



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

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**Agenda Item  
4**

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**DATE:** June 19, 2007  
**MEMO TO:** Members of the IPSASB  
**FROM:** Matthew Bohun/Stephenie Fox  
**SUBJECT:** Rules of the Road

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**OBJECTIVE OF THIS SESSION**

To **discuss** issues in developing criteria on convergence of International Public Sector Accounting Standards with IFRSs.

**AGENDA MATERIAL:**

**Papers**

- 4.1 Issues paper – Development of IPSASB Policy Statement on Convergence
- 4.2 “Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs”
- 4.3 Australian Accounting Standards Board – Policy Statement 4, “International Convergence and Harmonization Policy”
- 4.4 Australian Auditing and Assurance Standards Board – “Corporate Plan for the period 1 July 2006 to 30 June 2009”
- 4.5 Canadian Accounting Standards Board, “Accounting Standards in Canada: New Directions”
- 4.6 Canadian Auditing and Assurance Standards Board, “Adopting International Standards on Auditing”
- 4.7 Accounting Standards Board (South Africa), “Preface to the Standards of Generally Recognised Accounting Practice”
- 4.8 Governmental Accounting Standards Board (USA), “Strategic Plan 2005 – 2009”

**ACTION REQUIRED**

**BACKGROUND**

Since the IPSASB, and its predecessor the Public Sector Committee, began developing IPSASs in 1996, a policy of convergence with IFRSs has been adopted.

The “Preface to International Public Sector Accounting Standards” states, in paragraphs 18 and 19, that:

- 18. The IPSASB develops accrual IPSASs that:

- are converged with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board, by adapting them to a public sector context when appropriate. In undertaking that process, the IPSASB attempts, wherever possible, to maintain the accounting treatment and original test of the IFRSs unless there is a significant public sector issue which warrants a departure; and
  - Deals with public sector financial reporting issues that are either not comprehensively dealt with in existing IFRSs or for which IFRSs have not been developed by the IASB.
19. As many accrual-based IPSASs are based on IFRSs, the IASB's "Framework for the Preparation and Presentation of Financial Statements" is a relevant reference for users of IPSASs.

The IPSASB has, made changes to the text of the IFRSs when adapting them to the public sector, and has identified in the IPSAS, the nature of these changes. The IPSASB has not, however, published an explicit statement covering the circumstances in which it will make a change to the text of an IFRS when adapting it to the public sector. At the meeting in March 2007, the IPSASB decided that developing a set of "rules of the road" for converging IPSASs with IFRSs would be a useful tool for both the IPSASB itself and the technical staff.

Item 4.1 is an issues paper developed by staff to serve as an initial discussion document outlining the current IFAC policy with regard to international convergence of accounting and auditing standards, and the approach that the IPSASB has taken to date in developing IPSASs. The paper outlines criteria that the IPSASB has adopted previously in departing from the requirements of an International Financial Reporting Standard. The issues paper also outlines the approach that some national standards setters take to convergence with international accounting or auditing standards.

**Matthew Bohun**  
**TECHNICAL MANAGER**

## **Criteria for Modifying IFRSs for adapting them into the IPSASB Handbook**

### **I Introduction**

The International Public Sector Accounting Standards Board (IPSASB) develops International Public Sector Accounting Standards (IPSASs) which apply to the accrual basis of accounting and IPSASs which apply to the cash basis of accounting. IPSASs set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events in general purpose financial statements. The IPSASs are designed to apply to the general purpose financial statements of all public sector entities. Public sector entities include national governments, regional governments (for example, state, provincial, territorial), local governments (for example, city, town) and their component entities (for example, departments, agencies, boards and commissions), unless otherwise stated. Increasingly, it is being recognized that IPSASs are the most appropriate financial reporting standards for international institutions.

The IPSASB has adopted a policy of converging accruals basis International Public Sector Accounting Standards with International Financial Reporting Standards issued by the International Accounting Standards Board to the extent that these Standards are appropriate for the public sector. In practice, this has meant that where an individual IFRS has relevance in the public sector, the IPSASB has adapted that IFRS to the public sector, making as few changes as possible. Not all IFRSs are directly relevant to the public sector and in many instances the IPSASB has deferred adaptation of these standards to the public sector.

As a result of its recent strategic planning process the IPSASB has recommitted to IFRS convergence and, in addition, has requested that staff develop criteria for the IPSASB to apply in determining whether a departure for public sector specific reasons is appropriate. Concerns have been raised in the past that modifications made to “public sectorize” standards had not always been consistently applied.

This paper identifies some of the issues identified to date on this project with the goal of initiating discussion by the IPSASB on the project.

### **II Existing Approach**

Since the IPSASB, and its predecessor the Public Sector Committee, began developing IPSASs in 1996, a policy of convergence with IFRSs has been adopted.

The “Preface to International Public Sector Accounting Standards” states, in paragraph 18 that:

18. The IPSASB develops accrual IPSASs that:

- are converged with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board, by adapting them to a public sector context when appropriate. In undertaking that process, the IPSASB attempts, wherever possible, to maintain the accounting treatment and original test of the IFRSs unless there is a significant public sector issue which warrants a departure; and
- Deals with public sector financial reporting issues that are either not comprehensively dealt with in existing IFRSs or for which IFRSs have not been developed by the IASB.

In developing the IPSASs, the IPSASB is cognizant that the public sector environment is different to the private sector and that an IFRS may not always be exactly appropriate to the public sector. Notwithstanding this, the IPSASB adopts the policy of adapting IFRSs to the public sector, without change, unless there is a strong public sector reason to differ from the IFRS. When an IPSAS does vary from the wording of a related IFRS, the IPSASB notes these differences in the “Comparison with IAS/IFRS NN” included in each IPSAS that is based on an IFRS. Where there is a substantive difference, rather than a difference in terminology, the IPSASB explains the reason for the difference, either in the Comparison with IAS/IFRS or, in the case of the most recent IPSASs, in its Basis for Conclusions.

The IPSASB has never published an explicit statement covering the circumstances in which it will make a change to the text of an IFRS when adapting it to the public sector. At the meeting in March 2007, the IPSASB decided that developing a set of “rules of the road” for converging IPSASs with IFRSs would be a useful tool for both the IPSASB itself and the technical staff.

In the interests of transparency and accountability, staff is of the view that the IPSASB establish and publish its criteria for departing from the provisions of an IFRS when it is developing an IPSAS. This will enable constituents to understand the circumstances in which it is likely that the IPSASB will vary from the wording of an IFRS, either in matters of terminology, or more importantly in matters of principle or substance.

### **III Research Undertaken**

In undertaking work on developing criteria staff reviewed a variety of material. The “Wong Report” is an IFAC publication that explored the challenges identified by those involved and adopting and implementing IFRSs and International Standards on Auditing (ISAs). This report is a useful reference tool because it highlights for the IPSASB the challenges other national standard setters would have in converging with IPSASs. In addition, these same challenges may exist for the IPSASB in its efforts to converge with IFRSs.

Titled “Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs” (see item 4.2), the report examined the following principle challenges:

- Understanding the meaning of international convergence;
  - Translation of the international standards;
  - Complexity and structure of the international standards;
  - Frequency, volume and complexity of changes to the international standards;
  - Challenges for small and medium sized entities and accounting firms;
  - Potential knowledge shortfall; and
  - Implication of endorsement of IFRSs.
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- Address concerns about the complexity and structure of the international standards.
  - Write standards in simple English that is understandable, clear, and capable of translation and consistent application.
  - In developing the international standards and setting effective dates, be cognizant of the fact that proposed and final standards are being translated in some countries that are adopting them.
  - In considering changes to the international standards, be cognizant of the cost vs. the benefits of the proposed changes.
  - Establish a process, or enhance the existing process, to respond in a timely manner to requests for interpretations.

Staff also reviewed the policies of various national standard setters who have made policy decisions to converge with international standards of either accounting or auditing. The appendix attached to this paper includes a high level summary of this research. Agenda items 4.2 through 4.8 include the detailed statements where applicable.

As a general comment, most of these policy statements are articulated at a general policy level and do not encompass the detailed mechanics or process of convergence. While it is useful to have this high level policy statement it is the understanding of staff that the IPSASB is looking to fill in the details, so to speak, and to resolve some of the practical issues and considerations that arise when considering convergence at the level of individual standards.

#### **IV IPSASB's Mission and Objectives- An Overarching Principle**

The IPSASB's mission is:

*“To serve the public interest by developing high-quality accounting standards for use by public sector entities around the world in the preparation of general purpose financial statements.”*

This will enhance the quality and transparency of public sector financial reporting by providing better information for public sector financial management and decision

making. In pursuit of this objective, the IPSASB supports the convergence of international and national public sector accounting standards and the convergence of accounting and statistical bases of financial reporting where appropriate.

In achieving its objectives, the IPSASB

- a) Issues International Public Sector Accounting Standards (IPSASs);
- b) Promotes their acceptance and the international convergence to these standards; and
- c) Publishes other documents which provide guidance on issues and experiences in financial reporting in the public sector.

In setting out any policy on criteria to be applied in adapting IFRSs it is important to keep IPSASB's mission as an overarching principle since ultimately it is the development of high-quality standards for the public sector that is the key outcome of the IPSASB's work. The mission and objectives should therefore provide the context for setting guidelines on convergence.

## **V Relationship to Conceptual Framework**

In developing criteria for adapting IFRSs, it is useful to consider this in the context of what is required in the short term versus the long term.

Paragraph 19 of the Preface notes the following:

19. As many accrual-based IPSASs are based on IFRSs, the IASB's "Framework for the Preparation and Presentation of Financial Statements" is a relevant reference for users of IPSASs.

This is a direct reference to the IASB's existing Conceptual Framework and is relevant since the IPSASB does not have a conceptual framework. However, it is important to note at this juncture that, with the IASB framework being revised, and the IPSASB undertaking its own project to develop a public sector conceptual framework, this reference would eventually be irrelevant in the context of the IPSASB's standard setting processes.

So, in the long-term, once a public sector conceptual framework is developed, users of IPSASs would use the public sector conceptual framework as a reference source, not the IASB framework. Arguably, once the framework is in place, it is the framework that provides the guidelines or criteria for adapting IFRSs since any standards developed would generally be considered in the context of whether they are consistent with the framework.

For example, in the long run when the IASB proposes a new approach to a specific standard, the IPSASB's consideration would not only start with discussion of the IASB proposals and how they could be modified to be acceptable in the public sector, but would also simultaneously ask the question of how such a modification should be made

to best meet the needs of the public sector users and to best reflect the public sector circumstances. This might lead to either the answer that the IASB proposal is substantially consistent with the overarching principles in the public sector conceptual framework. If not, consideration would need to be given to how best to meet the needs of users through public sector specific standards.

Since the framework project is long-term in nature, it is necessary in the short term to develop criteria for examining IFRSs and adapting them for the public sector. This means that the IPSASB needs to consider those situations that will result in consideration of adaptations to IFRSs and based on those situations develop criteria to address when modifications would be made.

## **VI Situations Where Differences Might be Expected**

There are a number of different examples of circumstances that would lead to the question of whether a public sector difference exists. Staff have so far identified the following examples that will need to be addressed in developing criteria:

### *i) Transaction in the Public Sector different to that in the For-Profit Sector*

In some circumstances, a transaction in the public sector will take on a different nature to a similar transaction in the for-profit sector. In these circumstances, the IPSASB will develop requirements for the public sector that take account of the public sector circumstances. For example, IAS 11, “Construction Contracts” requires a loss to be recognized as an expense when it is probable that total contract costs will total contract revenue. IPSAS 11, “Construction Contracts” only applies this treatment when it is anticipated at the inception of the contract that contract costs are to be fully recovered from the parties to the contract. The requirement specifically does not apply to those situations in the public sector when, at the inception of the contract, the contract costs are anticipated to exceed the contract revenue.

The reasons for departing from the wording of the IAS/IFRS are explained in the Comparison with IAS (e.g. in IPSAS 11) or in a Basis for Conclusions.

### *ii) Two or more Allowable Treatments*

In some instances, the IASB will issue an IFRS that will permit two or more alternative treatments of a particular transaction. In some instances, the IPSASB will conclude that one or more of these alternative treatments are not consistent with the objectives of general purpose financial reporting in the public sector. In these instances, the IPSASB will only include that alternative, or those alternatives, that it concludes are consistent with the objectives of general purpose financial reporting in the public sector. In these cases the IPSASB will provide reasons in the Basis for Conclusions or Comparison with IFRS for not permitting the alternatives allowed by the IASB.

*iii) For Profit Treatment not Suitable in the Public Sector Environment*

In certain circumstances, the IASB will prescribe a financial reporting requirement that it considers is appropriate in the for-profit sector, but which the IPSASB considers inappropriate for the public sector. The IPSASB does not take lightly the decision to vary from the requirements of an IAS on a related issue, however, sometimes it is necessary because the transactions in the public sector are of greater materiality than in the for profit sector. For example, in developing financial reporting requirements for the recognition of revenue from transfers, such as grants, the IPSASB considered the provisions of IAS 20, “Accounting for Government Grants and Disclosure of Government Assistance,” which generally requires entities to recognize revenue in the period in which grant related activity is undertaken. In considering these requirements, the IPSASB concluded that in the public sector, the appropriate recognition point for revenue is when the granted assets are received, unless there is a condition attached to the grant. In these circumstances, the IPSASB elected not to adapt IAS 20 to the public sector, but developed IPSAS 23, “Revenue from Non-Exchange Transactions (Taxes and Transfers)”.

*iv) More Restrictive Requirements Necessary in Public Sector*

The IPSASB considers that, in order to achieve the objectives of public sector financial reporting, more stringent requirements are necessary than those prescribed in the IASB’s standards.

*v) IASB Requirement Addresses Circumstances that do not occur in the Public Sector*

In certain circumstances the IASB will impose a requirement in the for-profit sector to address particular circumstances that do not arise in the public sector. In such instances the IPSASB will consider the impact of the requirement on the ability of public sector entities to achieve the objectives of general purpose financial reporting, and reach a conclusion as to whether that requirement furthers these objectives. For example, in revising IAS 1, “Presentation of Financial Statements” the IASB introduced a requirement that prohibits presenting any item as “extraordinary”. The IPSASB considered this requirement carefully, and omitted it from its revision to IPSAS 1, “Presentation of Financial Statements”. The IPSASB concluded that the IASB was addressing the situation that companies were classifying items that were recurring regularly as “extraordinary” to manipulate their financial statements. The IPSASB further concluded that this was not likely to occur in the public sector because the IPSASB had always had a much narrower definition of “extraordinary” and public sector entities are far less likely to be judged solely on the basis of some perceived “bottom line”. These reasons were carefully explained in the Basis for Conclusions to the revised IPSAS 1.

*vi) Conflict between IFRS and Statistical Treatment*

The IPSASB’s international convergence policy encompasses both the IFRSs and statistical bases of reporting. In certain circumstances the IASB may issue an IFRS that proposes an accounting treatment that conflicts with a requirement of statistical reporting.



In these circumstances the IPSASB will examine both treatments and will determine which treatment best serves the objectives of general purpose financial reporting in the public sector. When it develops the exposure draft of an IPSAS in these circumstances, the IPSASB will include a specific matter for comment to solicit the views of constituents on the matter. If the IPSASB concludes, in light of its own discussions and the views of constituents, that it is appropriate to vary from the wording of a related IFRS, it will explain the reasons for such variation in the Basis for Conclusions.

*vii) Changes to IFRSs for Which There is a Related IPSAS*

Another example to be considered at this stage relates to the situation where an IPSAS exists that is based on an IFRS and the related IFRS is then changed. There are a number of possible issues and considerations in this scenario.

Firstly the question of when to change an IPSAS when the related IFRS is changed arises. Should the IPSASB issue an exposure draft at the same time as the IASB or should the ED be issued only once the IASB has completed the revisions?

Also, questions may arise based on the nature of the changes made to the IFRS. For example, in the current Updating IPSASs project, IPSAS 18, Segment Reporting was based on IAS 14 of the same title. However, there were significant public sector differences identified, for example, with respect to the definition of an operating segment. IAS 14 has now been revised and replaced by IFRS 8, Operating Segments. The definition of operating segments in IFRS 8 is closer in nature to the definition in IPSAS 18. This then leads to a discussion of whether the related IPSAS should be modified to be consistent with the new IFRS (see agenda item 7).

*viii) Are the language and examples appropriate?*

I reviewing any IFRS for consideration as an IPSAS, certain language changes would generally be recurring and could be identified as standard and not requiring significant discussion. In addition, some example sin IFRSs would need modification to bring the public sector perspective.

## **VII Developing Criteria**

In order to develop criteria and add some rigour to the process of assessing IFRSs/IASs it is necessary to define public sector differences for identifying those issues that warrant divergence. It is important that the process be applied consistently to each IFRS/IAS and that all staff and members understand the process. In addition, all considerations must be made in the context of the conceptual framework. Currently concepts are embedded in the IPSASs but as the new conceptual framework project progresses it will be important to monitor this.

As part of this strategy it is also important to clarify the process with respect to monitoring the IASB and responding to consultation documents including exposure drafts.

Examples of items that have been preliminarily identified to be addressed in any policy statement include:

- Limitations on modifications
- Need for public exposure
- Defining public sector differences
- Analyzing public sector specific issues identified and determine whether they are substantive or a matter of examples or implementation;
- If issue is substantive, outline alternative accounting options and rationale as it relates to the public sector;
- Voting procedures for IPSASB
- Structure of IPSASs – standard, basis of conclusions, rationale for departures etc; implementation guidance

### **Where do we go from here?**

At this stage staff would like the IPSASB to discuss a number of the issues identified to provide direction to staff as to the nature of the criteria they see as important. Staff see as fundamental to this process the need to define public sector differences i.e. the situations where departures might be required. In addition ultimately it will be necessary to develop a policy position for inclusion in the Handbook. The IPSASB should also consider whether this is a document that should be exposed or whether it would simply be issued.

At this meeting staff would like to lead the IPSASB in a discussion of various items that they believe need to be addressed in a policy on convergence as well as addressing specifically some of the issues identified in this paper.

**Appendices – Criteria for departing from International Standards Adopted by other Standard Setters**

The following are brief summaries of the official policies or strategic objectives of selected accounting or auditing standards setters with respect to international convergence of standards. Staff have selected these as examples of different approaches to international convergence.

**The Wong Report**

In September 2004, the IFAC Board published “Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs” (the Wong Report) (see item 4.2) by Peter Wong, a former IFAC Board member who was then a member of the Board of the Global Reporting Initiative. This report explores the challenges identified by those involved in adopting and implementing IFRSs and International Standards on Auditing (ISAs).

The principle challenges examined by the report are:

- Understanding the meaning of international convergence;
- Translation of the international standards;
- Complexity and structure of the international standards;
- Frequency, volume and complexity of changes to the international standards;
- Challenges for small and medium sized entities and accounting firms;
- Potential knowledge shortfall; and
- Implication of endorsement of IFRSs.

The Wong Report proposes a number of actions based on the following premises:

- Successful adoption of international standards is dependent on the development of high quality standards.
- Integrity in the application of international standards is essential.
- The adoption and implementation of the international standards require action at both the national and international levels.

The Wong Report proposes action is taken by a number of stakeholders; those proposed for international standard setters are to:

- Establish a process, or enhance the existing process, whereby national standard setters, in aligning their agendas with that of the international standard setters, have an opportunity to actively contribute to the international standard-setting processes.
- As a matter of urgency, develop standards in a manner that takes account of small- and medium-sized entity financial reporting and audit considerations. In

- addition, provide for greater small- and medium-sized entity and accounting firm representation.
- Address concerns about the complexity and structure of the international standards.
  - Write standards in simple English that is understandable, clear, and capable of translation and consistent application.
  - In developing the international standards and setting effective dates, be cognizant of the fact that proposed and final standards are being translated in some countries that are adopting them.
  - In considering changes to the international standards, be cognizant of the cost vs. the benefits of the proposed changes.
  - Establish a process, or enhance the existing process, to respond in a timely manner to requests for interpretations.
  - Consider the development of implementation guidance.
  - Provide, or continue to provide, unlimited access to all authoritative pronouncements and implementation guidance.
  - Institute a “quiet period” for the adoption and implementation of the international standards.

#### National Standard Setters

##### A: Australian Accounting Standards Board

The Australian Accounting Standards Board (AASB) issued a policy statement PS4, “International Convergence and Harmonization Policy” (see item 4.3) in April 2002. That policy states that: “the AASB’s international convergence objective is to pursue... the development of an internationally accepted single set of accounting standards which can be adopted in Australia and elsewhere for both domestic and world-wide use ...” (paragraph 5). The AASB recognizes that a single set of standards is not achievable in the short term, therefore its objective is to develop accounting standards in Australia that harmonize with IFRSs and IPSASs.

