IAS 27 *Consolidated and Separate Financial Statements* to cater for public sector entities created with statutory independence or autonomy, e.g. universities. The ED proposes that such entities are consolidated by the Government in the whole of Government Financial Statements.

Framework Revision: PBE Implications

The FRSB has been closely monitoring the ongoing work being undertaken by Kevin Simpkins on behalf of several standard-setters (including New Zealand) in relation to the IASB's Conceptual Framework project and its application to public benefit entities.

The FRSB is holding a roundtable on the IASB Discussion Paper in Auckland on Monday 9 October. The roundtable discussion will include an outline of IASB conceptual framework project and a summary of key issues for public benefit entities.

It is likely that the direction being taken by the IASB will be of significant concern to the FRSB.

Reporting Equity

The FRSB is considering developing application guidance to assist public benefit entities report their equity in a consistent and understandable manner and in a way which meets the requirements of NZ IAS 1 – in particular the requirements relating to the management of capital.

Proposed amendments to NZ IAS 23 Borrowing Costs (the NZ equivalent to IAS 23)

The IASB recently proposed amending IAS 23 to require the capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

The proposal raises a number of issues affecting public sector entities, including accounting for capital charges payable by some public sector entities and whether these charges are borrowing costs as defined in NZ IAS 23. The FRSB prepared a Discussion Paper seeking the views of constituents on whether capital charges meet the definition of borrowing costs in NZ IAS 23.

All public sector respondents raised concerns with the proposal to eliminate the expensing option in NZ IAS 23. In particular, respondents:

- Did not believe that the proposal would necessarily result in improved quality financial reporting.
- Were concerned that comparability may be impaired as the cost of an asset would be affected by the manner in which the asset was financed.
- Felt the costs of capitalising borrowing costs would outweigh the benefits of doing so.

In addition, respondents did not believe that the capital charge should be considered as a borrowing cost.

It will be interesting to see how the IASB responds to what is likely to be a mixed reaction to the proposal to eliminate the expensing option.

Financial Reporting Guidance for Not-for-profit Entities

The FRSB has developed draft guidance for not for profit entities applying NZ IFRSs. The *Not-for-profit Financial Reporting Guide* is intended to provide educational guidance to assist members and others operating in the not-for-profit sector to prepare NZ IFRS compliant financial statements. Comments are

due by 22 November. It is intended that the Guide will be published by the Institute as a non-authoritative guidance and that it will be accompanied by model financial statements and a disclosure checklist.

Small and Medium-Sized Entities

The IASB is continuing to progress this project and is planning an exposure draft in the 4th quarter of 2006. In July 2006 the IASB published the staff draft of a proposed Exposure Draft *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*.

The FRSB has established a working group to consider (i) the appropriateness of the requirements of the draft IASB ED for the New Zealand environment and (ii) the appropriate approach, that is, whether to retain the current approach to differential reporting by identifying the concessions in NZ IFRS or adopt the IASB approach of a separate book of standards for SMEs. The first meeting of the working group is scheduled for 27 October 2006. The FRSB also proposes to hold roundtable meetings to seek constituents' views on these issues in 2007.

Auditing and Professional Standards

The Professional Practices Board's (PPB) work programme is highly prioritised at present with the focus being mainly on, progressing the adoption of the International Standards on Auditing, along with selected national standard setting projects. The PPB's updated work plan is posted on the Institute's web site and is regularly updated.

Adoption of International Standards of the IAASB and the International Framework for Assurance Engagements

This project is a result of the PPB's public consultation in 2005 on its proposal to adopt the IAASB's International Standards on Auditing. Based on the feedback received the PPB decided to progress adoption of both the International Framework for Assurance Engagements and the following IAASB Standards:

- International Standards on Quality Control (ISQCs);
- International Standards on Auditing (ISAs);
- International Standards on Assurance Engagements (ISAEs)
- International Standards on Review Engagements (ISREs); and
- International Standards on Related Services (ISRSs).

Central Government

The 2006 financial statements of the NZ Government were approved on 29 September 2006 and received an unqualified audit opinion.

Local Government

The 2006 versions of local authority 10 year plans have all been completed and audited by the Auditor-General. The 10 year plans include forecast financial statements based on "best estimates" and non financial performance information (e.g. outcomes sought outputs to be delivered and performance measures/targets).