In progressing its work plan the AASB endeavors to work with the IASB and IPSASB to remove incompatibilities between an existing or proposed international accounting standard and the corresponding Australian existing or proposed accounting standard, in situations where the AASB is of the view that the international accounting standard is inappropriate in the Australian context (paragraph 10(e)). The AASB also endeavors to accept the views of the IPSASB on an issue in question where such acceptance will lead to international convergence on the issue, even though that view is not the preferred position of the AASB, unless such acceptance is considered not to be in the best interest of the public sector in the Australian economy (paragraph 11(f)).

**B: Australian Auditing and Assurance Standards Board**

In the Australian Auditing and Assurance Standards Board's "Corporate Plan for the period 1 July 2006 to 30 June 2009" (see item 4.4), the AUASB states that it "should use, as appropriate, International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the base from which to develop the Australian Auditing Standards." The AUASB's Corporate Plan further states that it "should make such amendments to ISAs as necessary to accommodate and ensure that Auditing Standards both exhibit and conform with the Australian regulatory environment and statutory requirements, including amendments necessary for Australian Auditing Standards to have the force of law and be capable of enforcement..."

**C: Accounting Standards Board – Canada**

The Canadian Accounting Standards Board (AcSB) issued "Accounting Standards in Canada: New Directions" (item 4.5), its revised strategic plan in January 2006. "The ACSB's objective is to achieve convergence of Canadian GAAP with IFRSs at the changeover date at the end of the transitional period, which is expected to be in approximately five years." (page 2).

The AcSB states that it is not relinquishing its standard setting power and responsibility, but indicating how its power will be exercised.

**D: Auditing and Assurance Standards Board – Canada**

The Canadian Auditing and Assurance Standards Board (AASB) adopts the policy of converging Canadian auditing standards with the International Standards on Auditing issued by the IAASB, its policy on adoption is laid out in "Adopting International Standards on Auditing (ISAs) (item 4.6). At "Modification to ISAs when adopting them into the new CICA Handbook – Assurance" the AASB has noted that there may be circumstances where modifications to the ISAs are required, and has set out the following limited circumstances where it will make modifications to ISAs:

1. The AASB will limit additions to an ISA to those required to comply with Canadian legal and regulatory requirements.
2. The AASB will limit deletions from, or other amendments to, an ISA to the following:
  - (a) The elimination of options (alternatives) provided for in the ISA.
  - (b) Requirements or guidance, the application of which Canadian law or regulation does not permit, or which require amendment to be consistent with law or regulation.
  - (c) Requirements or guidance, where the ISA recognizes that different practices may apply in different jurisdictions and Canada is such a jurisdiction.

3. The AASB may make modifications to an ISA with respect to requirements or guidance that do not fall within 1 or 2 above when it believes that there are circumstances particular to the Canadian environment where such modifications are required to serve the Canadian public interest and maintain the quality of auditing and reporting in Canada.
4. To the extent possible, modifications that are:
  - (a) Additions to an ISA will not be inconsistent with the current requirements or guidance in the ISA; and
  - (b) Deletions from, or other amendments to, an ISA will be replaced by an appropriate alternative that achieves the objective of the deleted requirement.

Proposed modifications to an ISA will be highlighted in exposure drafts of proposed Canadian standards. The AASB will indicate the reason for the modifications and respondents will be invited to comment on them, including when the modification will not result in convergence with the ISA in accordance with the IAASB guide for national standard setters. Modifications to ISAs will be separately identified in the final Assurance Handbook material.

**E: Accounting Standards Board – South Africa**

The Accounting Standards Board (ASB) of South Africa sets Standards of Generally Recognized Accounting Principles (GRAP) for public sector entities within South Africa. The ASB's international convergence policy is set out in its "Preface to the Standards of Generally Recognised Accounting Practice" (item 4.7). The policy of the ASB is to converge Standards of GRAP with international standards issued by the IASB and the IPSASB. Each Standard of GRAP includes a Basis for Conclusions that explains significant departures from the equivalent international equivalent of the standard. These deviations will usually be made to meet specifically South African situations. Where a departure from an IAS or IFRS has been made by the IPSASB and the ASB concludes that the IASB text should be used, an explanation will also be made in the Basis for Conclusions.

Standards of GRAP are developed either by adapting an IPSAS or by developing a Standard to deal with a specific public sector issue that is either not comprehensively dealt with in an existing IPSAS or for which an IPSAS has not been developed. Any revision to an IAS or IFRS on which an IPSAS is based, after publication of the IPSAS, or any interpretation of an IAS or IFRS issued by the IASB, will be taken into account when drafting an exposure draft. Any draft interpretations or exposure drafts of proposed amendments will not be considered when drafting the exposure draft.

Alternative treatments are retained provided that they satisfy the overriding requirement of fair presentation, however, where there is an allowed alternative in the international standard in order to accommodate regulatory or other restrictions in other countries, which is clearly not applicable in South Africa, such allowed

alternative will be excluded from the South African standard. If an international standard does not provide an alternative, but there is an alternative that should be allowed in South Africa, due to its fundamental importance, the alternative will be included.

Where the South African regulatory or legislative environment requires an amendment to the international standard, the international standard may be amended accordingly.

**F: Federal Accounting Standards Advisory Board – United States of America**

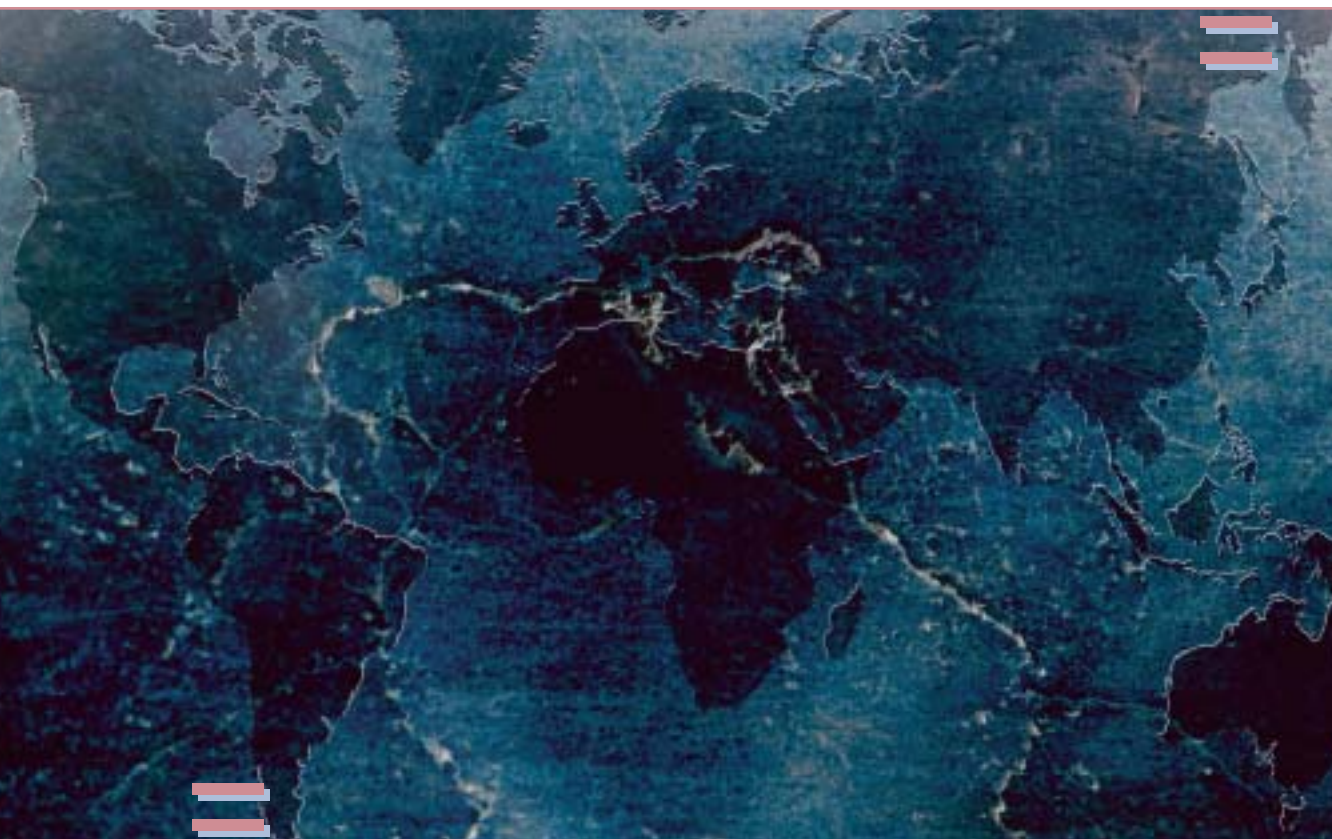
The Federal Accounting Standards Advisory Board (FASAB) lays out its strategy on the development of its standards in “FASAB’s Strategic Directions: clarifying FASAB’s Near-Term Role in Achieving the Objectives of Federal Financial Reporting”. FASAB adopts a due process that includes monitoring the activities of other standards-setting authorities, such as IPSASB, and seeks their views on proposed concepts and standards ( See <http://www.fasab.gov/pdf/stratobjectivesnov2006.pdf>).

**G: Governmental Accounting Standards Board – United States of America**

The Governmental Accounting Standards Board’s “Strategic Plan 2005 – 2009” (attachment 4.8) lays out the GASB’s policy in regard to IPSASs. GASB’s objective is to participate actively in international public sector accounting standards setting by influencing the development of international standards and harmonizing with those standards, where appropriate. GASB adopts the following strategies to achieve this objective:

1. It reviews international standards and standards of other countries when developing GASB standards for similar issues.
2. It provides input before due process documents are issued on ongoing projects of the IPSASB that could impact GASB standards and projects.
3. It prepares official GASB responses to IPSASB due process documents that address issues relevant to GASB standards and projects.

SEPTEMBER 2004

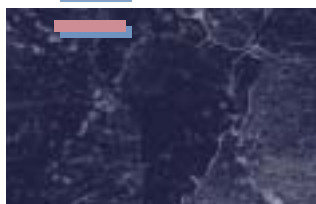


## CHALLENGES AND SUCCESSES IN IMPLEMENTING INTERNATIONAL STANDARDS: ACHIEVING CONVERGENCE TO IFRSs AND ISAs



## INTRODUCTION

BY PETER WONG



Peter Wong, a former member of the Board of the International Federation of Accountants (IFAC), was commissioned by IFAC to study the challenges and successes in adopting and implementing international standards.

A financial reporting system supported by strong governance, high quality standards, and sound regulatory frameworks is key to economic development. Indeed, high quality standards of financial reporting, auditing, and ethics underpin the trust that investors place in financial and nonfinancial information and, thus, play an integral role in contributing to a country's economic growth and financial stability.

As the forces of globalization prompt more and more countries to open their doors to foreign investment and as businesses themselves expand across borders, both the public and private sectors are increasingly recognizing the benefits of having a commonly understood financial reporting framework supported by strong

globally accepted auditing standards.

The benefits of a global financial reporting framework are numerous and include:

- Greater comparability of financial information for investors;
- Greater willingness on the part of investors to invest across borders;
- Lower cost of capital;
- More efficient allocation of resources; and
- Higher economic growth.

Before these benefits can be fully realized, however, there must be greater convergence to one set of globally accepted high quality standards. International convergence is a goal that is embraced in IFAC's mission, shared by IFAC member bodies, the international standard setters, and many national standard setters, and supported by international regulators. Achieving international convergence, however, requires more than theoretical support. It requires reaching consensus as to the international standards that will

serve as the foundation for financial reporting and auditing globally, determining how to facilitate the adoption of those standards, and, ultimately, taking the actions necessary to encourage implementation. This report is a significant step in that process.

In November 2003, the IFAC Board agreed that there was a need to identify more clearly the challenges to adopting the international standards and to communicate successful examples of how the international standards have been and are being implemented. As a former IFAC Board member, past president of the Hong Kong Institute of Certified Public Accountants, and a Chartered Accountant who has worked with both national and international standards for many years, I was asked to lead this project.

The project, defined in more detail on page 4, entailed the collection of views from a cross-section of the international financial reporting community: representatives from regional and national professional accountancy organizations; IFAC committees and permanent task forces; national standard setters; users of financial statements; regulators; and professional accountants from a variety of backgrounds.

This report details my findings and proposed actions for addressing the identified challenges.

The objective of this report is to stimulate further discussions and actions on the adoption and implementation of the international standards so that we

may move closer to the goal of international convergence. Based on the successes of adoption and implementation in some countries, I believe it is a goal that is achievable over time. Given the significant public interest benefits, it is also a goal that I believe we cannot afford to put aside.

Serving the public interest is one of the greatest challenges facing our profession. To do so effectively,

**THE** *objective of this report is to stimulate further discussions and actions on the adoption and implementation of international standards so that we may move closer to the goal of international convergence.*

we must all demonstrate that we follow high professional standards. The public will not and should not accept anything less. If there are any impediments to our ability to follow professional standards,

IFAC, together with international and national standard setters, regulators, governments, and others identified in this report, must work together to address them head-on.

I am grateful for the help of the regional and national professional accountancy organizations that assisted in the arrangement of discussion groups, for those who took the time to participate in the discussions or to complete written submissions, and for the dedication of the IFAC staff in supporting me in this project.

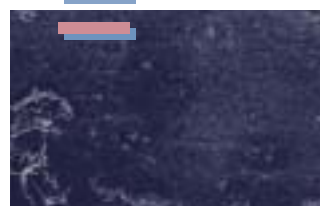
Finally, I must state that the views in this report are my personal views and do not necessarily reflect the views of any of the organizations with which I am affiliated.



**PETER H.Y. WONG**

Peter Wong was a member of the Board of the International Federation of Accountants from 2000 to 2003 and is currently a member of the Board of the Global Reporting Initiative, which sets the Guidelines for Sustainability (Environment, Social & Economic) Reporting. He retired as Senior Tax Partner of Deloitte Touche Tohmatsu – Hong Kong in May 2002 and is currently a consultant to the firm. A past president of the Hong Kong Institute of Certified Public Accountants, he is now the chairman of the Business & Professionals Federation of Hong Kong.

## TABLE OF CONTENTS



Background .....	4
Summary of Principal Findings and Basic Assumptions .....	6
Understanding the Meaning of International Convergence .....	7
Translation of the International Standards .....	11
Complexity and Structure of the International Standards .....	13
Frequency, Volume, and Complexity of Changes to the International Standards .....	14
Challenges for Small- and Medium-sized Entities and Accounting Firms .....	16
Potential Knowledge Shortfall .....	18
Implications of Endorsement of IFRSs .....	20
Proposals for Actions by Stakeholders .....	23
Summary and Conclusions .....	25
Appendix 1: List of Focus Group Meetings, Interviews, and Respondents .....	26
Appendix 2: List of Questions Covered in Focus Group Meetings, Interviews, and Written Submissions .....	27

## BACKGROUND



As the world continues to globalize, discussion of convergence of national and international standards has increased significantly. Most major capital markets are now actively discussing or pursuing efforts

of convergence towards single sets of globally accepted accounting and auditing standards. IFAC, in an effort to facilitate international convergence, commissioned this study to explore the challenges and successes involved in adopting and implementing international standards. It is joined by international regulators, including the Basel Committee on Banking Supervision, the European Commission, the Financial Stability Forum, the International Association of Insurance Supervisors, the International Organization of Securities Commissions, and the World Bank, in recognizing that global capital markets require high quality, globally consistent, and uniform regulatory and standards regimes.

### *The Benefits of Globally Accepted International Standards*

Globally consistent and uniform financial systems provide cost-efficiencies to business and greater safeguards to the public. The public is entitled to have confidence that, regardless of where a business activity occurs, the same high quality standards were applied. It is widely recognized that investors will be more willing to diversify their investments across borders if they are able to rely on financial information based on a similar set of standards. Thus, adherence to international standards, such as those developed by the International Accounting Standards Board (IASB) and the International Auditing and Assurance Standards Board (IAASB), can ultimately lead to greater economic expansion.

### *Support for International Convergence*

The Financial Stability Forum (FSF)<sup>1</sup> included the International Financial Reporting Standards (IFRSs) issued by the IASB and the International Standards on Auditing (ISAs) issued by the IAASB in its *12 Key Standards for Sound Financial Systems*. The FSF indicated that these 12 Key Standards are most likely to make the greatest

contribution to reducing vulnerabilities and strengthening the resilience of financial systems.

The report on *Rebuilding Public Confidence in Financial Reporting – An International Perspective*, issued in July 2003, provided further support for IFRSs and ISAs becoming the worldwide standards. The report was developed by the Task Force on Rebuilding Public Confidence in Financial Reporting – an independent group commissioned by IFAC to address, from an international perspective, the loss of credibility in financial reporting and approaches to resolving the problem. The task force recommended that convergence of national and international standards be achieved as soon as possible, viewing this as a significant public interest issue.

IFAC has committed itself to the achievement of global convergence of national standards with IFRSs and ISAs. This is evidenced both in its mission statement and in its Statements of Membership Obligations. Published in April 2004, the Statements of Membership Obligations formally capture IFAC's longstanding requirement that its member bodies support the work of the IASB and IAASB by using their best endeavors to incorporate the IFRSs and ISAs in their national requirements (or where the responsibility for the development of national standards lies with third parties, to persuade them on a best endeavors basis to do so) and to assist with the implementation of IFRSs and ISAs, or national standards that incorporate IFRSs and ISAs.

As countries increasingly commit to converging national standards with IFRSs and ISAs, there is a need to ensure international convergence is approached in a systematic and, where possible, consistent way across jurisdictions. It also has made it necessary for interested parties, such as IFAC, the international and national standard setters, and international regulators, to understand the challenges in adopting and implementing the international standards so that they can be addressed at an early stage.

### *Scope and Project Methodology*

This study seeks to explore those issues that affect the adoption and implementation of IFRSs and ISAs, provides examples of successful adoption and implementation to serve as models for other countries, and proposes actions to be taken by relevant stakeholders.

Numerous questions were addressed as part of this study. How do we move towards international convergence? What obstacles need to be overcome? What systems

<sup>1</sup> The FSF is an organization that brings together senior financial representatives of national financial authorities, international financial institutions, international regulatory and supervisory groupings, committees of central bank experts, and the European Central Bank to promote international financial stability.

and processes can help to facilitate international convergence? What roles can the IASB and IAASB and national standard setters play in ensuring that international convergence is approached in a systematic and, where possible, consistent way? This report attempts to answer these questions based on input from a cross-section of the international financial reporting community.

Peter Wong, a former IFAC Board member with extensive international experience, was appointed by the IFAC Board to oversee the development of this study and address these questions among a variety of groups: those that develop the international and national standards, those that use the standards, and those that rely on work performed based on the standards.

The major fact-gathering process was as follows:

- A series of focus group meetings with members of regional and national professional accountancy organizations;
- A series of interviews with representatives of national standard setters, preparers, auditors, and users of financial statements, including regulators, and other interested parties;
- An invitation to IFAC member bodies to submit written responses; and
- Limited library research, focused on recent studies undertaken with regard to the adoption and implementation of the international standards.

Nine focus group meetings were held, approximately 20 interviews were conducted, and 29 responses to the invitation were submitted to IFAC. Those who participated in focus groups or interviews or submitted written responses are hereinafter referred to as “participants” in this study. The participants represented a broad range of perspectives – regulators, standard setters, preparers from entities of various sizes, auditors from large and small accounting firms, and investment professionals – and shared a combination of organization-wide and personal views.

Appendix 1 contains a list of focus groups, interviews, and respondents to the invitation to submit written responses. Appendix 2 contains a list of questions covered in these meetings, interviews, and the invitation to submit written responses.

Peter Wong, with the assistance of senior IFAC staff members, engaged in discussions regarding the following potential challenges in adopting and implementing the international standards:

- Issues of incentives – the various factors which might encourage or discourage national decision-makers from their adoption.
- Issues of regulation – regulatory challenges in their adoption.
- Issues of culture – challenges arising from cultural barriers in their adoption and implementation.
- Issues of scale – implementation barriers associated with the relative costs of compliance for small- and medium-sized entities and accounting firms.
- Issues of understandability – their complexity and structure.
- Issues of translation – the ease of their translation and the resources available to undertake the translation.
- Issues of education – the education and training of students and professional accountants in the international standards.

Subsumed in the above are issues related to the legitimacy and authority of the international standards and the integrity of those who have to implement them, i.e., to comply with the substance and form of the standards.

These challenges are explored throughout this report. The report also reflects reported successes in adopting and implementing the international standards. As more countries seek to adopt the international standards, experiences from those countries already well advanced in their adoption and implementation are of immense value to those that are still in the process, or are considering the steps to be taken.

The evidence contained in this report is anecdotal, as opposed to quantitative. Given the diversity of groups involved in the study and the consistency in responses, the study provides a clear indication of the challenges to be addressed to facilitate the adoption and implementation of the international standards.

It should be noted that the project focused on the adoption and implementation of IFRSs and ISAs. Where participants noted matters relating to the pronouncements issued by IFAC committees other than the IAASB, for example, matters relating to ethics, education, or financial reporting in the public sector, these matters have been communicated to the relevant committee. □

## SUMMARY OF PRINCIPAL FINDINGS AND BASIC ASSUMPTIONS



Generally, participants were positive about the adoption and implementation of the international standards and confirmed that the IASB and the IAASB were the appropriate bodies

to develop them.

Participants cited similar challenges related to the adoption and implementation of both IFRSs and ISAs. They were inclined to spend more time, however, discussing the international accounting standards than the international auditing standards. A participant (from industry) gave the following explanation for this:

*"The international accounting standards have a direct effect on far more people than the international auditing standards. The complexity of the international auditing standards might flow through into the audit fee an entity pays, but the entity does not itself have to read, interpret, and implement the standards."*

The principal challenges identified by those involved in adopting and implementing IFRSs and ISAs are described in the following sections of this report:

- Understanding the Meaning of International Convergence
- Translation of the International Standards
- Complexity and Structure of the International Standards
- Frequency, Volume, and Complexity of Changes to the International Standards
- Challenges for Small- and Medium-sized Entities and Accounting Firms
- Potential Knowledge Shortfall
- Implications of Endorsement of IFRSs

This report explores these challenges in detail and includes success factors demonstrating how some countries and organizations have addressed or overcome some of the challenges. Additionally, proposed actions that are based on an analysis of the findings and participants' recommendations are included for each of the

challenges. A list of proposed actions by each stakeholder group is featured at the end of the report. Although not agreed or endorsed by any formal group of IFAC or any other international organization, these proposed actions have been developed to further the goal of international convergence.

The proposed actions are premised on the following:

- Successful adoption of the international standards is dependent on the development of high quality standards.
- Integrity in the application of the international standards is essential. Preparers, auditors, and users of financial statements must encourage and support compliance with the substance and form

of the international standards.

- The adoption and implementation of the international standards require action at both the national and international levels. At the national level, it is important that governments, regulators, and national

standard setters place international convergence as a priority on their agendas. At the international level, it is important that the international standard setters establish processes and procedures that facilitate national input and lead to the development of high quality standards that are globally accepted.

Finally, it is clear that to achieve international convergence, action is necessary at all points along the information supply chain that delivers financial reporting. Boards of directors and management, who have the primary responsibility for financial reporting, as well as auditors, standard setters, regulators, and other participants in the financial reporting process, such as lawyers, investment bankers, analysts, credit rating agencies, and educators, all have important roles to play in achieving international convergence. □

TO achieve international convergence, action is necessary at all points along the information supply chain that delivers financial reporting.



## UNDERSTANDING THE MEANING OF INTERNATIONAL CONVERGENCE

*What Does “Adoption” Mean?*

The question, “*To what degree do you consider that the international standards have been adopted in your country?*” gave rise to varied responses largely because there was no universally accepted definition of

“adoption.” Participants referred to “adoption,” “harmonization,” “transformation,” etc. without clearly defining what those terms meant. For example, what does it mean to be “largely harmonized?” One written submission noted that the national standards have been “based on” the international standards, and that the national accounting standards are at least 80% identical to IFRSs and the national auditing standards are at least 95% identical to ISAs. International convergence is a process, with adoption as the end result. However, without a universally accepted definition of “adoption,” it is difficult to measure progress towards international convergence.

The World Bank, in preparing the *Reports on the Observance of Standards and Codes*, encountered similar diversity regarding the concept of adoption. It found that the adoption of IFRSs could be categorized as: full adoption of IFRSs; full adoption of IFRSs, but with time lag; selective adoption of IFRSs; and national standards “based on” IFRSs. The adoption of ISAs could be categorized similarly, but with one addition: adoption of a summarized version of the ISAs. Furthermore, in all the ISA categories the adopted ISAs may contain additional national requirements.

The time lag in adopting the international standards is due mainly to translation of the standards. For example, in one country a five-year time lag was experienced due to the need for translation of the ISAs.

Selective adoption of the international standards is due mainly to the complexity of the standards, the incompatibility thereof with national culture, or potential implementation problems. For example, in one country the ISAs were summarized in 33 pages, as the complete standards were felt to be “over-

whelming.” The implementation of these summarized ISAs was intended to be a first step to full adoption; however, that country is now in the sixth year of this temporary stage.

According to paragraph 14 of International Accounting Standard 1, *Presentation of Financial Statements*, financial statements shall not be prescribed as complying with IFRSs unless they comply with all the requirements of IFRSs. Paragraph 53 of the exposure draft of the proposed revised ISA 700, *The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements*, states that the auditor’s report should only refer to the audit having been conducted in accordance with ISAs when the auditor has complied fully with all of the ISAs relevant to the audit. This leaves the preparers and auditors of financial statements in countries that have not fully incorporated the IFRSs and ISAs in their national standards with a dilemma. Although the national standards have been developed with reference to the international standards, they may not fully incorporate them and, consequently, the financial statements and auditor’s report should not refer to compliance with IFRSs and ISAs.

Furthermore, a reference to national standards that are “materially the same” or “substantially the same” as IFRSs or ISAs is confusing and potentially misleading.

## A MODEL OF CONVERGENCE

In March 2004, the Accounting Standards Board (ASB) in the United Kingdom issued a discussion paper, *UK Accounting Standards: A Strategy for Convergence with IFRS*. The paper sets out the ASB’s views on the future development of national accounting standards. Specifically, it states that the ASB believes that there can be no case for the use in the United Kingdom of two sets of wholly different accounting standards in the medium term, and it should not seek to issue new standards that are more demanding or restrictive than IFRSs. These propositions require a concerted effort from the ASB to bring national accounting standards into line with IFRSs. The ASB intends to achieve this as quickly as possible while avoiding the burden of excessive changes in any one year and, in particular, minimizing the cases in which an entity using national accounting standards may be required to make successive changes of accounting policy in respect of the same matter.

### *Amendments for National Specificities*

The adoption and implementation of the international standards in a country takes place in an environment that is affected by factors unique to that country, for example, the economy, politics, laws and regulations, and culture. A reason cited by participants for not fully incorporating IFRSs and ISAs is that countries find it necessary to amend the international standards to provide for national specificities. Projects undertaken by the Fédération des Experts Comptables Européens (FEE), the Auditing Practices Board (APB) in the United Kingdom, and the Australian Accounting Standards Board (AASB) further confirm this situation.

In March 2004, FEE issued a paper on *ISA+ in the EU: A Summary of Country-Specific Audit Requirements*, which categorizes additional national requirements as: additional explicit reporting required by law or regulation; additional exception reporting required by law or regulation; additional reporting required by national auditing standards; and significant additional procedures required by national auditing standards. National law, regulation, and auditing standards gave rise to many divergences from ISA 700, *The Auditor's Report on Financial Statements*. In addition, 11 of the 30 countries included in the summary identified one or more significant procedures not contained in the ISAs.

In June 2004, the APB issued an exposure draft on proposed *International Standards on Auditing (UK and Ireland)*. The APB is proposing to revise the existing national auditing standards to ensure that they, at a minimum, meet the requirements of the ISAs. In developing the exposure draft, the APB reviewed all the national standards to identify differences between the national standards and ISAs. Where identified differences were considered to be relevant and helpful, such material was incorporated in the ISAs for application in the United Kingdom.

The AASB has adopted the IFRSs with minimum amendments to accommodate national laws and regulations, eliminate some options, make the standards private and public sector neutral, make conforming amendments to the terminology in some of the IFRSs that have not recently been revised, and retain a small amount of guidance that is in the existing AASB standards.

Similarly, many other countries are finding it necessary to incorporate national legal and regulatory requirements and national practice in their adopted international standards or to eliminate international requirements because of "legal obstacles." In the future, however, this practice may no longer be acceptable.

In accordance with the European Commission's *Proposal for a Directive of the European Parliament and of the Council on Statutory Audit of Annual Accounts and Consolidated Accounts and Amending Council*

*Directives 78/660/EEC and 83/349/EEC* (March 16, 2004), European Union (EU) member states will be allowed to impose additional audit procedures only if these follow from specific requirements relating to the scope of the statutory audit. Furthermore, EU

member states will have to communicate these additional procedures to the Commission.

In addition to national specificities such as national laws, regulations, and practice, the tax-driven nature of the national accounting regime was also identified as a barrier to international convergence. For example, in some countries one of the primary objectives of the national accounting standards traditionally has been to determine taxable income. Financial statements prepared in accordance with IFRSs are intended primarily to serve the needs of the capital markets, which may differ significantly from the needs of the tax authorities.

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**SIMILARLY**, many other countries are finding it necessary to incorporate national legal and regulatory requirements and national practice in their adopted international standards.



*Date of International Convergence and Effective Dates of Adopted International Standards*

In some instances, participants reported that their countries have adopted the international standards in issue at a particular date, but have not kept up-to-date with new and revised international standards issued subsequent to that date.

In other instances, it was found that the national standards have different effective dates and transitional provisions from those of the international standards on which they are based.

This leaves the preparers and auditors of financial statements in the same dilemma as discussed earlier. Any reference to compliance with the international standards should be made only if there was full compliance with all the international standards effective at that date.

*Accessibility to the International Standards*

Limited accessibility to some or parts of the international standards was identified as a barrier to international convergence. Some participants, particularly those from developing countries, were concerned that fees are being charged to obtain the IFRSs. Similarly, participants from the EU, who will have free-of-charge access to parts of the IASB literature, were concerned that guidance essential for proper implementation of IFRSs would not be available free of charge and, as a result, might not be considered by entities implementing IFRSs.

*Conclusions and Proposed Actions*

It is evident that international convergence is a process. This process could be enhanced by IFAC through greater clarification of the end result, i.e., the meaning of “adoption,” and by the development of a more consistent and globally recognized measurement of international convergence. While consideration needs to be given as to how best to accommodate national laws and regulations, greater consistency in approach by those adopting the international standards is needed. Governments and regulators are encouraged to establish legal and regulatory environments that provide for compliance with the international standards, with no or very limited additional national requirements. Governments are also encouraged to acknowledge the differing roles of tax accounting and financial reporting.

National standard setters are encouraged to make international convergence the core of their work and the focus of their resources, and to interface with the international standard setters on behalf of their national constituencies. International standard setters need to continue to recognize the unique challenges faced by national standard setters and to provide sufficient opportunity for national standard setters to provide input to the international standard-setting processes. Of note is the joint effort by the Financial Accounting Standards Board (FASB) in the United States and the IASB to eliminate differences between the national accounting

**SUCCESS FACTORS**

Factors that contributed to national standard setters' success in adopting and implementing the international standards include:

- The development of and commitment of all stakeholders to a formal international convergence policy that clearly states the fundamental principles of international convergence, the convergence process, the roles and responsibilities of all stakeholders, and the timeframe for international convergence.
- The establishment of good relationships with and cooperation among all stakeholders, including preparers, auditors, users of financial statements, governments, and regulators.
- The consideration of the effect that international convergence may have on small- and medium-sized entities and accounting firms.
- The establishment of a formal translation process, which involves both professional translators and professional accountants.
- The alignment of national standard-setting agendas and processes with those of the international standard setters.
- The devotion of significant resources to working with and influencing the work of the international standard setters.

standards and IFRSs. (Many participants were of the view, however, that, when entering into such agreements, the international standard setters' focus should remain on the development of globally accepted high quality standards.)

National standard setters are encouraged to publish formal international convergence strategies, addressing matters such as the fundamental principles of convergence, the convergence process, the roles and responsibilities of the various stakeholders, and a timeframe for implementing their strategies. Translation issues (see next page) should also be addressed.

National standard setters are further encouraged to cover the criteria for additional national requirements as a fundamental principle in their formal international convergence strategies. Such additional requirements

should be limited to those necessary as a result of national laws and regulations. National best practices not dealt with in the international standards should be communicated to and considered by the international standard setters.

In addition, national standard setters should consider how best to incorporate the additional national requirements in the adopted international standards. Varied approaches have been reported. For example, the exposure draft of the UK APB clearly differentiates additional material from the ISA content, while in the case of the French and German auditing standards, which incorporate the ISAs, the additional material is not separately differentiated. Clear differentiation of the additional national requirements is preferred since it facilitates easy maintenance of the adopted international standards and of the additional national requirements, and enables preparers or auditors who wish to comply with IFRSs or ISAs to distinguish the additional national requirements from the IFRSs or ISAs.

It is also recommended that regional professional accountancy organizations take actions to facilitate the adoption and implementation of the international standards. It has been recognized that the adoption and implementation of the international standards often has similar consequences for countries in the same region, and thus, solutions may be found at a regional level.

Well organized and resourced regional professional accountancy organizations could assist national professional accountancy bodies and national standard setters by combining efforts to adopt and implement the inter-

national standards. They could facilitate input to the international standard-setting processes, translation of the international standards, and the education and training of preparers, auditors, and users of financial statements.

IFAC member bodies have an important role to play as well. IFAC has created a Member Body Compliance Program, which is designed to encourage IFAC member bodies to adopt and implement the international standards. The Statements of Membership Obligations are the foundation of the Member Body Compliance Program. They are designed to provide clear benchmarks to current and potential IFAC member bodies to assist them in ensuring high-quality performance by professional accountants worldwide.

Additionally, IFAC has established the Developing Nations Permanent Task Force to support the development of the accountancy profession in developing nations by aiding their participation in the international standard-setting process and their efforts of seeking resources from other IFAC member bodies and other organizations in developing nations. □

**NATIONAL** *standard setters are encouraged to make international convergence the core of their work and the focus of their resources.*

## TRANSLATION OF THE INTERNATIONAL STANDARDS



The translation of the international standards is a major challenge in the adoption and implementation of the standards. Translators often find it difficult to convey the real meaning of the English text in the translated standards. Issues that were noted by participants as contributing to the difficulty of translation were the following:

- The use of lengthy English sentences;
- Inconsistent use of terminology;
- The use of the same terminology to describe different concepts; and
- The use of terminology that is not capable of translation. For example, international standards use words such as “shall” and “should” and the present tense to indicate different levels of obligations, while many languages are not capable of using the same indicators.

Most participants also felt that the international standards should be written in simple English that can better accommodate translations.

Another issue with respect to translations is the consistent use of terminology in the translated standards. To address this issue, some translators, in the first instance, have translated the international standard setters’ glossary of terms, or some other list of key words. Some participants, however, were of the view that the IAASB’s glossary of terms did not contain all the words that were thought to be “key.” Mention was made of such concepts as “significant” or “material” which might well have different nuances in different languages, as well as being concepts that might be subject to cultural differences and influences.

*Impact of Funding*

Participants reported that donor funding is frequently used to support the translation of the international standards. Since this funding sometimes covers a one-time or specific project, organizations do not always have the resources to support the translation of new and revised international standards. Considering the frequency and volume of changes to the international standards, the translated standards soon become outdated, and preparers and auditors of financial statements can no longer claim compliance with the IFRSs and ISAs respectively.

*Timetable for Translations*

Concern was expressed that IFRSs endorsed by the European Commission and effective in the EU on January 1, 2005 may not all be translated in a time-frame that will allow for proper implementation. The Commission has indicated that it may take nine months from the publication of an IFRS by the IASB until the translated standard is available in the Official Journal of the Commission.

Participants also raised timing issues with respect to the international exposure drafts. Some national standard setters issue the international exposure drafts, or national exposure drafts incorporating the international exposure drafts, at the same time that they are issued by the international standard setters. This enables them to consider the comments received on a national level and to respond to the international standard setter. However, this may not be possible where the time allowed for submitting comments is short and does not take account of the time required to translate these exposure drafts.

*Involvement of Professional Accountants*

The majority of participants emphasized the importance of involving professional accountants in the translation of the international standards. There was also a concern that, should a translation of the international standards not involve the developers or users of the international standards, it may compromise the quality of the translation.

### *Conclusions and Proposed Actions*

The International Accounting Standards Committee (IASC) Foundation has established a translation process for IFRSs, and in July 2004, the IFAC Board approved a Policy Statement on *Translation of Standards and Guidance Issued by the International Federation of Accountants*. It is hoped that these initiatives will facilitate high quality translations of the international standards. In addition, it was recommended that IFAC establish on its website a forum through which issues pertaining to translation might be reported and solutions shared, and that future exposure drafts of proposed international standards ask whether any issues might arise regarding translation of the standards.

To ensure consistency in translations and maximize available resources, countries that speak the same language are encouraged to coordinate their efforts and, over time, eliminate the existence of multiple translations of international standards into the same language. The French translation of the ISAs led by the Instituut der Bedrijfs-revisoren – Institut des Reviseurs d'Entreprises (Belgium) and involving representatives of its counterparts in France, Canada, and more recently Luxembourg and

Switzerland, have proved beneficial to all parties in achieving a common understanding and translation of key words.

With respect to translations of international exposure drafts, it was recommended that consideration be given to adding a 30-day period between when an international exposure draft is made available to national standard setters and when it is issued both internationally and nationally. This would allow national standard setters to translate the international exposure draft, insert a preface, and incorporate the necessary additional national requirements. Comments received on the exposure draft could then be considered at both a national and international level.

A national standard setter reported that it performs “rough” translations of proposed ISAs before final approval of the ISAs by the IAASB. This facilitates earlier implementation.

Finally, it is recommended that regional professional accountancy organizations take an active role in the facilitation of translations. Their involvement could help prevent duplication of effort and contribute to the release of timely and high quality translations. Additionally, efforts on their part to secure funding for translations could help make translated standards more broadly available. □

***MOST** participants felt that the international standards should be written in simple English that can better accommodate translations.*

### **SUCCESS FACTORS**

Factors that contributed to national professional accountancy bodies' success in translating the international standards include:

- The development of a formal translation plan and establishment of a translation team that includes professional accountants.
- To ensure the consistent use of terminology, the translation of a list of key words in the first instance and, where appropriate, obtaining the input of translators of the international standards in other countries that speak the same language.
- Actively seeking and securing donor or other funding that not only covers the initial translation of the international standards, but also the translation of new and revised standards.
- The establishment of a translation process that provides for the early translation of proposed and final international standards, enabling earlier implementation of the standards.

## COMPLEXITY AND STRUCTURE OF THE INTERNATIONAL STANDARDS



Participants were of the view that the international standards are increasingly becoming longer, more complex, and rules-based, and that the structure and complexity of the standards are affecting, largely in

an adverse way, both their adoption and implementation. In particular, reference was made to the international accounting standards on financial instruments and the international auditing standards on audit risk, fraud, and quality control. Despite the comments on length and level of detail, a need for more implementation guidance was generally supported.

The international regulators, however, appeared to be supportive of the longer and more detailed ISAs issued recently. The length of and detail in the ISAs provide for a tighter regulatory environment and consistent application of the ISAs.

Participants emphasized the importance of applying a principles-based approach in international standard setting. It was felt that standards that

are long, complex, and rules-based are difficult to implement and are likely to result in a compliance and avoidance mentality.

Participants reported that the international standard setters appear to have little or no sympathy for the fact that some countries need to incorporate their adopted international standards in national law or regulation. The international standards are not written in the form of law or regulation and, therefore, have to be “transformed” by the national standard setters. Or, as is the case in a country that incorporates the ISAs in its national auditing standards, the obligations are incorporated in national law or regulation and the explanatory text is incorporated in pronouncements issued by the national professional accountancy body.

A participant cautioned national standard setters against the above-mentioned approach since it may affect the authority of the national standards. For example, the obligations incorporated in national law or regulation may be authoritative, while the explanatory text published elsewhere may not be authoritative. It is, therefore,

important to consider the hierarchy of national standards in comparison with the authority attached to the international standards.

Some participants also had difficulties understanding the ordering of text in the international auditing standards since the logic of the structure was not always clear to them. An example cited was the practice in ISAs of placing an obligation on the auditor, followed by definitions of terminology included in the obligation, and then explaining the obligation. Some participants felt that these steps should be treated in a different order.

Adding to the complexity of IFRSs is the IASB’s move towards a fair value model. Many participants were of the view that fair value is a subjective concept and is difficult to measure accurately – different interpretations could lead to different conclusions. However, the

investment professionals, who believe that the IASB is not going far enough in its fair value model, were of the view that the matter could be overcome by explaining the effect that fair valuation has on the financial position and results of operations in the financial statements. For example, the

volatility caused by fair valuation could be disclosed in a separate section of shareholders’ funds. The market (and regulators) will then know how to deal with this.