Among other things, these 10 year plans provide a good gauge on the financial sustainability of the expenditure programme of each local authority in New Zealand.

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

A handwritten signature in black ink, consisting of a stylized 'G' followed by a horizontal line that curves upwards at the end.

Greg Schollum
NEW ZEALAND REPRESENTATIVE

Accrual Accounting in Public Sector in Norway

Central Government

The Norwegian Parliament endorsed in 2003 a proposal presented by the Ministry of Finance to test accrual accounting in the central government in ten pilot projects. The purpose of the test is to arrange for a better source of information for managing agencies in the central government so that the use of resources is more efficient. The information is to be used both in the entities internal management, ministry's governance of the entities as well as additional information to the Parliament.

Accrual accounting in the central government will be based on the same principles that apply to financial reporting in the private sector in Norway. The accounting principles for employee benefits are simplified on estimating the pension liability. Also accounting for self-assurance arrangement is simplified. On other areas the same principles apply if there are no public sector specific reasons to depart. For public sector specific issues, the standards take into consideration proposals and practice documented by the IPSAS, as well as practice and principles from countries that have implemented accrual accounting.

The first phase has focused on developing standards for accrual accounting. The development of a common set of accrual standards for central government will give uniform reporting, reduce the administrative cost and develop competence. The Ministry of Finance has by the end of 2005 issued eighth standards (SRS) and/or guidelines for preliminary standards:

- Basic Accounting Principles
- SRS 1 Presentation of Financial Statements
- SRS 2 Cash Flow Statements
- SRS 9 Revenue from Exchange Transactions
- SRS 10 Revenue from Appropriations
- SRS 11 Construction Contracts
- SRS 13 Leases
- SRS 19 Contingent Assets and Contingent Liabilities
 - Employee expenses and pensions
 - Property, Plant and Equipment
 - Inventories
 - Cost of Capital

These standards have been used in the pilot agencies from January 2005. The pilot project encompasses Ministry of Finance as well as the Norwegian Government Agency for Financial Management, the pilot agencies and their relevant ministries. An evaluation of the experiences and results after one year of trial has been published in the Budget document for 2007.

The pilots and the ministries that have participated in the project have, as refer to in the 2007 Budget, mainly positive experiences from the use of accrual accounting. The project period is reported to have been too short to draw final conclusions regarding management gains. Some preliminary conclusions are reported to be:

- Accrual information in the statement of financial performance is experienced to be more valuable than the statement on a cash basis;

- Accrual information in the statement of financial performance arranges for a closer linkage between expenses and activities, which makes it more transparent what the Parliaments appropriation in fact is used for;
- Knowledge of expenses is a condition for making analyses on cost efficiency;
- Accrued data are an advantage making time series and internal comparisons;
- Accrued data are a reliable and easily available source of information on accomplished activities and the value of governmental assets;
- Those pilots that have chosen to prepare an internal budget on accrual basis based on the Parliament's cash based budget, and that have undertaken a full review of their financial models, report on the largest gains.

In order to take capital costs into consideration, the pilot agencies have established an opening balance where fixed assets are recognized based on a replacement cost approach. Other assets and liabilities are recognized at fair value. Based on estimated useful life of the fixed assets, a linear depreciation is calculated. The pilots are also required to give note disclosure on the alternative cost of the government capital employed based on an internal interest rate.

It is reported on varying initial expenses related to training and establishing opening balances. For pilots that have not used accrual accounting earlier, the initial expenses have been substantial. The pilots reports that they do not use substantial more resources on accrual accounting than on cash accounting. None of the pilots have needed to purchase new or adjusted financial management systems.

The extended trial period would include further tests on the preliminary standards with a view to issue final standards. It would also include tests on how the financial reports can be used in the internal management and in the ministry's governance of the agencies. The test will be expanded to include budget on accrual basis for the agencies. Other entities than the pilots, who have used accrual accounting as a supplement to cash accounting, will be invited to participate in the project on similar basis as the existing pilots. A new evaluation will be carried out in 2009. On that basis, it will be decided whether all or groups of central government agencies should implement accrual accounting.

The Parliament appropriations will continue to be made on a cash basis, and the agencies must report on a cash basis to the State Accounts and to their superior ministries.