### Conclusions and Proposed Actions

It is recommended that the international standard setters become more attuned to the challenges national standard setters and preparers, auditors, and users of financial statements face in adopting and implementing the international standards. In particular, participants recommended that international standard setters develop standards that continue to be principles based, the text of which is not complex, and the structure of which lends itself to incorporation in national law or regulation and to implementation.

The IAASB has taken a first step in this regard. It has undertaken a project to clarify the language and style of its pronouncements. The objective is to issue pronouncements that are understandable by those who perform the relevant engagements and are clear and capable of consistent application. □

**PARTICIPANTS** emphasized the importance of applying a principles-based approach in international standard setting.



## FREQUENCY, VOLUME, AND COMPLEXITY OF CHANGES TO THE INTERNATIONAL STANDARDS



It has clearly been a very challenging time for preparers, auditors, and users of financial statements – not only as a result of new and revised international standards, but also because of the many new requirements emanating from parties

other than the accounting and auditing standard setters. Participants questioned whether the cumulative effect of these changes on the preparers, auditors, and users of financial statements is being monitored by those who set the requirements. A participant recommended that the following question should be asked about every change: Will the value added exceed the cost to implement the change?

The frequency, volume, and complexity of the changes to the international standards are evidenced by the following:

- The IASB's Improvements Project, which gave rise to 13 standards being amended simultaneously with consequential amendments to many others (598-page document issued by the IASB in December 2003).
- Repeated changes of the same standards, including changes reversing IASB's previous stand and changes for the purpose of international convergence. These include changes to the international accounting standards on presentation of financial statements; accounting policies; changes in accounting estimates and errors; property plant and equipment; the effects of changes in foreign exchange rates; and financial instruments.
- Complex changes requiring considerable technical expertise. These include changes to the international accounting standards on financial instruments, impairment of assets, and employee benefits.

- Changes to the IAASB's audit risk model, which gave rise to three new international auditing standards and consequential amendments to many others.
- New international standards on quality control, dealing with quality control at the accounting firm and audit engagement levels.
- A revised international auditing standard on the auditor's responsibility to consider fraud in an audit of financial statements, published in February 2004, while a previous revision of the same standard became effective for audits of financial statements for periods ending on or after June 30, 2002.

*It is equally important for the international standard setters to strike a balance between the need to improve the international standards on a priority basis and the need to address the practical issue of providing countries with the time they need to adopt and implement these standards.*

Given the above, national standard setters may decide not to adopt international standards that are subject to change in the near future. For example, the UK ASB proposes not to incorporate certain IFRSs in its national accounting standards. There are a number of different reasons for its decision. On cost/benefit grounds it does not wish to issue a national accounting standard that incorporates a relevant international standard,

which is likely to change significantly in the near future.

Furthermore, as discussed earlier, in some countries the adopted international standards are incorporated in national law or regulation. Consequently, national law or regulation has to be revised every time the international standards are revised.

Also, due to frequent changes to the international standards, "real life examples" of best practice are not readily available to users of these standards.

Participants acknowledged that the international standard setters are working diligently to improve the international standards as soon as possible, with January 1, 2005 as an important target date for the IASB. However,

they reported that it is equally important for the international standard setters to strike a balance between the need to improve the international standards on a priority basis and the need to address the practical issue of providing countries with the time they need to adopt and implement these standards. For example, allowing a short period of time to implement a complex IFRS that requires significant changes to an entity's financial reporting system or a complex ISA that requires significant changes to audit methodologies and training can undermine progress towards international convergence.

### *Conclusions and Proposed Actions*

It is recognized that the international standards need to be responsive to market changes, the needs of investors, and diverse and complex financial products. However, given the frequency, volume, and complexity of changes to the international standards, the international standard setters should consider how they can effectively and efficiently accommodate national efforts to adopt and implement these standards.

The IASB achieved its target of issuing new standards and revising existing standards intended to apply to accounting periods beginning on or after January 1, 2005 by March 31, 2004. This allows entities in the EU, and in other countries that have committed to the adoption of IFRSs in 2005, at least some lead-time to transition to this IFRS “stable platform.”

Furthermore, the IAASB is considering a “quiet period” for adoption and implementation of IASs. This quiet period would provide users of IASs a time during which no new or revised IASs will become effective. While the IAASB will continue to develop new or revise existing ISAs, those issued during the quiet period will not become effective before the end of the quiet period.

Going forward, it is recommended that the international standard setters collect information regarding a realistic adoption and implementation timetable for national standard setters and preparers, auditors, and users of financial statements. This should be factored into their standard-setting processes and the determination of the effective dates of new and revised international standards.

Furthermore, the implementation of the international standards is not only an accounting issue – it is also a business issue. Consequently, anticipated changes to the international standards should be considered at an early stage by the preparers of the financial statements and the potential effect thereof discussed with all interested parties, including those charged with governance of the entity. □

### **SUCCESS FACTOR**

Matters relating to the frequency of changes to the international standards are being addressed. In preparing their international convergence timetable, national standard setters delay the adoption of those international standards that are under revision until such time as they are finalized. This prevents changes to a national standard shortly after incorporation of an international standard.

## CHALLENGES FOR SMALL- AND MEDIUM-SIZED ENTITIES AND ACCOUNTING FIRMS



In most countries, many or even all entities are required by national law or regulation to prepare financial statements that conform to a required set of generally accepted accounting principles, and for these financial statements to

be audited in accordance with a required set of generally accepted auditing standards. These audited financial statements are normally filed with a government agency and thus are available to creditors, suppliers, employees, governments, and others. A large number of these entities are small- and medium-sized entities. In Europe, for example, it is estimated that there are about 7,000 public interest entities and more than one million private entities. (While the European Commission is calling for only listed entities that prepare consolidated financial statements to comply with IFRSs, it is possible that all public interest and private entities will be audited under ISAs beginning in 2007.)

Virtually all participants raised issues concerning the relevancy and appropriateness of the international standards to small- and medium-sized entities and accounting firms.

Key concerns expressed were as follows:

- Length and complexity of the international standards;
- Cost of compliance with IFRSs versus benefits obtained;
- Inconsistent application of the international standards;
- Perceived focus on large-entity issues; and
- Lack of sufficient small- and medium-sized entity and accounting firm representation on the international standard-setting boards.

Comments on these issues are described further below.

Some national standard setters already seem to be working individually to determine how best to provide for financial reporting by small- and medium-sized entities in their national laws, regulations, or standards.

These individual national approaches were not viewed as efficient and participants suggested that they would only pose a risk to international convergence. Additionally, comparability and consistency would be compromised if alternative approaches exist. Consequently, participants felt that it was very important for the IASB's project to develop international accounting standards for small- and medium-sized entities to progress rapidly, with sufficient and appropriate input from small- and medium-sized entities.

With respect to ISAs, participants were of the view that the focus of ISAs has changed from the audits of financial statements of entities of all sizes to the audits of financial statements of large, complex, public interest, and often multi-national entities. The ISAs are progressively

becoming more difficult to apply to the audits of financial statements of small- and medium-sized entities. The international auditing standards dealing with audit risk were mentioned as an example.

There was also a sense that the international

standard setters do not recognize or appreciate the effect that changes in the fundamental principles of the international standards have on small- and medium-sized entities and accounting firms. The financial statements of small- and medium-sized entities are often used as the basis for tax preparation, banking covenants, and other reporting requirements. A whole re-education process, which extends beyond the preparers and auditors of financial statements to users, such as investors, lenders, tax authorities, and regulators, is necessary as a result of these changes.

**VIRTUALLY** all participants raised issues concerning the relevancy and appropriateness of the international standards to small- and medium-sized entities and accounting firms.



A participant indicated that the small- and medium-sized segment needs to be further segmented to distinguish the very small from the rest. “IFRS light” or “ISA light” may not be appropriate for very small entities. Consequently, a different set of standards may have to be developed for a third segment – where financial reporting is mainly for tax authorities and banks.

### *Conclusions and Proposed Actions*

In June 2004, the IASB issued a discussion paper on *Preliminary Views on Accounting Standards for Small- and Medium-Sized Entities*. The purpose of the discussion paper is to invite comments on the IASB’s preliminary views on its basic approach to develop international accounting standards for small- and medium-sized entities.

The IASB’s project was recognized as a significant step in addressing the needs of small- and medium-sized entities and participants encouraged the IASB to progress this project rapidly.

National standard setters and preparers, auditors, and users of financial statements of small- and medium-sized entities are encouraged to respond to the above-mentioned IASB discussion paper and to comment on relevant proposed pronouncements issued by the IASB and IAASB.

The IAASB has established a process to obtain the input of IFAC’s Small and Medium Practices Permanent Task Force on small- and medium-sized entity audit considerations to be incorporated in new and revised pronouncements.

The October 2004 European Congress for SME and SMP Accountants, organized by FEE, with the co-operation of Arc Méditerranéen des Auditeurs (hosted by Instituto de Censores Jurados de Cuentas de España), and featuring speakers from the IASB and IFAC, along with European leaders, is another important action. Activities such as these that provide a forum for dialogue between the international and national standard setters and small- and medium-sized entities and accounting firms are encouraged and much needed.

Finally, but most significantly, on an ongoing basis, the international and national standard setters should ensure that the needs of small- and medium-sized entities and accounting firms are addressed in the development of the international standards. For example, a participant recommended that ISAs be written with the simplest audit in mind and considerations for large, complex public interest entities should be added where necessary. Involving representatives from small- and medium-sized entities and accounting firms in the standard-setting process is seen as critical. □

## SUCCESS FACTORS

Factors that contributed to addressing successfully the needs of small- and medium-sized entities include:

- National standard setters including representatives from small- and medium-sized entities and accounting firms on their boards.
- National standard setters and professional accountancy bodies liaising with governments, regulators, and other interested parties to provide for differential reporting by small- and medium-sized entities.
- Small- and medium-sized accounting firms using the longer and more detailed ISAs to train their staff and to implement the ISAs.

## POTENTIAL KNOWLEDGE SHORTFALL



### *Awareness, Knowledge, and Skills*

The increasing proliferation and complexity of global issues, transactions, financial products, and standards present new challenges to the accountancy profession to ensure that it has the requisite knowledge and skills to carry out its responsibilities. In particular, there appears to be a potential knowledge shortfall with respect to the international standards.

Education and training were considered major challenges by most of the participants. They were of the view that only very few professional accountants have a detailed knowledge of IFRSs and the requisite skills to apply them.

For example, the results of a survey of members from business and practice conducted by the Institute of Chartered Accountants in England and Wales in June 2003 on the awareness of, and preparation for, the introduction of the international accounting standards revealed the following:

- A third of the respondents were either “not very aware” or “not aware at all” of the publication of the European Union’s regulation on the application of the international accounting standards;<sup>2</sup>
- Less than half of the respondents felt they were aware of the effect that the international accounting standards would have on their organization or its financial statements;
- Two thirds of the respondents were either “not very aware” or “not aware at all” of the IASB’s project timetable; and
- Only a quarter of the respondents knew what the UK ASB’s views and aims were in relation to the international convergence process.

The results of a recent PricewaterhouseCoopers survey<sup>3</sup> of more than 300 European companies show that just 10% of survey participants are confident they have the right people and skills in place to complete the transitions to IFRSs in the EU on time. Smaller entities, in particular, are finding it difficult to commit full-time resources to the implementation of IFRSs. The concern for entities is whether the people they need will be

available as the demand for IFRS specialists reaches its peak in 2004/2005.

The World Bank, in preparing the *Reports on the Observance of Standards and Codes*, found that developing and emerging economies with no existing national standards find it most easy and appealing to adopt the international standards. However, due to a lack of knowledge of the international standards, and often capacity, they find it most difficult to implement them.

Some participants were concerned about over-reliance on the technical expertise in accounting firms. Entities that do not have the technical expertise are becoming more dependent on their auditors to interpret the IFRSs.

Implementation of the ISAs by networks of accounting firms should be easier due to the development and

implementation of global audit methodologies and training programs incorporating ISAs as well as global internal inspection programs to monitor compliance with the standards.

Although many countries have incorporated the inter-

national standards in the education and training of students, a participant was concerned about educators’ knowledge of the international standards since they normally are not involved in the implementation of these standards.

Another participant was of the view that the volume and speed of changes made it impossible for students to develop the skill and ability to apply the international standards. This participant reported a decline in students’ ability to deal with problems critically and analytically. Students should be taught how to apply a framework of principles to different circumstances – for the detail, they could refer to the handbooks of international standards.

Participants were also concerned about the knowledge of analysts and the media. Participants representing professional investors, however, were of the view that analysts will be prepared for the transition to IFRSs.

### *A Need for Interpretations*

There is a need for an easier and quicker way to resolve matters of interpretation of IFRSs. Participants commented on the need for the IASB and, in particular, the International Financial Reporting Interpretations Committee (IFRIC), to be more cooperative in this regard.

**URGENT** *attention should be given to the development of implementation guidance that is widely available to all in need of such guidance.*

<sup>2</sup> Regulation (EC) No 1606/2002, July 19, 2002.

<sup>3</sup> International Financial Reporting Standards: Ready to Take the Plunge?, May 2004.

Participants were of the view that, at present, some IFRSs are open to varying interpretations and competitors are “shopping” for more favorable interpretation on common issues. To prevent this, some industries have started to organize forums where leading entities could discuss their approaches to common issues.

### *A Need for Implementation Guidance*

Participants reported a need for implementation guidance. They were of the view that implementation guidance is of particular importance when the international standards are applied for the first time, when there are translation issues, and when there is a lack of technical expertise and “real life examples” of best practice. In addition, reference was made to the implementation of the international standards in the context of, for example, national legal and regulatory frameworks and cultures.

### *Conclusions and Proposed Actions*

National professional accountancy bodies are encouraged to continue to create an awareness and expand the knowledge of professional accountants and others of the international standards.

Educational institutions are encouraged to provide the educators with education and training in the international standards. They should also offer programs of accounting and auditing that produce accounting graduates familiar with the international standards.

For entities that are implementing IFRSs, an understanding of the standards is necessary from the top down – from those responsible for the governance of the entity to those responsible for financial and operational reporting by individual business units. Consequently, training programs should involve individuals at all levels of the entity and should continue after the initial transition to IFRSs.

There is also a need to make analysts and journalists aware of the effect that the transition to IFRSs may have on entities’ financial statements. Participants encouraged entities to provide analysts with the information necessary to interpret their entities’ financial positions and results of operations.

The international standard setters are encouraged to establish processes, or enhance existing processes, to respond to requests for interpretations in a timely manner.

Furthermore, urgent attention should be given to the development of implementation guidance that is widely available to all in need of such guidance.

There was no consensus as to who should develop the implementation guidance. Possibilities include: the international standard setters, national standard setters, national professional accountancy bodies, and large accounting firms. However, if the guidance is developed by anyone other than the international standard setters, there may be a lack of international coordination and a corresponding lack of consistency. □

## SUCCESS FACTORS

Factors that contributed to addressing successfully the potential knowledge shortfall include:

- National professional accountancy bodies offering training to their members by way of seminars, and large entities and accounting firms providing compulsory training to their staff.
- National professional accountancy bodies educating analysts and journalists on the effect that the transition to IFRSs may have on an entity’s financial statements. This includes the issuance of press releases and posting of information on websites.
- Educational institutions involving staff from accounting firms in teaching the international standards.
- International organizations that represent industries, such as financial institutions, providing training to their members by way of seminars.
- Industries organizing forums where leading entities can discuss challenges and solutions to implementing specific IFRSs.
- Entities, viewing the transition to IFRSs as a business issue and not just an accounting issue, training staff at all levels, including those outside the financial reporting system, for example, staff responsible for determining the effect of new international accounting standards on an entity’s remuneration policies.

## IMPLICATIONS OF ENDORSEMENT OF IFRSs



As those in the EU and other countries continue to prepare to meet their upcoming deadlines for the adoption of the international accounting standards, they are faced with unique challenges, some of which are discussed in more detail below.

### *Two Sets of Accounting Standards*

It is possible that after January 1, 2005 two very different sets of accounting standards may apply in the same EU member state, i.e., IFRSs and national accounting standards. The European Union's regulation on the application of international accounting standards<sup>4</sup> limits the mandatory adoption of IFRSs to listed entities that prepare consolidated financial statements. However, it provides for EU member states to decide whether to adopt IFRSs for other entities.

Some EU member states are amending national law or regulation to provide for compliance with IFRSs or national accounting standards by other entities, while others have decided to continue to require compliance with national accounting standards.

Although national laws or regulations and the irrelevancy and inappropriateness of IFRSs to small- and medium-sized entities were cited as some reasons for maintaining national accounting standards, the existence of two sets of standards has potential negative implications. Most obvious is the use of national accounting standards in the individual financial statements and IFRSs in the consolidated financial statements of the same entity. Also, students and preparers, auditors, and users of financial statements will have to know two sets of accounting standards.

### *Limited Application to Listed Entities*

As discussed earlier, the European Union's regulation limits the adoption of IFRSs to listed entities that prepare consolidated financial statements. Participants were concerned about other public interest entities, such as financial institutions, that may not be listed.

### *Potential Late Endorsement or Non-endorsement of IFRSs*

Participants indicated that the European Commission's potential late endorsement or non-endorsement of the international accounting standards on financial instruments is creating uncertainties for preparers, auditors, and users of financial statements.

There are serious implications if non-endorsement of some IFRSs result in a European standard in one or more areas. FEE cites the following implications in its *FEE Position – Call for Global Standards: IFRS* (June 2004):

- Extra disclosures to explain differences from IFRSs, for reasons of transparency.
- Entities would no longer be able to claim that their financial statements were prepared in accordance with IFRSs, with related consequences for the audit and the auditor's report.
- The effect that any unique European standard may have on financial reporting systems. For example, changes with regard to the recognition, measurement, and disclosure of complex financial instruments.
- A risk that some entities, such as financial institutions, that apply or want to apply the non-endorsed IFRS will be seriously disadvantaged.
- Access to capital markets could be restricted or made more expensive.
- A loss of opportunity to converge IFRSs and U.S. accounting standards and possible effect on other elements of transatlantic dialogue.
- A risk of setting a precedent.

Referring to the potential late endorsement or non-endorsement of the international accounting standards on financial instruments, participants were concerned about the politicians' role in international standard setting. This concern is well summarized in a speech of Bob Herz, chair of the U.S. FASB at a conference of the American Institute of Certified Public Accountants and the U.S. Securities Exchange Commission held in December 2003 (his references are to both the IASB and FASB): *"All our constituents, including politicians, have a very legitimate interest in our activities. But I believe that*

*interest must be in our properly fulfilling our mission of establishing sound, neutral accounting standards and not in trying to bias our activities and decisions through pressure and threatened intervention into our independent and, we believe, objective process ... Standard setting should not be a political process because the primary objective must be on the relevance, reliability, and usefulness of reported information and not on trying to satisfy the favored economic, business, social, or political goals of particular interest groups ..."*

### **Preparedness for the Adoption of the International Standards**

The results of the recent PricewaterhouseCoopers survey<sup>5</sup> of more than 300 European companies indicate that, given the greater risks involved, large entities have made more progress towards implementation of the IFRSs than smaller ones. Also, financial services companies were slightly further advanced with their preparations. According to the survey results, this could be because they are intensely affected by the international accounting standards on financial instruments.

The results of the survey set out seven steps that entities need to work through in order to embed IFRSs, and indicated the degree to which those surveyed have achieved them.

In Australia, which is also working towards the implementation of IFRSs on January 1, 2005, a survey of 122 corporations conducted by the Institute of Chartered Accountants in Australia (ICAA) in July 2004, has revealed that less than half of those surveyed (49%) have commenced the implementation process for IFRSs. However, the percentage of respondents preparing for the implementation of IFRSs would grow to 84% within the next six months.

One of the most critical issues for entities will be explaining to investors and analysts how their financial position and results of operations will differ under IFRSs compared with their previously applied national accounting standards. The PricewaterhouseCoopers survey found that 80% of entities had not organized their communications plans. According to the ICAA survey, only 35% of respondents have started to communicate to stakeholders the effect of IFRSs on the financial position and results of their entities.

The Committee of European Securities Regulators (CESR) has recommended that entities provide markets with appropriate and useful information in a phased process. For example, it is recommended that a narrative of IFRS transition progress and key accounting differences between previously applied national accounting standards and IFRSs be included with the 2003 financial statements.

STEP	ACTION	PROGRESS
1	Assess the high-level impact of IFRSs on the business (at least preliminary assessment)	75%
2	Decide on accounting policies (at least for high priority areas)	46%
3	Identify the missing data	26%
4	Enhance systems to collect data (at least for high priority areas)	11%
5	Put processes in place to ensure data collected is robust	10%
6	Design internal controls to demonstrate reliability of data	10%
7	Embed IFRSs and use for internal management reporting	11%



### *Conclusions and Proposed Actions*

As the deadline for the adoption of IFRSs approaches in the EU and other countries, such as Australia, it is critical for all stakeholders to identify and address any outstanding matters.

Referring to the discussion paper on *UK Accounting Standards: A Strategy for Convergence with IFRS* as an example, a participant recommended that national standard setters in countries that offer entities other than listed entities the option to comply with IFRSs or national accounting standards should have formal international convergence strategies. Working towards one set of accounting standards, they should evaluate their national accounting standards to identify differences between the national accounting standards and IFRSs, and actively contribute to the international standard-setting process. (This could equally be applied to countries that do not offer the option, as the ultimate goal should be international convergence – i.e., one set of globally accepted accounting standards.)

Governments or regulators should consider the application of IFRSs to public interest entities that are not listed and that do not prepare consolidated financial statements.

**REGULATORS** should consider  
*the application of IFRSs to public  
interest entities that are not  
listed and that do not prepare  
consolidated financial statements.*

Ongoing dialogue regarding any delay in the endorsement or non-endorsement of a particular international standard is necessary so that all stakeholders could plan accordingly and a contingency plan, addressing concerns of regulators and the relevant international standard setter, could be developed and agreed.

Furthermore, entities that are planning to or have adopted IFRSs are encouraged to actively contribute to the international standard-setting process, in particular to identify practical implementation issues.

Entities that are planning to adopt IFRSs are encouraged to identify differences between the previously applied national accounting standards and IFRSs, design and implement an IFRS transition program, and address required financial reporting system changes. They should also provide training to staff at all levels.

Additionally, professional accountancy bodies, national standard setters, and entities that are planning to or have adopted IFRSs should clearly communicate to the users of the financial statements, including analysts and journalists, the effect of the adoption of IFRSs on entities' financial positions and results of operations. Local seminars could be held in this regard. □

## PROPOSALS FOR ACTIONS BY STAKEHOLDERS



Action is necessary at all points along the information supply chain that delivers financial reporting. Governments, regulators, international and national standard setters, reporting entities, and

auditors, as well as other participants in the financial reporting process, have important roles to play in international convergence.

Actions needed to support international convergence are highlighted below.

### *Governments and Regulators*

- Establish legal and regulatory environments that provide for compliance with all the international standards, with no or very limited additional national requirements.
- Write or revise laws and regulations to reflect the international standards and international best practice.
- Designate financial reporting laws and regulations as a high priority and act within a reasonable period of time.
- Establish efficient and effective enforcement mechanisms to increase the consistency and quality of compliance with the international standards.

### *International Standard Setters (IASB and IAASB)*

- Establish a process, or enhance the existing process, whereby national standard setters, in aligning their agendas with that of the international standard setters, have an opportunity to actively contribute to the international standard-setting processes.
- As a matter of urgency, develop standards in a manner that takes account of small- and medium-sized entity financial reporting and audit considerations. In addition, provide for greater small- and medium-sized entity and accounting firm representation.
- Address concerns about the complexity and structure of the international standards.
- Write standards in simple English that is understandable, clear, and capable of translation and consistent application.

- In developing the international standards and setting effective dates, be cognizant of the fact that proposed and final standards are being translated in some countries that are adopting them.
- In considering changes to the international standards, be cognizant of the cost vs. the benefits of the proposed changes.
- Establish a process, or enhance the existing process, to respond in a timely manner to requests for interpretations.
- Consider the development of implementation guidance.
- Provide, or continue to provide, unlimited access to all authoritative pronouncements and implementation guidance.
- Institute a “quiet period” for the adoption and implementation of the international standards.

### *National Standard Setters*

- Develop a formal international convergence strategy and obtain the commitment of all stakeholders.
- Develop an active standard-setting agenda, which is aligned with that of the international standard setters and aimed at eliminating existing differences with the international standards. This should be achieved within a reasonable period of time.
- Establish a process, or enhance the existing process, to actively contribute to the international standard-setting processes, including the development of international standards for small- and medium-sized entities and accounting firms.

### *Reporting Entities*

- Design and implement an IFRS transition program and allocate the necessary resources. This includes obtaining the commitment from the top down, i.e., from those charged with governance to those responsible for financial reporting by individual business units. Also consider the interdependencies between the transition to IFRSs and other financial reporting projects, such as compliance with national laws and regulations.

- Prepare to implement IFRSs by identifying differences and addressing required financial reporting system changes.
- Design and implement plans to change management reporting used to monitor the performance of the business from the previously applied national accounting standards to IFRSs.
- Provide IFRS training for staff at all levels affected by the transition to IFRSs.
- Develop an external communications strategy.
- Actively contribute to the international standard-setting process, in particular, to identify practical implementation issues.
- Consider at an early stage anticipated changes to the international standards and discuss with all interested parties the changes' potential effect on the financial statements.

#### *Auditors*

- Raise an awareness of the international standards among clients.
- Align audit methodologies and training with the international standards.
- Provide IFRS and ISA training to staff at all levels.

#### *Analysts and Investors*

- Promote convergence of the national standards with the international standards.
- Actively contribute to the international standard-setting processes, in particular to identify users' needs.
- Provide IFRS training to staff at all levels.

#### *International Federation of Accountants*

- Study and further develop the concept of "international convergence," i.e., when has a country achieved convergence of its national standards with the international standards.
- Establish a process that facilitates translation of the international standards.

- Monitor and enforce compliance with IFAC's Statements of Membership Obligations.
- Assist member bodies with the development of action plans to ultimately achieve compliance with the Statements of Membership Obligations.

#### *Regional Professional Accountancy Organizations*

- Coordinate contributions to the international standard-setting processes, translations of the international standards, and training in the international standards at a regional level.

#### *National Professional Accountancy Bodies*

- Facilitate the adoption and implementation of the international standards through compliance with IFAC's Statements of Membership Obligations.
- In line with the Statements of Membership Obligations, assist government, regulators, and the national standard setters in formulating and enacting convergence of the national and international standards, and in addressing impediments to international convergence (e.g., tax reporting vs. financial reporting).
- Support the preparation of high quality translations of the international standards.
- In line with the Statements of Membership Obligations, create awareness and expand the knowledge of students, professional accountants, and others of the international standards.
- Establish processes that facilitate maximum contribution to the international standard-setting processes – representing the views of professional accountants and others on all relevant issues.

#### *Educational Institutions*

- Educate and train the educators in the international standards.
- Offer programs of accounting and auditing that produce accounting graduates familiar with the international standards.



## SUMMARY AND CONCLUSIONS



Listening to national standard setters and preparers, auditors, and users of financial statements, it is clear that there are many challenges to achieving international convergence.

As mentioned earlier in the report, all those involved in the financial reporting process will need to take action. Much of this action is highlighted in the Proposals for Action by Stakeholders section on pages 23 and 24.

As progress on international convergence continues, particularly in the EU, it is vital that there be frequent open and ongoing dialogue between regulators, international standard setters, and national standard setters and that these groups continue to listen to the concerns and needs of those who will have to implement the standards. Significant consideration should be given to the effect of international convergence on small- and medium-sized entities and accounting firms.

The greatest challenge for the participants was “preparing or preparedness for the adoption of the international standards.” What must be done nationally? What support, if any, can be expected from the international standard setters? How will national ini-

tatives to achieve international convergence affect the reporting entities in a country, and what actions should be taken nationally to address these effects, and who should take these actions? How can the education and training of professional accountants keep pace with the changing environment in which the international standards are being set? Who will keep investors, analysts, journalists, and members of the public informed of these changes and their consequences?

As international convergence progresses, questions like these will continue to be raised. All those working to achieve international convergence – from IFAC to regional and national professional accountancy organizations to international and national standard setters

and international and national regulators – can and should help to resolve the challenges.

Most importantly, we all need to remember that convergence to a single set of globally accepted high quality standards is ultimately in the best interests of the public, contributing to efficient capital

flows within countries and across borders. In the views of the majority of participants, international convergence is vital to economic growth. Thus, while the challenges are great, the rewards are potentially even greater. □

*WE all need to remember that convergence to a single set of globally accepted high quality standards is ultimately in the best interests of the public.*

## APPENDIX 1: LIST OF FOCUS GROUP MEETINGS, INTERVIEWS, AND RESPONDENTS

### Written submissions were received from:

Association of Chartered Certified Accountants  
 Association of Professional Accountants and Auditors  
 of the Republic of Moldova  
 Auditing Standards Committee of the Institute of  
 Chartered Accountants in Ireland  
 Britannia Building Society (United Kingdom)  
 Certified General Accountants Association of Canada  
 Chartered Institute of Public Finance  
 and Accountancy  
 Consiglio Nazionale dei Dottori Commercialisti  
 (Italy)  
 Federación Argentina de Consejos Profesionales de  
 Ciencias Económicas (Argentina)  
 Föreningen Auktoriserade Revisorer (Sweden)  
 KHT-yhdistys - Föreningen CGR ry (Finland)  
 Hong Kong Institute of Certified Public Accountants  
 Howarth Central America  
 HTM-tilintarkastajat ry (Finland)  
 Institut der Wirtschaftsprüfer (Germany)  
 Institute of Certified Public Accountants in Israel  
 Institute of Certified Public Accountants of Singapore  
 Institute of Chartered Accountants in Australia and  
 CPA Australia  
 Institute of Chartered Accountants in England  
 and Wales  
 Institute of Chartered Accountants of India  
 Institute of Professional Accountants of Russia  
 Instituto de Censores Jurados de Cuentas  
 de España (Spain)  
 Instituto Mexicano de Contadores Públicos,  
 A.C. (Mexico)  
 Instituut der Bedrijfsrevisoren – Institut des  
 Réviseurs d'Entreprises (Belgium)  
 Japanese Institute of Certified Public Accountants  
 Koninklijk Nederlands Instituut van Register-  
 accountants (The Netherlands)  
 Malaysian Institute of Accountants  
 Malaysian Institute of Certified Public Accountants  
 National Board of Chartered Accountants of the  
 Accountants Association in Poland  
 PricewaterhouseCoopers

### Focus group meetings were arranged by the following:

Chartered Institute of Management Accountants  
 Confederation of Asian and Pacific Accountants  
 Eastern Central and Southern African Federation  
 of Accountants  
 Fédération des Experts Comptables Européens –  
 Audit Working Party  
 Fédération des Experts Comptables Européens –  
 Financial Reporting Policy Group  
 IFAC Small and Medium Practices Permanent  
 Task Force  
 Instituto dos Auditores Independentes  
 do Brasil (Brazil)  
 Inter-American Accounting Association  
 United Kingdom Resident Members of the Analyst  
 Representative Group

### Interviews were held with representatives from the following:

Accounting and Auditing Standard Setters  
 in Australia  
 Accounting and Auditing Standard Setters  
 in Canada  
 Accounting and Auditing Standard Setters  
 in Denmark  
 Accounting and Auditing Standard Setters  
 in South Africa  
 Accounting Standard Setter in the United Kingdom  
 Basel Committee on Banking Supervision  
 Professional Oversight Board for Accountancy  
 (United Kingdom)  
 Transnational Auditors Committee  
 World Bank

## APPENDIX 2: LIST OF QUESTIONS COVERED IN FOCUS GROUP MEETINGS, INTERVIEWS, AND WRITTEN SUBMISSIONS



These questions were asked in relation to both the pronouncements issued by the IASB and the pronouncements issued by the IAASB.

- To what degree do you consider that the international standards have been adopted in your country?
- Has the structure or complexity of the international standards affected their adoption or implementation? If so, how?
- Does the legal process for adoption of the international standards in your country cause any impediment to adoption? If so, to what extent?
- Is there enough lead time to allow for adoption of the international standards?
- If you have had to translate the international standards from English, have there been issues of clarity of the original text? If so, how have these been addressed?
- Are there any issues pertaining to the applicability of the international standards to listed entities, small- and medium-sized entities, and not-for-profit organizations? What issues have been raised and how have they been addressed?
- To what extent do you think that professional accountants are knowledgeable of the content of the international standards? Are there any concerns that need to be addressed? If so, how?
- Are there any concerns regarding students' knowledge of the content of the international standards? How is this being addressed?
- Are the consequences of adopting the international standards acceptable to users?

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Policy Statement

**PS 4**  
April 2002

# International Convergence and Harmonisation Policy



## Obtaining a Copy of this Policy Statement

Copies of this Statement are available for purchase from the Australian Accounting Standards Board by contacting:

The Customer Service Officer  
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AUSTRALIA

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E-mail: [publications@asb.com.au](mailto:publications@asb.com.au)  
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E-mail: [standard@asb.com.au](mailto:standard@asb.com.au)

The Australian Accounting Standards Board was established by section 226 of the *Australian Securities and Investments Commission Act 1989 (ASIC Act 1989)*. That Act was amended by the *Corporate Law Economic Reform Program Act 1999* to restructure accounting standard-setting arrangements in Australia. The *ASIC Act 1989* was replaced by the *Australian Securities and Investments Commission Act 2001* (effective 15 July 2001) without affecting the position of the AASB. Under the revised arrangements, the former Australian Accounting Standards Board and the Public Sector Accounting Standards Board of the Australian Accounting Research Foundation were merged to form the reconstituted Australian Accounting Standards Board. It has responsibility for the development of accounting standards for application by companies and by other entities in the private and public sectors, and for the development of Statements of Accounting Concepts.

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## **CONTENTS**

**PREFACE ...**

**Background ... 1-4**

**Objectives ... 5-6**

**Benefits of Convergence and  
Harmonisation ... 7**

**Strategies ... 8-12**

Work program strategies ... 8-10

International liaison and monitoring  
strategies ... 11-12

**Conformity Statements ... 13**

**PS 4**

**3**

**CONTENTS**



## PREFACE

### Background to the Development of the Policy Statement

In July 2001 the AASB issued Exposure Draft ED 102 “International Convergence and Harmonisation Policy” to merge and propose revisions to Policy Statement 4 “Australia – New Zealand Harmonisation Policy” and Policy Statement 6 “International Harmonisation Policy” to reflect changes arising from the reconstitution of the Australian Accounting Standards Board (AASB), the International Accounting Standards Board (IASB) and the activities of the International Federation of Accountants Public Sector Committee (PSC).

Under section 227 of the *Australian Securities and Investments Act 2001* (ASIC Act 2001), the AASB has a specific function “to participate in and contribute to the development of a single set of accounting standards for world-wide use”. Further, the ASIC Act 2001 provides in section 225 that a function of the Financial Reporting Council is:

“to monitor the development of international accounting standards and the accounting standards that apply in major international financial centres, and:

- (i) to further the development of a single set of accounting standards for world-wide use with appropriate regard to international developments; and
- (ii) to promote the adoption of international best practice accounting standards in the Australian accounting standard setting process if doing so would be in the best interests of both the private and public sectors in the Australian economy.”

One of the objectives of the reconstituted IASB is “to bring about convergence of national accounting standards and International Accounting Standards to high quality solutions”. The primary objective of the PSC is to develop international standards and guidance for public sector entities.

Policy Statement PS 4 sets out the AASB’s policy concerning its strategies for fulfilling its function of participating in, and contributing to, the development of a single set of accounting standards for world-wide use, and the harmonisation of Australian accounting standards with those issued by the IASB, PSC and other IASB liaison member standard-setting bodies.

In developing Policy Statement PS 4, the AASB consulted with its Consultative Group and considered comments from other constituents on ED 102 “International Convergence and Harmonisation Policy”. This Policy Statement supersedes Policy Statement 4 “Australia – New Zealand Harmonisation Policy” and Policy Statement 6 “International Harmonisation Policy” which were issued by the former AASB and Public Sector Accounting Standards Board in July 1994 and April 1996 respectively.

**PS 4**

**5**

**PREFACE**

## **POLICY STATEMENT PS 4**

### **“INTERNATIONAL CONVERGENCE AND HARMONISATION POLICY”**

#### **Background**

- 1 The primary objective of the Australian Accounting Standards Board (AASB) is to continually improve the quality of general purpose financial reports in Australia, so that users of those reports are better able to make and evaluate decisions about the allocation of scarce resources. This will assist in maintaining and improving the efficiency of Australian capital markets and in improving the accountability of private and public sector reporting entities.
- 2 There is considerable divergence between standards issued by national and international standard-setting bodies. The globalisation of economic activity has resulted in an increased demand for high quality, internationally comparable financial information. The AASB believes that it should facilitate the provision of this information by pursuing a policy of international convergence and international harmonisation of Australian accounting standards. In this context, “international convergence” means working with other standard-setting bodies to develop new or revised standards that will contribute to the development of a single set of accounting standards for world-wide use. “International harmonisation” of Australian accounting standards refers to a process which leads to these standards being made compatible with the standards of international standard-setting bodies to the extent that this would result in high quality standards. Both processes are intended to assist in the development of a single set of accounting standards for world-wide use.
- 3 There are several organisations which are working towards improving the international comparability of financial reporting. They include:
  - (a) the International Accounting Standards Board (IASB) established by the International Accounting Standards Committee, the objectives of which include the development of a single set of high quality, understandable and enforceable global accounting standards, International Financial Reporting Standards (IFRSs), and the convergence of national accounting standards and IFRSs;

**PS 4**

**6**

- (b) the International Federation of Accountants Public Sector Committee (PSC), which was established primarily to develop international standards and guidance for public sector entities; and
  - (c) the standard-setting bodies of Australia, Canada, France, Germany, Japan, New Zealand, United Kingdom, and United States of America which have liaison relationships with the IASB, through members of the IASB who have formal liaison responsibilities with these national standard-setting bodies.
- 4 This Policy Statement outlines the AASB's international convergence and international harmonisation objectives and the strategies it will employ in achieving them. The strategies will allow the AASB to pursue international convergence and international harmonisation of Australian accounting standards.

## Objectives

- 5 The AASB's international convergence objective is to pursue, through participation in the activities of the IASB and the PSC, the development of an internationally accepted single set of accounting standards which can be adopted in Australia and elsewhere for both domestic and world-wide use in order to achieve the benefits set forth in paragraph 7 of this Policy Statement.
- 6 A single set of internationally accepted accounting standards is not likely to be achievable in the short term. Accordingly, the AASB's international harmonisation objective is to work towards the development of accounting standards in Australia that harmonise with IFRSs and International Public Sector Accounting Standards (IPSASs) issued by the PSC, where the AASB concludes that such standards are likely to be in the best interests of both the private and public sectors in the Australian economy. Where IFRSs and/or IPSASs are considered by the AASB to not represent best international practice, the interim objective is to work towards adopting standards that are considered by the AASB to be best international practice and to endeavour to influence the deliberations of the IASB and the PSC to adopt what the AASB considers to be best international practice.

## Benefits of Convergence and Harmonisation

- 7 The main benefits of international convergence and international harmonisation include:
- (a) increasing the comparability of financial reports prepared in different countries and providing participants in international capital markets with better quality information on which to base investment and credit decisions. It will also reduce financial analysis costs through analysts not having to recast information on a common basis and requiring knowledge of only one set of financial reporting standards rather than several;
  - (b) removing barriers to international capital flows by reducing differences in financial reporting requirements for participants in international capital markets and by increasing the understanding by foreign investors of Australian financial reports;
  - (c) reducing financial reporting costs for Australian multinational companies and foreign companies operating in Australia and reporting elsewhere;
  - (d) facilitating more meaningful comparisons of the financial performance and financial position of Australian and foreign public sector reporting entities; and
  - (e) improving the quality of financial reporting in Australia to best international practice.

## Strategies

- 8 The AASB views its international convergence and international harmonisation objectives as integral to its standard-setting activities for both private and public sector reporting entities.
- 9 The AASB will adopt work program strategies and international liaison and monitoring strategies that enable it to:
- (a) participate in and contribute to the development of a single set of accounting standards for world-wide use; and
  - (b) to increase the comparability of Australian accounting standards with IFRSs and IPSASs and the accounting standards of other IASB liaison member standard-setting bodies.