Local Government

Local government accounting is based on an appropriation control system which originates from cameral accounting. The purpose of the model is control over the spending of the local government budget. The accounting principles used in local government differ from the principles used in the private sector and in central government.

The accounting principles have had a large development the last decade and could to day partly be said to be a form of modified accrual accounting. It has been criticised both from academics and practitioners that an appropriation control principle hardly could be mixed with a modified accrual accounting system. Those have therefore raised a question whether the basic accounting

principles should be changed to accrual accounting or the system to a larger extent should be within the original meaning of an appropriation control system.

The Norwegian Association of Local and Regional Authorities, the Norwegian Institute of Public Accountants and other parties have raised the issue of accounting rules in local governments and asked why the same development have not taken place in local as in central governments. The Ministry of Local Government established a limited 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 maintenance and improvement of public services in local government. The working group delivered a divided report in September 2006. It is expected that there will be no radical changes in the short term.

19 October 2006

Harald Brandsås

COUNTRY REPORT FOR THE IPSASB

SOUTH AFRICA

October 2006

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1. Introduction

This country report deals with events since the last report prepared for the July 2006 meeting.

2. Accounting Standards Board (ASB)

The Board approved the following exposure drafts for issue:

- *ED 31 – The Effects of Changes in Foreign Exchange Rates*
- *ED 32 – Financial Reporting in Hyperinflationary Economies*
- *ED 33 – Events After the Reporting Date*
- *ED 34 – Employee Benefits (Concurrent exposure with International ED)*
- *ED 34 – Contributions from Owners*

These exposure drafts are based on the IPSASB equivalent.

The approved documents are available on the ASB website at www.asb.co.za

Other current Projects

Heritage Assets

The Board submitted comment letters on the research paper issued by the UK ASB and a discussion paper issued by the IPSASB. The Board received comments on a local discussion paper in August 2005 but has temporarily suspended the development of the exposure draft pending the outcome of the international projects in process.

Public-private Partnership Guideline

The comment period for the exposure draft of the Guideline on the Accounting for Public-private Partnerships (PPPs) closed on 31 January 2006. The Board has postponed the finalisation of the guideline until the IFRIC interpretation had been issued and after the results emanating from two projects undertaken by the South African National Treasury have been evaluated.

The projects undertaken by the National Treasury deals with:

- The treatment of provisions and contingent liabilities in PPP agreements.
- A review of the accounting treatments as prescribed in the draft guideline on four closed PPP projects.

Provisions, Contingent Liabilities and Contingent Assets

The Board received comment on the ED on Provisions in August 2005. The Board agreed to postpone the project until the IASB's revision project has been finalised.

3. South African Institute of Chartered Accountants (SAICA)

The following exposure drafts were issued for comment:

<i>Title</i>	<i>Comment Date</i>
ED 218 – IFRIC Draft Interpretation D20: Customer Loyalty programmes	16 October 2006
ED 217 – IFRIC Draft Interpretation D19: IAS 19 – the Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements	10 October 2006
ED 216 – Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information.	13 October 2006
ED 215 – Amendments to IAS 32 – Financial Instruments: Presentation and IAS 1 – Presentation of Financial Statement: Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation	02 October 2006

South African Statements of GAAP are fully harmonised with IFRS. The international text is used and a South African wrap around is added.

SAICA has also issued a revised guide – Performance Audit in the Public Sector. The purpose of this guide is to provide guidance, when conducting performance audits in the public sector, on the principles unique to performance auditing and the audit process that should be complied with to ensure that these principles are upheld. It is anticipated that, by following this guidance, members will adopt a uniform approach and audit process to conduct performance audits. The guide is available on the SAICA website at www.saica.co.za.

4. Auditing

The Independent Regulatory Board of Auditors (IRBA) has issued its guide, Reportable Irregularities: A guide for Registered Auditors.

The guide was developed to provide registered auditors with guidance on the interpretation of the relevant sections in the Auditing Profession (Act 26 of 2005), which came into effect on 1 April 2006.

The guide deals with the definition of, and general principles relating to reportable irregularities when the duty to report arises, the process of reporting a reporting irregularity, the impact on the audit report, specific situations which may require action in terms of the relevant provisions, and sanctions. The guide also includes practical examples which might indicate the existence of a reportable irregularity.