### **Work program strategies**

- 10 In relation to its work program, the AASB will endeavour to:
- (a) align its work program with that of the IASB and the PSC, but only after having due regard to issues that may not affect or may not have the same priority as the IASB and the PSC and subject to the programs of the IASB and the PSC being reflective of the issues identified as priorities by the IASB liaison member standard-setting bodies;
  - (b) allocate staff and other resources so that the AASB can, as agreed with the IASB, the PSC and other IASB liaison member standard-setting bodies, lead projects on certain issues on the agendas of the IASB and the PSC and provide support on others;
  - (c) fully consider the views of the IASB and the PSC and other IASB liaison member standard-setting bodies in its deliberations on issues;
  - (d) issue, where relevant, IASB and PSC discussion papers and exposure drafts, with minimum modifications dealing with domestic issues, for input from AASB constituents;
  - (e) work with the IASB and the PSC, through the AASB liaison IASB member and the Australian representative on the PSC, to remove incompatibilities between an existing or proposed international accounting standard and the corresponding Australian existing or proposed accounting standard, in situations where the AASB is of the view that the international accounting standard is inappropriate in the Australian context. In this regard the AASB will also work towards achieving harmonisation of general purpose financial reports and Government Finance Statistics;
  - (f) accept the views of the IASB, the PSC and the majority of other IASB liaison member standard-setting bodies on an issue in question where such acceptance will lead to international convergence on the issue, even though that view is not the preferred position of the Board, unless such acceptance is considered not to be in the best interests of both the private and public sectors in the Australian economy.

### **International liaison and monitoring strategies**

- 11 The AASB will endeavour to:
- (a) routinely and closely monitor international developments in financial reporting;
  - (b) maintain and enhance relationships with the IASB, the PSC and other IASB liaison member standard-setting bodies by:
    - (i) participating in meetings of IASB liaison standard-setting bodies and other relevant meetings with the IASB, PSC and other IASB liaison member standard-setting bodies;
    - (ii) ensuring there is an effective information exchange between the AASB, the IASB, the PSC and other IASB liaison member standard-setting bodies;
    - (iii) participating in staff exchange programs with the IASB, the PSC and other IASB liaison member standard-setting bodies;
    - (iv) making submissions, where resources permit, on proposed accounting standards issued by the IASB, the PSC and other IASB liaison member standard-setting bodies; and
    - (v) making AASB staff available to the AASB liaison IASB member and the Australian representative on the PSC for briefings on technical matters; and
  - (c) maintain and enhance relationships between the Urgent Issues Group of the AASB and the International Financial Reporting Interpretations Committee of the IASB (IFRIC) and similar groups of other IASB liaison member standard-setting bodies by ensuring there is an effective information exchange between the various groups.
- 12 The AASB liaison IASB member, the Australian representative on the PSC and a New Zealand standard-setting representative have non-voting observer status at AASB meetings.



## **Conformity Statements**

- 13      Australian accounting standards will include a conformity statement which outlines the standard's conformity with the corresponding IASB, PSC and New Zealand accounting standards and the principal differences between it and these accounting standards.



**Australian Government**

**Auditing and Assurance Standards Board**

# AUASB Corporate Plan

1 July 2006 to 30 June 2009

## CONTENTS

1. Introduction.....	3
<i>Purpose of the Corporate Plan</i> .....	3
<i>The Planning Process</i> .....	3
2. Background .....	4
3. AUASB Mission Statement .....	3
4. Principles and Values .....	4
5. Expectations .....	5
<i>Legislative Requirements</i> .....	5
<i>FRC Requirements</i> .....	5
<i>AUASB Roles</i> .....	6
6. AUASB Strategies .....	7
7. Strategic Activities .....	8
<i>Research</i> .....	9
<i>Communication and Consultation</i> .....	9
<i>Corporate Support</i> .....	9
8. Measuring Success .....	9

Approval

Signature  
(Chairman)

Date

## 1. Introduction

The Auditing and Assurance Standards Board (AUASB) works in the public interest by contributing to confidence in the Australian Financial Reporting and Corporate Governance Frameworks through the formulation of high quality auditing and assurance pronouncements. In addition, the AUASB seeks to participate in, influence and contribute to the development of international auditing and assurance pronouncements.

The hallmarks of high quality pronouncements include:

- A clear public interest focus;
- Transparent development processes with input from constituents;
- Technical strength, based on sound principles and consistent with international standards;
- Harmonisation with the Australian regulatory environment; and
- Clarity of meaning.

### *Purpose of the Corporate Plan*

This Corporate Plan is an integral part of the AUASB's planning process. It provides direction and accountability by describing the AUASB's mandate, aims, strategies and planned outcomes.

### *The Planning Process*

This Corporate Plan covers the period: 1 July 2006 – 30 June 2009. It consists of the AUASB's approach to its core business and acknowledges the necessary support activities.

The AUASB's planning process is divided into three elements:

Corporate Planning	<ul style="list-style-type: none"> <li>• Sets high level objectives and the strategies to achieve those objectives, over 3 year timeframes</li> </ul>
Annual Business Planning	<ul style="list-style-type: none"> <li>• Establishes work programs for each particular year, to achieve the high level objectives set out in the Corporate Plan.</li> <li>• Includes approved and prioritised projects, budgets and resources requirements.</li> </ul>
Project Planning	<ul style="list-style-type: none"> <li>• Establishes the rationale for specific projects, the objectives and the strategies and tasks for achieving those objectives.</li> <li>• Includes technical and operational details, such as timetables and resources.</li> </ul>

## 2. Background

Following a significant increase in corporate failures around the world, many governments, including that of Australia, turned their attention to the roles of accountants and auditors.

Australia chose to increase regulation of the Financial Reporting and Corporate Governance Frameworks through the CLERP 9 reforms, which received Royal Assent on 30 June 2004 and which amended a number of Acts including the *Australian Securities and Investments Commission Act* (ASIC Act) and the *Corporations Act 2001*.

The Auditing and Assurance Standards Board was established as a statutory body corporate with its functions and powers described in the ASIC Act. The primary function of the AUASB is to formulate Auditing Standards under section 336 of the *Corporations Act 2001*.

As part of the reforms, the *Financial Reporting Council* (FRC) was charged with providing broad oversight of auditing standards-setting arrangements in Australia. Accordingly, the FRC is responsible for determining the AUASB's broad strategic direction, appointing AUASB members, approving and monitoring the AUASB business plans, budgets and staffing arrangements.

In accordance with the AUASB's 2005/06 plans, 35 Auditing Standards (ASAs) were "made" on 28 April 2006 under section 336 of the *Corporations Act 2001*. The ASAs are operative for financial reporting periods commencing on or after 1 July 2006. The making of these standards was the culmination of a comprehensive review and re-issuance process ("Phase I") and constitutes delivery against the AUASB's prime objective.

## 3. AUASB Mission Statement

*The mission of the AUASB is to develop, in the public interest, high quality auditing and assurance standards and related guidance as a means to enhance the relevance, reliability and timeliness of information provided to users of audit and assurance services.*

## 4. Principles and Values

The AUASB is committed to:

- maintaining quality, timely and responsive processes;
- encouraging and supporting a cohesive team culture based on mutual respect, a sense of personal obligation and active contributions;
- consulting with, listening to and providing considered responses to stakeholders;
- monitoring international trends and initiatives;
- acting in an objective and independent manner;
- ensuring the Board has, and displays, a high level of technical competence and professionalism in everything it does; and

- being accountable for fulfilling the Board's and the organisation's statutory obligations.

## 5. Expectations

In establishing the broad directions of the AUASB, as stated in the Mission Statement, the following matters are considered:

### *Legislative Requirements*

AUASB functions under section 227B (1) of the ASIC Act are to:

- make auditing standards under section 336 of the *Corporations Act* for the purposes of the corporations legislation; and
- formulate auditing and assurance standards for other purposes; and
- formulate guidance on auditing and assurance matters; and
- participate in and contribute to the development of a single set of auditing standards for world-wide use; and
- advance and promote the main objects of this Part (Part 12).

[Section 224 of the *ASIC Act* states the objectives of Part 12 - which include:

- “(aa) To facilitate the development of auditing and assurance standards and related guidance materials that:
- i. provide Australian auditors with relevant and comprehensive guidance in forming an opinion about, and reporting on, whether financial reports comply with the requirements of the *Corporations Act 2001*; and
  - ii. require the preparation of auditors' reports that are reliable and readily understandable by the users of financial reports to which they relate”.

Other relevant objectives of Part 12 are summarised below:

- to facilitate the Australian economy by having (accounting and) auditing standards that are clearly stated and easy to understand; and
- to maintain investor confidence in the Australian economy (including its capital markets)].

### *FRC Strategic Direction*

The FRC, on 6 April 2005, issued the following Strategic Direction to the AUASB:

- (a) The AUASB should develop Australian Auditing Standards that have a clear public interest focus and are of the highest quality.
- (b) The AUASB should use, as appropriate, International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as a base from which to develop the Australian Auditing Standards.
- (c) The AUASB should make such amendments to ISAs as necessary to accommodate and ensure that Auditing Standards both exhibit and conform with the Australian regulatory environment and statutory

requirements, including amendments as necessary for Australian Auditing Standards to have the force of law and be capable of enforcement under the requirements of the *Corporations Act 2001* by 30 June 2006.

- (d) The process of developing Australian Auditing Standards should include monitoring and reviewing auditing and assurance standards issued by other standard setting organisations in other national jurisdictions and considering other matters relevant to achieving the objectives of the Part 12 of the ASIC Act. Consequently, where appropriate and considered to be in the public interest and necessary to producing standards of high quality, the AUASB should incorporate additional requirements in its AUSs.
- (e) The AUASB should continue to develop auditing and assurance standards other than for historical financial information as well as developing and issuing other guidance on auditing and assurance matters, and may participate in audit research that is conducive to, and which significantly benefits, the standard setting activities of the AUASB.

#### *AUASB Roles*

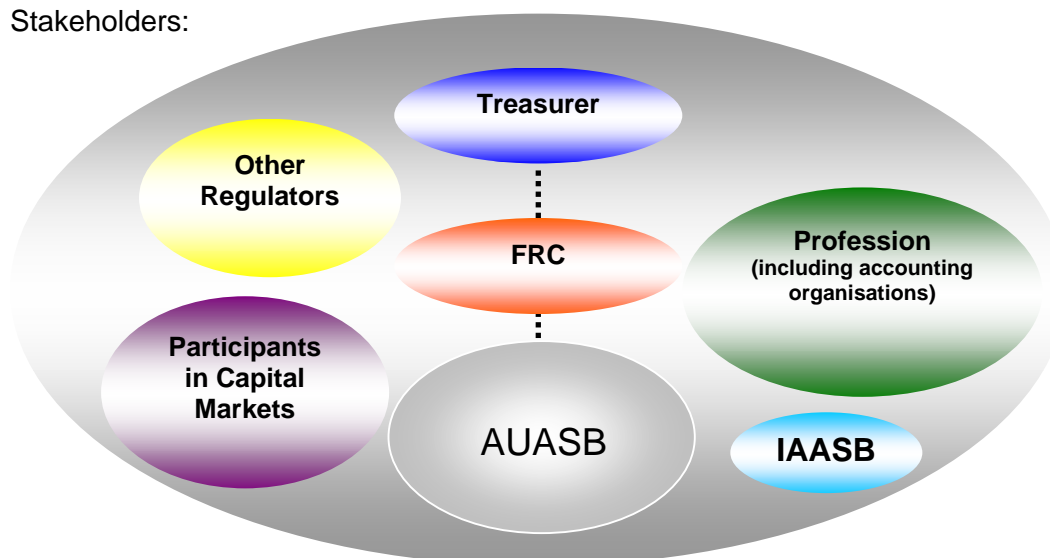
The AUASB's constituents include governments, regulators, the accounting profession, participants in capital markets, academia and interested members of the public. Each of these groups, and the individuals within each group, may have unique expectations about the roles and output of the AUASB. Those of the Australian Government are articulated above. Suffice to say that the AUASB's role can be summarised as:

- Contributing to public confidence in the Financial Reporting and Corporate Governance Frameworks through the formulation of high quality standards and guidance relating to auditing; and
- Liaising with other standard setters and participating in standard setting initiatives, both in Australia and internationally. Such involvement seeks to contribute ultimately to the quality of AUASB pronouncements.

The AUASB Mission Statement has been developed from this understanding of the AUASB's roles.



Stakeholders:



## 6. AUASB Strategies

In order to deliver against the mission statement and to fulfil its role as an integral part of the Australian regulatory framework, the AUASB has established the following broad strategies:

No	Strategies	Description
S1	Formulate legally enforceable Auditing Standards	Auditing Standards made under the law that apply to audits under the <i>Corporations Act 2001</i> and are enforceable under that Act. These Standards apply also to audits for other purposes and may be enforceable under other legislation.
S2	Formulate Other Auditing and Assurance Standards	These Standards provide requirements and guidance to auditors for engagements where legally enforceable Auditing Standards are not applicable.
S3	Formulate Guidance Pronouncements	Guidance pronouncements supplement the standards and are designed to assist auditors in complying with their responsibilities. Guidance pronouncements are not limited to subject matter contained in the standards.
S4	<p>(a) <i>International:</i> Participate in the standard-setting activities of the IAASB and liaise with other national standard-setters (such as USA, Canada, UK, New Zealand.).</p> <p>(b) <i>Local:</i> Participate in the standard-setting activities of relevant Australian organisations</p>	Participation includes liaison, written and verbal contributions, attendance at meetings and involvement in joint projects. The AUASB's activities are intended to monitor, influence and contribute to global initiatives as well as the Australian professional and regulatory environments.

## 7. Strategic Activities

The main activities, stemming from the strategies described at section 5 above, and forming the bases of the annual business plans are:

No	Strategies	Description
S1	Formulate legally enforceable Auditing Standards	<ul style="list-style-type: none"> <li>formulate legally enforceable Auditing Standards (ASAs) under the AUASB's "Phase 2" program, including monitoring and evaluating the nature and extent of the IAASB - Clarity Project.</li> <li>monitor and evaluate application of ASAs made under Phase 1 and make revisions to ASAs where necessary.</li> <li>formulate further ASAs.</li> <li>Undertake relevant research activities that contribute to the formulation of standards.</li> </ul>
S2	Formulate Other Auditing and Assurance Standards	<ul style="list-style-type: none"> <li>formulate other Auditing and Assurance Standards (ASRE, ASAE, ASRS).</li> <li>Undertake relevant research activities that contribute to the issuance of standards.</li> </ul>
S3	Formulate Guidance Pronouncements	<ul style="list-style-type: none"> <li>Withdraw and re-issue all existing guidance relating to ASAs.</li> <li>Withdraw and re-issue existing guidance and formulate new guidance to assist auditors to comply with other regulatory responsibilities (as approved).</li> <li>Withdraw and re-issue existing industry-specific guidance (including framework).</li> <li>Withdraw, re-issue and formulate other guidance (as approved).</li> <li>Undertake relevant research activities that contribute to the issuance of guidance.</li> </ul>
S4	(a) International Participate in standard-setting activities and liaison	<ul style="list-style-type: none"> <li>Attend and contribute to all IAASB meetings. Respond to all EDs issued by IAASB.</li> <li>Attend and contribute to all meetings of the IAASB-National Standard Setters (NSS).</li> <li>Attend and contribute to other meetings of national standard setters (as approved).</li> <li>Respond to relevant EDs issued by other standard setters (as approved).</li> <li>Participate in joint projects with International standard-setting organisations (as approved).</li> <li>Influence through early involvement with emerging issues.</li> <li>Conduct ongoing monitoring activities.</li> </ul>
S4	(b) Local Participate in standard-setting activities	<ul style="list-style-type: none"> <li>Influence policy through liaison with Treasury.</li> <li>Contribute to and attend technical meetings of Australian Regulators and professional accounting organisations (as approved).</li> <li>Respond to relevant EDs issued by Australian professional accounting organisations (as approved).</li> <li>Respond to relevant requests by Australian regulatory organisations (as approved).</li> <li>Participate in joint projects with local organisations (as approved).</li> <li>Influence through early involvement with emerging issues.</li> <li>Conduct ongoing monitoring activities.</li> </ul>

Supported by:



Research	Communication and Consultation	Corporate Support
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### *Research*

Where necessary to further the aims of the AUASB, the AUASB and its Technical Group will conduct, sponsor or facilitate research activities that may relate directly or indirectly to the issuance of auditing and assurance standards and guidance.

### *Communication and Consultation*

Communication activities will involve planning objectives and strategies and conducting activities to meet specified goals. Of particular importance, communication activities will address the need for consultation with constituents and other processes to ensure transparency of the Board's activities.

### *Corporate Support*

In order to deliver on its core-business strategies, the AUASB recognises the need for ongoing corporate support activities, which include:

Area	Activities
Administration	<ul style="list-style-type: none"> <li>• Planning and management</li> <li>• Reporting</li> <li>• Office Administration</li> </ul>
Human Resources	<ul style="list-style-type: none"> <li>• Recruitment, development and retention of high quality personnel</li> </ul>
Policies & Procedures	<ul style="list-style-type: none"> <li>• Technical</li> <li>• Operational</li> </ul>

## **8. Measuring Success**

The success of the AUASB's corporate plan is determined by:

- fulfilling the AUASB's accountability arrangements to the FRC, including the annual Board assessment conducted by the FRC and the AUASB Chairman's quarterly reports to the FRC;
- accumulating the detailed assessments of each of the three annual business plans that emanate from this corporate plan;
- accumulating ongoing formal and informal evaluations from constituents; and
- any other evaluation process approved by the AUASB.

# Strategic Plan

## Accounting Standards in Canada: New Directions

### Accounting Standards Board Strategic Plan

# AcSB

Accounting  
Standards Board

AcSB

June 2007

CNC

Conseil des normes  
comptables

# ACCOUNTING STANDARDS IN CANADA: NEW DIRECTIONS

## STRATEGIC PLAN

(Adopted by the Accounting Standards Board on January 4, 2006)

### Summary of the Strategies

This strategic plan outlines the broad policy objectives that will guide the Accounting Standards Board (AcSB) in carrying out its standard-setting mandate for the period 2006-2011. In summary, the AcSB has adopted the following strategic directions for financial reporting in Canada:

- The AcSB will pursue separate strategies for each of the major categories of reporting entities — publicly accountable enterprises, non-publicly accountable enterprises and not-for-profit organizations. The AcSB recognizes that “one size does not necessarily fit all”; it may not be possible to address the divergent needs of different categories of reporting entities properly within a single strategy. Each category deserves a strategy that specifically addresses the particular needs of the users of financial statements of entities in that category, even though the outcomes of some of the strategies may be the same or similar for all categories.
- For publicly accountable enterprises:

The AcSB will direct its efforts primarily to participating in the movement toward the global convergence of accounting standards. The AcSB has concluded, given the increasing globalization of capital markets and other recent developments, that it is timely for publicly accountable Canadian enterprises to adopt globally accepted, high-quality accounting standards by converging Canadian GAAP with International Financial Reporting Standards (IFRSs) over a transitional period. At the end of that period, a separate and distinct Canadian GAAP will cease to exist as a basis of financial reporting for publicly accountable enterprises.

The AcSB's general approach to achieving convergence will include:

- adopting standards newly developed by the International Accounting Standards Board (IASB) that are converged with standards issued by the US Financial Accounting Standards Board (FASB), as these new global standards are issued;
- replacing other Canadian standards with corresponding IFRSs already issued, in accordance with a separate convergence implementation plan to be developed in consultation with affected stakeholders;
- working with both the IASB and the FASB to ensure that the Canadian perspective is taken into account in their deliberations; and
- working to promote the further convergence of IASB and FASB standards.

In taking on a role in the development of global standards, the AcSB will cease to make final decisions on most matters affecting the technical content and timing of implementation of standards applied in Canada.

The AcSB's objective is to achieve convergence of Canadian GAAP with IFRSs at the changeover date at the end of the transitional period, which is expected to be approximately five years. The AcSB believes that by providing reasonable lead time and a clear transition plan, the costs and disruption to affected stakeholders will be minimized. As soon as possible, the AcSB will develop and publish a detailed implementation plan for effecting the changeover.

The AcSB will continually monitor events in Canada and internationally to determine whether there have been significant changes in any of the environmental factors that have influenced it in developing its global convergence strategy, with a view to making any necessary modifications in the program for implementing that strategy. This monitoring process will culminate in a progress review, approximately 24 months after the publication of this plan, at which point the AcSB expects to be in a position to set the definitive changeover date when Canadian GAAP for publicly accountable enterprises will be converged with IFRSs.



In applying its IFRS convergence strategy, the AcSB will work actively with the IASB and the FASB to eliminate the relatively few fundamental differences that remain between IFRSs and US GAAP and avoid the creation of new ones wherever possible.

- For non-publicly accountable enterprises:

The AcSB will undertake as a matter of urgency a comprehensive examination of the needs of the users of these enterprises' financial statements, and then determine and implement the most appropriate financial reporting model to meet those needs. This will require research to identify more clearly who the financial statement users are, what their information needs are and what reporting model or models might best satisfy those needs. In formulating this strategy, the AcSB has reached no conclusions on the extent to which the basis of financial reporting for this sector needs to differ from the basis of financial reporting for publicly accountable enterprises or how it might differ.