5. Annual Financial Statements

The Office of the Accountant-General has issued the Annual Financial Statement template for National and Provincial Department for the year ending on 31 March 2007 for comment. It is envisaged that the template will be finalised by November 2006.

A copy of the template can be downloaded from <http://www.oag.treasury.gov.za>

6. Corporate Law Amendment Bill

The Corporate Law Amendment Bill was passed by the National Assembly in April 2006. The Bill introduces a number of amendments to the Companies Act, 1973 (Act No. 61 of 1973), and Close Corporations Act, 1984 (Act No. 69 of 1984), which are required prior to the completion of the corporate law reform process which is currently underway.

The Bill seeks to amend the Companies Act, 1973, so as to achieve the following objectives:

- Give legal backing to accounting standards;
- promote auditor independence;
- facilitate shareholder diversification;
- update the requirements for the registration of a prospectus;

- further the objective and expedite the procedures of the Securities Regulation Panel;
- provide for a delegation of some of the Minister's powers;
- effect a uniform standard of liability on officers performing duties under the Act;
- indemnify and impose a duty of confidentiality on inspectors;
- abolish the requirement that a copy of the memorandum and articles of a company to be formed, certified by a notary public as a true copy, be lodged with the Registrar upon incorporation of a new company; and
- abolish the requirement that a subscriber to a memorandum and articles of a company to be formed, or a duly authorized attorney or his or her clerk must personally deliver and uplift that memorandum and articles at the Companies Registration Office.

The Bill further seeks to amend both the Companies Act, 1973, and the Close Corporations Act, 1984, so as to achieve the following objectives:

- Provide for electronic signatures on documents;
- provide for electronic disclosure of information in respect of companies and close corporations;
- provide for alternative and cost-effective ways of publishing notices of incorporation of new companies and close corporations, name changes, registration of defensive names, notices relating to deregistration and the dissolution of companies and close corporations;
- provide for the electronic certification of registration of certain documents;
- provide for the Registrar to restore the registration of a company or close corporation which has been deregistered due to failure to lodge an annual return; and
- provide for the auditors of companies and accounting officers of close corporations to disclose certain changes in their particulars directly to the Registrar.

The Bill must now be passed by the National Council of Provinces then submitted to the president for assent.

United States Country Report

Prepared for the IFAC Public Sector Accounting Standards Board

October 2006

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

Statement of Federal Financial Accounting Standards 32. In September 2006, the FASAB issued Statement of Federal Financial Accounting Standards 32, *Consolidated Financial Report of the United States Government Requirements: Implementing Statement of Federal Financial Accounting Concepts 4 “Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government.”* This standard amends disclosures required in the consolidated financial report (CFR) of the United States Government regarding assets such as inventory and related property, direct loans, and property, plant and equipment and liabilities such as loan guarantees, liabilities covered and not covered by budgetary resources, and liabilities related to whole life insurance and cleanup costs. The standard also includes other amendments to CFR disclosures. These amendments primarily relate to standards issued prior to January 2003, when Statement of Federal Financial Accounting Concepts No. 4 was issued. To obtain a copy of this standard, visit <http://www.fasab.gov>.

Technical Bulletin 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs. In September 2006, the FASAB issued Technical Bulletin (TB) 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs.* This TB clarifies the required reporting of liabilities and related expenses arising from asbestos-related cleanup costs. Prior to this TB, most federal entities had recognized liabilities for the removal of asbestos that posed an immediate health threat (i.e., friable asbestos), but many federal entities had not prepared an estimate of cleanup costs for the future removal of asbestos that did not pose an immediate health threat (i.e., nonfriable asbestos). Therefore, it was determined that additional guidance was needed to clarify that entities need to estimate all asbestos-related cleanup costs and not just those costs related to asbestos that require immediate cleanup. To view this TB, visit <http://www.fasab.gov/tchbl.html>.

Items Held For Remanufacture Exposure Draft. In August 2006, FASAB issued an exposure draft (ED) on a proposed Interpretation titled, *Items Held for Remanufacture.* FASAB is proposing guidance for classification, valuation and reporting of items that are held for remanufacture prior to sale or issuance. The Department of Defense (DoD) requested FASAB’s guidance because these items represent a significant portion of the DoD’s assets. Additionally, this guidance would apply to other federal entities with items that are held for remanufacture prior to sale or issuance. Further, the proposed ED would provide guidance for categories of assets that are significant on a government-wide basis, but are not specifically addressed in existing standards. Lastly, this proposal would clarify

the application of existing standards to a significant category of assets of the federal government. To obtain a copy of this ED visit www.fasab.gov/exposure.html.

Definition and Recognition of Elements of Accrual-Basis Financial Statements Exposure Draft. In June 2006, FASAB released an ED of a proposed Statement of Federal Financial Accounting Concepts titled, *Definition and Recognition of Elements of Accrual-Basis Financial Statements*. FASAB is seeking input on concepts defining the five elements of accrual-basis financial statements. The elements for which definitions are proposed are assets, liabilities, net position, revenue and expense. Certain element definitions are presented in accounting standards but a complete set of definitions was never developed by FASAB. This proposed concepts statement will add those definitions and address certain controversial aspects of existing elements. To obtain a copy of this ED, visit www.fasab.gov/exposure.html.

Recent Activity of the Governmental Accounting Standards Board (GASB)

GASB Statement 48. In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. Transactions covered by this standard can include the sale of delinquent taxes, certain mortgages, student loans, or future revenues such as those arising from tobacco settlement agreements. It also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The final standard contains several modifications from the related ED. Statement No. 48 supersedes guidance regarding future revenue sales provided in TB 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2006.

New Technical Bulletin on Medicare Part D. In June 2006, the GASB released a new TB, *Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*. Under the subsidy option in Medicare Part D, the federal prescription drug benefit program, the federal government makes payments to enrolled employers that provide drug benefits to persons who would otherwise be eligible to enroll in Medicare Part D. The TB provides guidance to governments and other post-employment benefits (OPEB) plans regarding how to account for and report these retiree drug subsidy payments, which can be as much as 28 percent of the cost of providing prescription drug coverage. With certain exceptions, the TB is effective June 30, 2006. Additionally, the GASB staff developed a plain language article about this TB. To view the plain language article, visit http://www.gasb.org/plain-language_documents/tb2006-1_plain-language_article.pdf.

Implementation Guidance for Qualifying OPEB Plan Trusts. In July 2006, the GASB released a question and answer (Q&A) intended to provide implementation guidance regarding qualifying OPEB plan trusts, and the responsibilities of those who play a significant role in the functions of an OPEB plan that includes such a trust, for purposes of accounting and financial reporting in accordance with the requirements of GASB Statements 43 and 45. This guidance will be published shortly along with other new Q&As and updates in the *Comprehensive Implementation Guide—2006*. Because the OPEB plan trust guidance is of immediate relevance for many governments who are implementing the OPEB standards, it has been posted to the GASB Web site in advance of publication. To view the Q&A, visit http://www.gasb.org/project_pages/opeb_staff_guidance.pdf.

Concepts Statement on Elements of Financial Statements Exposure Draft. In August 2006, the GASB issued a proposed Concepts Statement titled, *Elements of Financial Statements*. It would establish definitions for the seven elements of historically based financial statements of state and local governments. The elements of a statement of financial position which are defined in the proposal include assets, liabilities, deferred outflows of resources, deferred inflow of resources, and net assets. The elements of the resource flows statements which are also defined include an outflow of resources and an inflow of resources. The proposed definitions for each element are based upon the inherent characteristics of each element. A central feature of each of the proposed definitions is a *resource*, which is an item with a present capacity to provide, directly or indirectly, services. The proposed definitions apply to an entity that is a governmental unit (that is, a legal entity) and are applicable to any measurement focus under which financial statements may be prepared, for example, economic resources, current financial resources, and cash measurement focuses. To view the ED, visit http://www.gasb.org/exp/ed_elements_financial_statements.pdf.

Recent Activity of the Financial Accounting Standards Board (FASB)

FASB Statement No. 158. In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. The new standard will require employers to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare, and other postretirement plans in their financial statements. Specifically, the new standard requires an employer to recognize a plan's overfunded status or a liability for a plan's underfunded status; measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year; and recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. The new statement applies to plan sponsors that are public and private companies and nongovernmental not-for-profit organizations. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006, for entities with publicly traded equity

securities, and at the end of the fiscal year ending after June 15, 2007, for all other entities. To view the new standard, visit <http://www.fasb.org/pdf/fas158.pdf>. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008.