The research will take some time to complete, during which the current differential reporting model will remain in place. Existing differential reporting alternatives will be maintained, and any additional alternatives will be developed through the existing process with the advice of the AcSB's Differential Reporting Advisory Committee.

In carrying out its strategy for non-publicly accountable enterprises, the AcSB will consider the needs of those enterprises that do not have significant external users of their financial statements. Such enterprises may not need GAAP-basis financial statements, which are designed for entities that have significant external users of financial information and require the application of a common basis of financial reporting.

Individual enterprises in this sector will have the option of applying the set of standards for publicly accountable enterprises when those standards better serve their needs.

- For not-for-profit organizations:

Not-for-profit organizations (NFPOs) will continue to apply those elements of GAAP for profit-oriented enterprises that are applicable also to the circumstances of NFPOs. The AcSB will consult with the not-for-profit sector to determine whether all NFPOs should

base their accounting on the standards for publicly accountable enterprises, or whether the approach applied to non-publicly accountable enterprises should be applied also to some NFPOs.

The AcSB will continue its current practice of developing standards that deal with the special circumstances of NFPOs, and will focus more of its attention on addressing those circumstances.

- Canada will continue to maintain its own standard-setting capability to carry out the strategies outlined above, although the roles, structures, processes and resources will evolve to match those strategies.

A more complete description of these strategies, together with the AcSB's reasons for adopting them, is set out below.

This plan also includes the following commitment:

- In carrying out its strategies, the AcSB will pay particular attention to the practical limitations on the ability of the Canadian financial reporting system to cope with change. In other words, the AcSB will be particularly sensitive to the "standards overload" issue. Where change is determined to be necessary, the AcSB will take such steps as it can to assist affected parties in dealing with change through, for example, participating in the development of implementation aids and training programs.

The strategies require the development of more detailed implementation plans that are not included in this document. Implementation plans suitable to each of the strategies will be prepared and published.

The Auditing and Assurance Standards Board (AASB) is undertaking the development and implementation of new strategies that respond to some of the same developments addressed by this strategic plan. The AcSB will take into account the AASB's findings and conclusions that are relevant to the strategic directions adopted by the AcSB. The AcSB will also work with the AASB and the Public Sector Accounting Board (PSAB) in resolving financial reporting issues it has in common with either or both of those boards. In particular, the

AcSB expects to work with the AASB to produce a reporting system that meets the needs of non-publicly accountable enterprises, and with the PSAB in connection with not-for-profit organizations in the public sector.

## Background Information and Basis for Conclusions

### **Table of Contents**

	PARAGRAPH
Introduction .....	1 - 2
Development of the plan .....	3 - 11
First Invitation to Comment (2004) .....	3 - 7
Second Invitation to comment (2005).....	8 - 11
“One size does not necessarily fit all” .....	12 - 19
Basis for conclusions .....	14 - 19
Publicly accountable enterprises .....	20 - 58
Applying the strategy .....	21 - 39
Basis for conclusions .....	40 - 58
Non-publicly accountable enterprises .....	59 - 81
Applying the strategy.....	60 - 69
Basis for conclusions .....	70 - 81
Not-for-profit organizations .....	82 - 89
Applying the strategy .....	83 - 87
Basis for conclusions .....	88 - 89
Maintaining Canada’s standard-setting capability .....	90 - 94
Applying the strategy .....	91 - 92
Basis for conclusions .....	93 - 94
Dealing with “standards overload” .....	95 - 100
Communications with stakeholders .....	101

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### **Introduction**

1. This section of the plan sets out details of the strategies adopted by the AcSB and the reasons for adopting those strategies and rejecting others. The plan does not include a work program specifying projects for developing individual accounting standards, nor detailed steps for carrying out each of the strategies described. Separate implementation plans for various parts of the plan will be prepared and published on the AcSB’s website ([www.acsbcanda.org](http://www.acsbcanda.org)).

2. This plan is formulated in accordance with the mission and objectives of the AcSB, as set out in its terms of reference from its oversight body, the Accounting Standards Oversight Council (AcSOC).<sup>1</sup> The AcSB's mandate is:

“... to contribute to enhanced decision-making by continuously improving the quality of financial and other information about organizational performance reported by Canadian entities including profit oriented enterprises and not-for-profit organizations. The AcSB shall serve the public interest by developing and establishing standards and guidance governing financial accounting and reporting domestically and by contributing to the development of internationally accepted standards.”

### ***Development of the plan***

#### **First Invitation to Comment (2004)**

3. In March 2004, the AcSB began a review of its strategies for setting Canadian accounting standards. The AcSB issued an Invitation to Comment in May 2004 seeking public input on several key issues. An accompanying Discussion Paper outlined the AcSB's current strategies, the reasons for the AcSB to undertake a fundamental re-evaluation of those strategies and the significant factors having a bearing on the re-evaluation.<sup>2</sup>
4. The 2004 Discussion Paper noted that there had been some significant changes in the standard-setting environment since the AcSB had last reviewed its strategies and policies. These changes include:
- (a) an increasing stratification of the universe of Canadian reporting entities;

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<sup>1</sup> The [AcSB's terms of reference](http://www.acsbcanada.org) are available on its website ([www.acsbcanada.org](http://www.acsbcanada.org)).

<sup>2</sup> The May 2004 [Invitation to Comment](#), “[Accounting Standards in Canada: Future Directions](#)”, and related [Discussion Paper](#), together with [additional background information](#), are available on the AcSB's website ([www.acsbcanada.org](http://www.acsbcanada.org)).

- (b) changes in the standard-setting climate as a result of recent financial reporting failures internationally, including greater emphasis on principle-based standards and more concern with the extent of rule-based requirements in US GAAP;
- (c) the increasing trend to global convergence of accounting standards, and the emergence of IFRSs as a viable basis for achieving convergence through an international partnership of standard setters;
- (d) the increasing extent of harmonization of Canadian GAAP and US GAAP, and the difficulties created for Canadian financial statement preparers and auditors by such harmonization, including the unintended importation of certain aspects of US GAAP;
- (e) legal changes adopted or proposed permitting public companies registered with the US Securities and Exchange Commission (SEC) to adopt US GAAP for some Canadian financial reporting purposes;
- (f) the pace of change and the extent to which financial statement preparers, auditors and users are overloaded by the accumulated burden of new accounting, disclosure, auditing, governance and other requirements; and
- (g) questions about whether accounting standards meet the financial reporting needs of all categories of reporting entity, even with the introduction of differential reporting for certain non-publicly accountable enterprises.

Refer to the 2004 Discussion Paper for detailed discussion of these issues.

5. The 2004 Invitation to Comment questioned whether Canada should:

- (a) maintain its own standard-setting capability;
- (b) maintain its own GAAP or adopt either US GAAP or IFRSs;
- (c) maintain the current strategies of working to support the international convergence of accounting standards while harmonizing with US GAAP (giving precedence to the latter); and
- (d) consider modifying current GAAP requirements to provide better information to the users of financial statements of various different types of entities through, for example, a wider application of differential reporting.

The 2004 Invitation to Comment identified several possible scenarios and their more significant potential effects.

6. The AcSB received 68 letters of comment in response to the 2004 Invitation to Comment, many of which presented collective views from large organizations. In addition, a number of individuals attended public roundtable meetings held by the AcSB to solicit oral comments. A number of these individuals expressed views on behalf of others. AcSB representatives met privately with certain key stakeholder groups, including the AcSB's User Advisory Council, to brief them and discuss issues raised by the 2004 Invitation to Comment. The input received reflected views from financial statement users, preparers and auditors as well as from academe and regulators. All of this input was discussed with the AcSOC at its October 21-22, 2004 meeting, in a public session.<sup>3</sup>
7. The AcSB received a wide range of views on the principal issues. Commentators did not take issue in any significant way with the AcSB's assessment of the standard-setting environment laid out in the Discussion Paper, or with the need to reconsider the current strategies. While some commentators were comfortable with the status quo, at least in the short to medium term, most favoured change.

#### **Second Invitation to Comment (2005)**

8. On the basis of the input received in response to the 2004 Invitation to Comment, the AcSB developed a Draft Strategic Plan reflecting what the AcSB believed would best serve the public interest. The AcSB believed the proposals would strike an appropriate balance among the competing legitimate needs of its stakeholders and receive broad-based support. For publicly accountable enterprises, the proposals represented in large measure an acceleration of the ultimate objective of the strategic plan previously in effect — global convergence — while acknowledging the needs of those who advocated the other key component of that plan — harmonization with US GAAP. For non-publicly accountable enterprises, the proposals provided a basis for resolving concerns that standards were not addressing the financial

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<sup>3</sup> The [comment letters](#) and a [summary of comments made in public roundtable meetings](#) are available on the AcSB's website ([www.acsbcanada.org](http://www.acsbcanada.org)).

reporting needs of that sector adequately. For not-for-profit organizations, the proposals offered continued attention to issues unique to that sector as well as a basis for providing relief for smaller organizations comparable to that offered to smaller private businesses. The AcSB's draft proposals were discussed with the AcSOC at its February 10-11, 2005 meeting, in a public session.

9. In March 2005, the AcSB issued an Invitation to Comment on its Draft Strategic Plan to test whether it had struck the right balance in response to commentators' views.<sup>4</sup> While requesting comment on all aspects of the Draft Strategic Plan, the Invitation to Comment particularly solicited comments on the overall suitability of the proposed strategies, including:
  - (a) whether it would be appropriate to apply different strategies to different major categories of reporting entities, rather than to apply the same strategy to all;
  - (b) whether the strategy proposed for each of the major categories of entities would establish an appropriate direction for the future development of financial reporting requirements for the entities to which it would apply (that is, whether the strategies would create an improvement in Canadian financial reporting and the expected benefits would likely exceed the associated costs); and
  - (c) whether the individual strategies and the plan as a whole would be operational (that is, whether it appeared likely that they could be carried out as described within the proposed timeframes without causing undue disruption to affected parties).

The AcSB also invited comments on other matters that would be important to the application of the strategies proposed.

10. The AcSB received 66 letters of comment on the 2005 Invitation to Comment, as well as additional input from a large number of individuals through public roundtable meetings and

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<sup>4</sup> The March 2005 [Invitation to Comment, "Accounting Standards in Canada: Future Directions – Draft Strategic Plan"](http://www.acsbcanada.org), is available on the AcSB's website ([www.acsbcanada.org](http://www.acsbcanada.org)).



private discussions with key stakeholder groups. As with the 2004 Invitation to Comment, the AcSB undertook an extensive program of consultation with interested parties and heard from many organizations and individuals with a wide range of backgrounds and perspectives.

11. The responses to the 2005 Invitation to Comment were generally supportive of the strategic directions proposed by the AcSB. However, some commentators did express concerns about certain aspects of the proposed plan. The input received is discussed below in respect of each of the strategies individually. The responses were discussed with the AcSOC at its October 27-28, 2005 meeting, in a public session.<sup>5</sup> AcSB representatives also met privately with those respondents who seemed most concerned, particularly regarding convergence with IFRSs, to ensure that their issues and concerns were understood. The AcSB believes that it has responded appropriately in finalizing its strategies and has substantially mitigated the concerns raised by commentators. After considering all of the public input and the views of the AcSOC, the AcSB redeliberated the principal issues in the Invitation to Comment and then adopted the strategies set out in the summary above and discussed more fully below.

***“One size does not necessarily fit all”***

12. The first of the strategies adopted by the AcSB is the following:

The AcSB will pursue separate strategies for each of the major categories of reporting entities — publicly accountable enterprises, non-publicly accountable enterprises and not-for-profit organizations. The AcSB recognizes that “one size does not necessarily fit all”; it may not be possible to address the divergent needs of different categories of reporting entities properly within a single strategy. Each category deserves a strategy that specifically addresses the particular needs of the users of financial statements of entities in that category, even though the outcomes of some of the strategies may be the same or similar for all categories.

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<sup>5</sup> The [comment letters](http://www.acsbcanada.org) are available on the AcSB’s website ([www.acsbcanada.org](http://www.acsbcanada.org)).

13. Trying to be “all things to all people” in a single set of accounting standards might result in serving no one adequately. Accordingly, the AcSB will consider the need for separate bases of financial reporting for the major categories of reporting entities. The categories reflect the characteristics of the users and the uses of financial statements in each sector. The AcSB believes that by focusing on the particular needs of the sector for which each basis of financial reporting is designed, the result will be financial information that is more useful and cost-effective to that sector.

#### **Basis for conclusions**

14. The 2004 Discussion Paper and related background information<sup>6</sup> dwelt at some length on the fact that the universe of Canadian reporting entities is quite diverse and stratified into several distinct sectors with differing financial reporting needs. The responses to the 2004 Invitation to Comment confirmed the existence of that stratification and its significance. Accordingly, in the 2005 Invitation to Comment the AcSB proposed that it would consider the need for separate bases of financial reporting for various major categories of reporting entities. The key factors underlying the AcSB’s proposed strategy are discussed in paragraphs 7-14 of the 2005 Invitation to Comment.
15. The responses to the 2005 Invitation to Comment on this issue substantially confirmed the AcSB’s thinking. The three principal concerns of respondents were:
  - (a) Essentially the same transaction, event or circumstance might be treated differently in the financial statements of different entities.
  - (b) Multiple sets of financial reporting standards would impose an unwarranted burden on the financial reporting system by requiring financial statement users, preparers and auditors to be knowledgeable in more than one set of requirements.
  - (c) It may not be clear which set of standards should apply in some circumstances.

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<sup>6</sup> This discussion summarizes material from the 2004 Discussion Paper and 2005 Draft Strategic Plan documents and, accordingly, omits certain details and references to other supporting documents.

16. In respect of the concern that essentially the same transaction, event or circumstance might be treated differently in the financial statements of different entities, the AcSB notes that the comparability of financial information is significant only when the information is relevant to a financial statement user. Consistent reporting by all entities of irrelevant information is of no benefit to the users of financial statements and therefore does not enhance financial reporting. The issue is determining which pieces of information are useful to the users of all entities' financial statements, and which are useful only to the users of some entities' financial statements. Differing cost/benefit trade-offs for different types of entities also enter into the consideration of which requirements ought to apply to which entities.
17. As discussed in the 2005 Invitation to Comment, Canadians were already coping with multiple sets of financial reporting requirements when the AcSB's strategy was being formulated. Whatever the AcSB might have decided to do, US GAAP and IFRS financial reporting will be a fact of life for some Canadian financial statement preparers and auditors in reporting to foreign investors, and also for some Canadians who have invested in other countries. By converging Canadian GAAP for publicly accountable enterprises with IFRSs, the AcSB is removing one of the sets of standards that some stakeholders would otherwise have to deal with. Standards for non-publicly accountable enterprises can be designed to minimize differences from other standards, to the extent that this objective is compatible with the principal objective of addressing the specific financial reporting needs of that sector. Special standards for not-for-profit organizations will exist only in respect of their unique circumstances. Accordingly, multiple sets of requirements will exist only to the extent that their utility outweighs the associated costs. Financial statement users, preparers and auditors, and the infrastructure supporting the Canadian financial reporting system, have been able to cope with the various requirements applicable to different classes of entities in the past. In this regard, Canada should be no worse off under the new strategies, and will likely be better off.
18. The AcSB has concluded that these concerns are manageable. The AcSB intends that all standards for all categories of reporting entities will be based on the same conceptual framework, and will differ only when justified by the needs and cost-benefit considerations of the different categories. Clear definitions can be developed to delineate each category of

reporting entity. The AcSB will formulate ways of carrying out its strategies without undue stress, in part by allowing a reasonable period of time to make necessary infrastructure changes such as modifications to educational programs.

19. On the basis of factors cited above and in the 2005 Invitation to Comment, the AcSB's experience in setting standards under its former strategies and the views expressed by stakeholders, the AcSB concluded that it is no longer appropriate to assume that the needs and concerns of all stakeholders in the Canadian financial reporting system can be addressed through a single set of standards. This holds true even with the variations on a single set of standards that have previously been tried or proposed to satisfy the differing needs of the different sectors. Having reached this conclusion, the AcSB has developed a package of separate strategies to satisfy the needs and concerns of stakeholders in the different sectors, responding in a practical way to the input it has received.

### ***Publicly accountable enterprises***

20. The AcSB's strategy for publicly accountable enterprises, which is further described and explained in paragraphs 21-39, is as follows:
  - (a) The AcSB will direct its efforts primarily to participating in the movement toward the global convergence of accounting standards. The AcSB has concluded, given the increasing globalization of capital markets and other recent developments, that it is timely for publicly accountable Canadian enterprises to adopt globally accepted, high-quality accounting standards by converging Canadian GAAP with IFRSs over a transitional period. At the end of that period, a separate and distinct Canadian GAAP will cease to exist as a basis of financial reporting for publicly accountable enterprises.
  - (b) The AcSB's general approach to achieving convergence will include:
    - (i) adopting standards newly developed by the IASB that are converged with standards issued by the FASB, as these new global standards are issued;
    - (ii) replacing other Canadian standards with corresponding IFRSs already issued, in accordance with a separate convergence implementation plan to be developed in consultation with affected stakeholders;

- (iii) working with both the IASB and the FASB to ensure that the Canadian perspective is taken into account in their deliberations; and
  - (iv) working to promote the further convergence of IASB and FASB standards.
- In taking on a role in the development of global standards, the AcSB will cease to make final decisions on most matters affecting the technical content and timing of implementation of standards applied in Canada.
- (c) The AcSB's objective is to achieve convergence of Canadian GAAP with IFRSs at the changeover date at the end of the transitional period, which is expected to be approximately five years. The AcSB believes that by providing reasonable lead time and a clear transition plan, the costs and disruption to affected stakeholders will be minimized. As soon as possible, the AcSB will develop and publish a detailed implementation plan for effecting the changeover.
  - (d) The AcSB will continually monitor events in Canada and internationally to determine whether there have been significant changes in any of the environmental factors that have influenced it in developing its global convergence strategy, with a view to making any necessary modifications in the program for implementing that strategy. This monitoring process will culminate in a progress review, approximately 24 months after the publication of this plan, at which point the AcSB expects to be in a position to set the definitive changeover date when Canadian GAAP for publicly accountable enterprises will be converged with IFRSs.
  - (e) In applying its IFRS convergence strategy, the AcSB will work actively with the IASB and the FASB to eliminate the relatively few fundamental differences that remain between IFRSs and US GAAP and avoid the creation of new ones wherever possible.

### **Applying the strategy**

21. The strategy summarized in paragraph 20 and the discussion that follows are intended to apply to "publicly accountable enterprises." That term is used in this plan substantially in accordance with the terminology and definitions in DIFFERENTIAL REPORTING, Section 1300 of the Handbook. Accordingly, it encompasses public companies plus some other classes of enterprises that have relatively large or diverse classes of financial statement users. The

AcSB will review the definition of “publicly accountable enterprise” in carrying out this strategy.

22. The strategy for publicly accountable enterprises represents a modification to the AcSB’s previous strategy by placing the primary emphasis on global convergence rather than harmonization with US GAAP. However, recent developments make those two objectives much more congruent, and also make the ultimate goal of a single set of global standards seem achievable in the foreseeable future. The AcSB has concluded that it is timely to undertake the process of converging Canadian GAAP with IFRSs with the goal of making Canadian GAAP identical with IFRSs by a specific date. The strategy for publicly accountable enterprises is focused on how that goal can be achieved.
23. Convergence with IFRSs is a practical possibility because of the many similarities of approach and specific content between Canadian GAAP and IFRSs. However, there are also differences that make it necessary to undertake a carefully conceived implementation program over a transitional period. As soon as possible after publication of this strategic plan, the AcSB will prepare and publish a detailed implementation plan dealing with the specifics of the changeover.
24. The changeover will occur in the following ways:
  - (a) The IASB and the FASB have agreed to work co-operatively to develop new standards on topics of global interest. Over the period covered by this plan, the AcSB expects that the IASB and the FASB will develop proposals jointly for new or amended standards on a variety of topics, and then proceed to adopt common standards. The AcSB intends to adopt the globally converged standards at the same time as the IASB and the FASB. Accordingly, on some topics Canadian GAAP will converge with IFRSs, and also with US GAAP, during the transitional period.
  - (b) On a few topics, the AcSB has already embarked on standard-setting projects to adopt elements of IFRSs or reduce differences between Canadian GAAP and IFRSs. These projects will continue and the resulting changes to Canadian GAAP will come into effect before the changeover date.

- (c) On other topics not addressed by ongoing global standard-setting projects during the transitional period, the AcSB will incorporate currently existing IFRSs into Canadian GAAP with effect from the specified changeover date.

In each case, the AcSB will follow its established processes in introducing standards into GAAP.