FASB Statement No. 157. In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements*. The new standard provides enhanced guidance for using fair value to measure assets and liabilities. Fair value refers to how much an asset or liability could be traded for in a current transaction in that item's most relevant market. The new standard, which provides a single definition for reporting financial assets and liabilities at fair value, was designed to make the current rules about fair value—which are detailed in over 40 different FASB standards—more consistent. The standard also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. It is effective for fiscal years beginning after November 15, 2007, though early adoption is permitted. To view SFAS No. 157, visit <http://www.fasb.org/pdf/fas157.pdf>.

Preliminary Views Document to Enhance Conceptual Framework. In July 2006, the FASB and the International Accounting Standards Board (IASB) each published for public comment a Preliminary Views (PV) document on the first two chapters of an enhanced conceptual framework. The Boards seek constituents' feedback on the proposal that defines objective of financial reporting and qualitative characteristics of decision-useful information. This PV is the first to result from the Boards' joint project on the conceptual framework. Currently, the Boards are each guided by their own individual framework. Those frameworks differ from each other in various respects, are incomplete, and are not up-to-date. The PVs restate the existing frameworks' definition of the objective of general purpose external financial reporting as providing information that is useful to present and potential investors and creditors and others in making investment, credit and similar resource allocation decisions. To view the PV, visit http://www.fasb.org/draft/pv_conceptual_framework.pdf.

Proposal to Improve Financial Reporting for Private Companies. In June 2006, the FASB and the American Institute of Certified Public Accountants (AICPA) issued a joint proposal (Invitation to Comment) intended to improve the financial reporting process for private company constituents. Specifically, the joint initiative requests comments on proposed enhancements to the FASB's standard-setting procedures that would determine whether the Board should consider differences in accounting standards for private companies within generally accepted accounting principles. Under the proposal, the FASB would implement certain improvements to enhance the transparency of its standard-setting

process for private companies and consider input from private company constituents. In addition, the FASB and the AICPA would also sponsor and fund a joint committee to serve as an additional resource to the FASB to further ensure that the views of private company constituents are incorporated into the standard-setting process. The proposal can be found at <http://www.pcfr.org>.

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

FSP AUG AIR-1. *Accounting for Planned Major Maintenance Activities* (September 8, 2006)

FSP FAS 13-2. *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction* (July 13, 2006)

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

No activity.

Recent Activity of the AICPA Auditing Standards Board (ASB) and the Professional Ethics Executive Committee (PEEC)

New Conforming Amendments to AT 501 Issued. In August 2006, the ASB issued conforming amendments to Chapter 5 of Statements on Standards for Attestation Engagements (SSAE) No. 10, *Reporting on an Entity's Internal Control Over Financial Reporting* (AT 501). AT501 has been conformed to reflect the new terms, related definitions, and guidance on identifying and evaluating control deficiencies, and communicating significant deficiencies and material weaknesses, introduced in May 2006 by the issuance of Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit*. AT 501 is the standard that practitioners would use when engaged to perform examinations of the internal control of nonissuers, including governmental entities and not-for-profit organizations. To coincide with SAS No. 112's effective date, these conforming changes are effective when the subject matter or assertion is as of or for a period ending on or after December 15, 2006. To view the conforming changes to AT 501, visit http://www.aicpa.org/members/div/auditstd/exec_summary_conform_amend.htm.

Exposure Draft on Independence Interpretation. In September 2006, the PEEC issued an omnibus ED that proposes one new and one revised interpretation under Rule 101, *Independence*. The first proposal would provide guidance to members on the impact that certain indemnification and limitation of liability provisions may have on a member's

independence when included in engagement letters or other agreements entered into with a client. The second proposal would revise Ethics Interpretation 101-3, *Performance of Nonattest Services*, to incorporate guidance on how the provision of forensic accounting services and tax compliance services would affect a member's independence. Visit http://www.aicpa.org/download/ethics/Final_ED_September_2006.pdf to view this ED.

Proposed Statement on Quality Control Standards. In July 2006, the ASB released an ED titled, *Proposed Statement on Quality Control Standards: A Firm's System of Quality Control*. This ED introduces a proposed Statement on Quality Control Standards (SQCS) that will replace all existing SQCSs. This proposed SQCS establishes standards and provides guidance for a CPA firm's responsibilities for its system of quality control for its accounting and auditing practice. It describes elements of quality control and other matters essential to the effective design, implementation, and maintenance of the system. This proposed SQCS also sets forth the meaning of certain terms used in SQCSs issued by the ASB in describing the professional requirements imposed on firms and practitioners-in-charge. Visit http://www.aicpa.org/download/members/div/auditstd/ED_SQCS.pdf to obtain a copy of the ED.

Proposed Omnibus Statement on Auditing Standards. In July 2006, the ASB issued an ED of a proposed SAS titled, *Omnibus 2006*. The document includes proposed revisions to existing standards that have been accumulated over a period of time, primarily due to a number of recently issued SASs. This ED would result in a new SAS that would amend:

- SAS No. 95, *Generally Accepted Auditing Standards*, and those Statements that refer to the 10 general and reporting standards
- SAS No. 99, *Consideration of Fraud in a Financial Statement Audit*
- SAS No. 101, *Auditing Value Measurements and Disclosures*
- SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, as amended
- SAS No. 57, *Auditing Accounting Estimates*
- SAS No. 1, *Codification of Auditing Standards and Procedures*, "Subsequent Events"
- SAS No. 85, *Management Representations*

To obtain this ED, visit

http://www.aicpa.org/download/members/div/auditstd/final_ED_SAS_Omnibus_2006.pdf.

Proposed Statement on Standards for Attestation Engagements Hierarchy. In July 2006, the ASB issued an ED of a proposed SSAE titled *SSAE Hierarchy*. The proposed SSAE identifies the body of attest literature and clarifies the authority of attest publications issued by the AICPA and others. The ED also specifies which attest publications the practitioner must comply with and those he or she should be aware of when conducting an attest engagement. Additionally, the ED would amend the 11 attestation standards to conform

them to the use of terms established in SSAE No. 13, *Defining Professional Requirements in Statements on Standards for Attestation Engagements*. To view/download a copy of this ED, visit

<http://www.aicpa.org/download/members/div/auditstd/finalEDSSAEHierarchy.pdf>.

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

No Activity.

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

Proposed Revisions to Government Auditing Standards. In June 2006, the GAO issued an ED of proposed revisions to the 2003 edition of *Government Auditing Standards* (also known as the Yellow Book). The proposed revisions are wide-ranging and are expected to be issued in final form at end of 2006. The revisions are significant and include the use of new terminology to define professional requirements; introductions of three distinct categories of non-audit services; introduction of new quality control and assurance requirements, to include major initiatives on external peer review programs; introduction of new control deficiencies definitions; and extensive updates to performance auditing. The ED proposes implementation dates as follows: (a) for performance audits beginning on or after July 1, 2007; and (b) for financial audits and attestation engagements for audits of periods ending on or after July 1, 2007. However, certain standards issued by the AICPA's ASB have earlier effective dates. For financial statement audits performed under GAGAS, the effective dates of those new ASB standards will apply. Early implementation of the 2006 revision of *Government Auditing Standards* will be permitted. To obtain the ED, visit <http://www.gao.gov/govaud/d06729g.pdf>.

Recent Activity of the Committee of Sponsoring Organizations of the Treadway Commission (COSO)

New COSO Internal Control Guidance for Smaller Public Companies. In June 2006, COSO issued guidance titled *Internal Control Over Financial Reporting – Guidance for Smaller Public Companies*. Although the guidance was intended for use by smaller public companies, the principles are equally applicable to governmental agencies and not-for-profit organizations. It consists of a three volume set containing an executive summary, guidance for applying the concepts in the framework, and illustrative evaluation tools. The objective of the guidance is to help smaller public companies and their auditors apply the framework when assessing and reporting on the effectiveness of internal control. The guidance provides a set of 20 basic principles representing the fundamental concepts associated with and drawn directly from the five components of internal control described in the framework. Instructions on ordering the guidance and a free copy of the executive summary can be downloaded by visiting <http://www.coso.org/publications.htm>.