25. From the changeover date onwards, Canadian GAAP will no longer be a separate and distinct basis of reporting for publicly accountable enterprises. As a practical matter, IFRSs will be imported into Canadian GAAP and will need to be described as Canadian GAAP for some time after the changeover date. At present, the many federal, provincial and territorial laws, regulatory rules and other such requirements related to financial reporting refer to Canadian GAAP. Nonetheless, enterprises will be able to report compliance with IFRSs as well as with Canadian GAAP.
26. In adopting the IFRS convergence strategy, the AcSB is not relinquishing any of its powers and responsibilities as set out in its terms of reference, but simply specifying how it will exercise its powers and carry out its responsibilities relative to publicly accountable enterprises. Until such time as its mandate may be changed, the AcSB retains the power to modify or add to the requirements of the IFRSs under Canadian GAAP, as it deems necessary.
27. The AcSB's powers might, in theory, be exercised in one or more of the following ways:
  - (a) The AcSB could potentially add disclosure requirements to those specified by IFRSs, to address Canadian circumstances.
  - (b) The AcSB could potentially direct which of two or more alternative accounting treatments permitted by IFRSs on a particular issue should be adopted by Canadian enterprises, to achieve greater consistency in Canadian practice.
  - (c) The AcSB could potentially provide requirements compatible with IFRSs on issues not addressed specifically by IFRSs. In particular, the AcSB could decide to carry forward such requirements that already exist in Canadian GAAP, with any necessary conforming amendments.

In each case, the financial statements of Canadian enterprises would remain fully compliant with IFRSs. However, the AcSB is concerned that, were it and other national standard setters or regulators to supplement or modify IFRSs in such ways, a variety of diverse and potentially incompatible national versions of IFRSs would emerge. The result would not be the single set of global standards that the AcSB and others aspire to.

28. The AcSB's intention is to exercise its powers in such ways only when necessary, which is expected to be rarely. In general, the AcSB intends to adopt IFRSs without modification. The AcSB anticipates that unique Canadian circumstances requiring it to modify an IFRS will arise infrequently. The most likely instance of Canadian GAAP "add-ons" to IFRSs is the possible continuation of some existing requirements that have no specific IFRS counterparts. This would only be for a limited period following the IFRS changeover date until the IASB develops corresponding requirements. This issue will be addressed on a case-by-case basis in the detailed convergence implementation plan. In addition, there may be a need for Canadian interpretations of IFRSs on questions that are significant in Canada but not the rest of the world. Only in the most extreme and unlikely circumstances would the AcSB contemplate any requirement in conflict with IFRSs.
29. The AcSB intends to continue to work with the IASB and the FASB to bring Canadian views and experiences to the global standard-setting process. The AcSB believes that Canadian interests will be best served both by working to promote the highest possible quality for globally converged standards and by ensuring that Canadian circumstances are suitably addressed in those standards. The AcSB will also encourage the IASB and the FASB to continue to work co-operatively and reach common conclusions on issues. When necessary, the AcSB will offer to play the role of "honest broker" to resolve any tensions between the IASB and the FASB. In particular, the AcSB will:
  - (a) participate in discussions of the global standard-setting agenda, including priorities, and individual standard-setting projects;
  - (b) assist the IASB, as needed, in carrying out specific standard-setting and research projects;
  - (c) participate in the development of implementation aids and interpretive guidance in co-ordination with the IASB;



- (d) evaluate the effectiveness of standards (post-issuance reviews);
  - (e) assist in communications between the IASB and Canadian stakeholders to ensure widespread dissemination of information about IFRSs;
  - (f) encourage full participation by interested Canadian stakeholders in the development of IFRSs; and
  - (g) develop the expertise and experience of individuals for participation in global standard-setting activities.
30. During the transitional period prior to the full adoption of IFRSs, the AcSB will continue to operate its own due process in parallel with the IASB. The principal purpose of doing so is to facilitate the importation of new global standards into Canada so that Canadian GAAP will continue to be of the highest quality and the burden of the subsequent changeover to IFRSs will be minimized. During this period, it will be important for Canadians to become engaged in the IASB's processes on active standard-setting projects and to accept the outcomes of those processes, just as they have been engaged in the AcSB's processes in the past. The AcSB will generally not stand between the IASB and individual Canadians stakeholders, nor act as a lobbyist for particular views; however, it will act as a facilitator to ensure good communication.
31. The AcSB expects the transitional period leading up to the changeover date to be approximately five years. The changeover is not expected to occur any earlier than for fiscal years beginning some time in 2011 but may be somewhat later, as circumstances dictate. However, to provide reasonable certainty and sufficient notice for all affected parties, the AcSB intends to make a final determination of the changeover date in a "progress review" of the implementation of the strategy (see paragraphs 34-36).
32. The AcSB's objective is that Canadian enterprises will be in a position to make an unqualified statement of compliance with IFRSs from the changeover date onwards. However, in setting the changeover date, the AcSB will be particularly sensitive to circumstances in which Canadian enterprises could potentially be required to make two accounting changes in relatively quick succession and, as a result, be forced to make two major systems changes or incur other significant costs. Such circumstances could arise, for

example, if Canadian GAAP and a corresponding IFRSs requirement were significantly different but the IASB was well advanced in developing a significantly different new IFRS. Without some action by the AcSB to address the situation, affected enterprises might be forced to change first to the older IFRS and, shortly afterwards, to change again to the new IFRS. The AcSB will consult with the IASB in advance of setting the changeover date to identify standard-setting projects that might cause this problem to arise and ways in which it may be possible to minimize its effects.

33. The matters mentioned above, and others, will be addressed in more detail by an IFRS convergence implementation plan to be issued shortly after the publication of this plan.
34. The AcSB will continually monitor progress in implementing the IFRS convergence strategy, and the state of readiness of the Canadian investors and the business community, over the course of the transitional period. Monitoring will include a search for factors not previously considered in adopting the strategy and new developments that might affect the AcSB's thinking. The process will also include consultation with the AcSOC. Early in 2008, the AcSB will fine-tune and finalize its implementation plan. The intention is not to develop a new or significantly revised strategy at that time, nor to provide an opportunity for those who disagree with the IFRS convergence strategy to reiterate their views. The AcSB would only consider the possibility of a change in strategic direction in the unlikely event that there was a fundamental change in circumstances that negated the rationale for the strategy.
35. In finalizing the implementation plan in 2008, the AcSB will take stock of issues such as:
  - (a) the acceptance of IFRSs and their contribution to the improved functioning of global capital markets;
  - (b) the ability of the IASB to continue to develop high-quality standards, including the functioning of its partnership with the FASB; and
  - (c) any difficulties encountered in the initial adoption or ongoing application of IFRSs in the European Union, Australia and other countries.

However, the principal issue to be addressed will be progress in Canada in addressing IFRS implementation issues, including efforts by individual affected enterprises to plan and carry out necessary changes, with particular attention to the circumstances of smaller enterprises.

In assessing Canada's state of preparedness, the AcSB will need to take into account the effects of new regulatory requirements and other factors that might affect the ability of financial statement preparers, auditors or users to prepare for the IFRS changeover. While the AcSB will also note progress toward the possible elimination of the SEC requirement for foreign registrants to reconcile IFRS information to US GAAP equivalents, that is not a prerequisite to the implementation of the IFRS convergence strategy. Accordingly, any delay or difficulty in eliminating the SEC requirement will not necessarily have any effect on the AcSB's implementation of its strategy.

36. The AcSB will remain open to input from stakeholders on the implementation of the strategy at all times during the transitional period. It will also consult regularly with the AcSOC. The focus of the progress review will be on identifying and assessing any new information or new issues not previously considered. Accordingly, the AcSB will consider the need for a formal consultation process immediately before beginning the review.
37. The AcSB acknowledges that some public companies, including some very large enterprises, have chosen to apply US GAAP as their primary basis of financial reporting or are required to apply US GAAP in developing the reconciliations required by the SEC. The ability to adopt US GAAP as a primary basis of financial reporting for the purposes of securities law is a choice provided by the Canadian Securities Administrators and permitted by recent amendments to some Canadian laws. Other laws may preclude such a choice. The choice of accounting bases that must, or may, be applied is a matter of public policy. This plan does not address the role of US GAAP in Canada because it is beyond the AcSB's mandate. Nevertheless, the AcSB will provide any assistance it can to competent authorities considering the issue, if asked to do so.
38. For those enterprises that continue to apply Canadian GAAP and reconcile to US GAAP, consistency between the two sets of standards remains an ongoing concern. The AcSB will take whatever steps it can, consistent with this plan, to minimize the extent of differences between Canadian GAAP and US GAAP during and after the transitional period. AcSB participation in ongoing global standard-setting projects during the transitional period will help in this regard. So too will ongoing efforts by the IASB and the FASB to eliminate

various differences between their standards through short-term convergence efforts. On some issues, the relatively less detailed and prescriptive nature of IFRSs may provide an avenue for enterprises to adopt accounting policies within IFRSs that result in compliance with US GAAP. The AcSB will continue to monitor reported reconciling differences.

39. During the transitional period, a particular issue may arise in respect of certain Canadian GAAP standards that were adopted under the AcSB's previous strategy to be fully harmonized with corresponding US GAAP standards. If the FASB proposes to modify the US standard, but not in a way that results in convergence with IFRSs, the AcSB is faced with the alternatives of:

- (a) leaving the Canadian standard "as is";
- (b) amending the Canadian standard so that it does not conflict with US GAAP; or
- (c) replacing the Canadian standard with the corresponding IFRS.

Alternative (a) results in Canadian GAAP differing from both US GAAP and IFRSs, although those enterprises not concerned with reconciling to US GAAP may prefer not having to make any changes to their accounting. Alternative (b) maintains US GAAP harmonization until the IFRS changeover date but forces two accounting changes on all affected enterprises within a few years' time, including those enterprises not concerned with reconciling to US GAAP. Alternative (c) creates a US GAAP difference sooner than the IFRS changeover date. In general, the AcSB intends to adopt alternative (b) as the approach to addressing this issue but will address FASB proposals on a case-by-case basis. The AcSB will consider any factors that may be unique to a particular standard, and will address the issue in the invitation to comment in each exposure draft in which it arises.

#### **Basis for conclusions**

40. Paragraphs 17-51 of the 2005 Invitation to Comment contain a discussion of the principal issue for publicly accountable Canadian enterprises — whether to maintain a separate Canadian GAAP and, if not, whether to converge with US GAAP or IFRSs. That discussion rests in turn on information and discussion in the 2004 Discussion Paper and the responses to the 2004 Invitation to Comment. Not all of that material is reproduced below but, in general, it remains pertinent to the AcSB's final decisions on its strategy for publicly accountable enterprises.

41. While the basic direction of the strategy was supported by most commentators who responded to the 2005 Invitation to Comment, and preferred by many, some expressed concerns about either the timing of the changeover date or the lack of details about how the transition would be accomplished.
42. Some commentators preferred that the AcSB delay any change that would give primacy to international convergence and, instead, carry on with its previous strategies that gave primacy to harmonization with US GAAP. From comments received in response to the 2005 Invitation to Comment, it appeared that some commentators did not fully appreciate some of the consequences of such an approach. The Norwalk Agreement of 2002 between the IASB and the FASB created a global standard-setting partnership to develop a single set of high-quality, globally accepted accounting standards. The IASB and the FASB agreed to align their project agendas and conduct all significant projects jointly. As a result, all significant new standards being created by the IASB and the FASB will be the same, save only for those aspects that need to differ to achieve consistency with the pre-existing accounting literature of each board (their “legacy standards”). While the IASB and the FASB have each taken steps through a short-term convergence program to eliminate a number of significant differences between their respective sets of legacy standards, other differences will remain for some time. The FASB wishes to reform US GAAP to eliminate rule-oriented standards, but it will take considerable time and effort to do so. If Canada would have continued with a strategy of US GAAP harmonization, it would have continued to import more and more of the detailed rules embedded in US legacy standards. It would then be faced with the effects of replacing those standards with higher quality standards as global convergence continues. Canada would also have lost some of the influence it might otherwise have in global standard setting, since that influence can come most readily through the IASB and the adoption of IFRSs. Accordingly, the AcSB has chosen a direction that avoids the importation of US legacy standards and allows Canada to retain its position as a contributor to improved global standards. The decision comes none too soon, given the length of time that the transition will take and the fact that most major economies have already adopted IFRSs or, at least, a program of convergence.

43. The direction chosen by the AcSB does not represent a complete turning away from US GAAP harmonization because new US standards developed in conjunction with the IASB will be adopted by the AcSB at the same time as they are adopted by the FASB and the IASB. To minimize disruption and allow as much preparation time as possible before the changeover to IFRSs, the AcSB decided to maintain the existing degree of US GAAP harmonization on certain topics, such as impairment, variable interest entities and securitizations. On these and other topics, it is likely that there will be changes in the future as better, globally converged standards are developed by the IASB and the FASB. The AcSB will do its best to minimize the number and effect of accounting changes to which Canadian enterprises are exposed by the careful selection of the IFRS changeover date and by promoting timely progress in developing new global standards on selected topics.
44. The AcSB indicated in the 2005 Invitation to Comment that the transitional period was “expected to be five years,” which some construed as being a precise and fixed date. This was not the AcSB’s intention. The purpose of proposing a five-year transitional period was to indicate the approximate length of time until the changeover date and, in particular, to emphasize that the changeover was intended to occur on a specific date to be fixed within the foreseeable future. Proposing a date far off in the future would be no real decision at all, in effect, and provide no clear direction. Proposing a change in less than five years would be unrealistic relative to the work required to effect the transition. The progress review was intended to provide the process for finalizing the changeover date. By the time of the progress review, the AcSB will have more information on which to base a decision on the date, including input from affected stakeholders on the detailed implementation plan.
45. Some commentators felt that five years would be insufficient time to complete all of the steps necessary to achieve the changeover to IFRS, although some others felt that the transitional period would be unduly long. The AcSB recognizes that there will be challenges in preparing for the changeover, but believes they can be addressed in the time provided under this plan. European Union (EU) countries had approximately five years to prepare from the formal adoption of an IFRS convergence program by the EU authorities until the initial application of IFRSs by all public companies in the EU on January 1, 2005. Australia had less than five years to make a changeover on January 1, 2005, and applied IFRSs not only to

public companies but also to some private companies and non-business entities. The changeover in the EU and Australia was a challenge and some difficulties may yet emerge, but initial market reactions suggest that no major problems are evident. The changeover was a much bigger task for many individual companies in EU countries than it will be for Canadian companies because Canadian GAAP is closer to IFRSs than were the former national standards of most EU countries. Canada should be able to benefit from the lessons learned in the EU, Australia and elsewhere in formulating and implementing its IFRS convergence strategy. Delaying the changeover to IFRSs would mean postponing the solution to various current problems.

46. Part of the implementation challenge for financial statement preparers will be identifying which accounting practices will need to change and which systems will need to be modified or created to support new requirements. A further challenge will be finding the resources necessary to make the changes when there are competing demands for such resources to deal with other changes affecting financial reporting. The AcSB believes it is critical for affected enterprises to start work as soon as possible and, accordingly, will provide its detailed implementation plan as soon as possible. Those enterprises that make use of the full time available prior to the changeover date to plan and implement their conversion to IFRSs are expected to be able to make the change without undue difficulty.
47. Wherever possible, the AcSB will co-ordinate its activities with other Canadian standard setters and regulators to spread the burden of implementing new requirements imposed by various organizations over a reasonable period.
48. A further concern over timing among respondents to the 2005 Invitation to Comment was whether it is appropriate to begin convergence with IFRSs without greater certainty that global convergence will come about. The AcSB noted that most of the world's economies have either adopted IFRSs or, at least, adopted a program of convergence. The IASB and its partnership with the FASB constitute a robust system in which the AcSB has been participating for several years. Considerable resources from throughout the world have been devoted to setting up the IASB and making it work. The FASB and the SEC have both expressed strong commitments to full US participation in the development of global

standards, with the objective of facilitating the emergence of truly global capital markets for the benefit of all. While there is no guarantee that problems will never arise, there is every indication that the system is working and will continue to work satisfactorily.

49. Some Canadian SEC registrants felt that the elimination of the SEC's requirement for foreign registrants to reconcile their financial statements to US GAAP should be a prerequisite for the adoption of IFRSs. The AcSB did not take this view in formulating the proposals in the 2005 Invitation to Comment and was not persuaded by respondents. Adopting US GAAP would be the only sure way of eliminating the effect of the SEC requirement, but this would be unacceptable to most Canadian public companies. The SEC has held out the prospect that it will consider eliminating its current requirement, but only for registrants reporting in accordance with IFRSs. The AcSB believes it is highly unlikely that this concession would be extended to registrants reporting under a Canadian GAAP that differed from IFRSs. The SEC is not committed to a specific timeframe for reconsidering the reconciliation issue, but it has suggested that it could do so as early as 2009. Even if the SEC requirement is not eliminated, the extent of the work required to prepare reconciliations should be no greater after convergence with IFRSs than at present, and may well be less. IFRS convergence appears to be the most promising path to eliminating, at the earliest possible time, the need for Canadian SEC registrants to provide GAAP reconciliations. Nevertheless, the AcSB considered that the elimination of the SEC requirement is not a necessary condition for proceeding with its strategy.
50. Some respondents to the 2005 Invitation to Comment felt that they could not support an IFRS convergence strategy without knowing more about how it would be carried out. They pointed to the challenges of changing the infrastructure necessary to support a financial reporting system generally, as well as making changes in individual enterprises. Some were concerned about the possibility of adverse effects on Canadian capital markets or the ability of Canadian companies to access US capital markets. Others were concerned about what would happen when Canadian GAAP addresses a specific point but IFRSs do not.
51. In developing the 2005 Invitation to Comment, the AcSB decided not to proceed with developing a detailed implementation plan for IFRS convergence until the basic strategic



direction had been determined. This approach was based on the view that proceeding to create a detailed plan:

- (a) might signal that the AcSB had already made up its mind on the basic direction before consulting with stakeholders;
- (b) would delay issuing a draft plan; and
- (c) might obscure the basic issue of which direction to pursue.

The AcSB did recognize that some stakeholders would want a more detailed plan before coming to their own conclusion on a strategic direction, and some did comment to this effect.

52. Early reactions to the Draft Strategic Plan were generally favourable, which gave the AcSB a basis for beginning to address implementation issues in mid-2005 while it was awaiting further comments and subsequently while reviewing response letters. The AcSB had several discussions of implementation issues in conjunction with its discussion of response letters, which gave it a basis for concluding that the implementation issues would be manageable and that a detailed implementation plan would be able to address many of the concerns of stakeholders. The AcSB's staff has developed and published a detailed technical comparison of Canadian GAAP and IFRSs as an aid to stakeholders, but also as an important foundation for a detailed implementation plan. The plan will address the matters noted in paragraph 50 and other matters identified by the AcSB.
53. Some commentators were concerned that smaller public companies would have greater difficulty coping with a changeover to IFRSs because they have fewer resources available to deal with the challenges. The AcSB notes that such companies may also have less complex businesses and transactions, which would tend to make the changeover easier. During the transitional period, the AcSB intends to obtain further information on the expected effects of the changeover on smaller companies, and will include its findings in the determination of the changeover date.
54. A loss of control over Canadian GAAP by the AcSB concerned some commentators. However, the AcSB noted that it had effectively ceded decision making some years ago as a result of adopting its former strategy of US GAAP harmonization. The only change resulting from IFRS convergence would be in the party making the decisions. Ceding decision

making is the price of global convergence which, in the AcSB's view, is a price worth paying. However, the AcSB retains the authority to make its own decisions if it chooses to exercise that authority (see paragraph 26).

55. The AcSB considered concerns about a possible impairment of access to US capital markets, since the issue is critical to a number of major Canadian public companies, but concluded that there is no need for concern. Canadian GAAP is not particularly well understood in US markets currently, but that does not appear to have been a major obstacle to companies entering that market. By the time of the changeover to IFRS reporting by Canadian companies, a significant number of companies from Europe, Australia and other countries will have been providing IFRS-based information to US markets for several years, with the result that US markets will have some degree of familiarity with that type of information. IFRSs and US GAAP will also have converged further by the changeover date. The SEC and other members of the International Organization of Securities Commissions are satisfied that IFRSs comprise a sufficiently robust and comprehensive basis of reporting for acceptance in global markets. However, those Canadian companies active in US markets that have any remaining qualms about IFRSs have the option of adopting US GAAP instead, as long as regulators continue to permit it.
56. In its review of comments on the 2005 Draft Strategic Plan, the AcSB noted several issues on which commentators appeared to have misunderstood the proposals, such as the purpose of the proposed checkpoint review (now termed a progress review) and the AcSB's ability to permit, require or prohibit the use of US GAAP in Canada. These matters have been addressed through some redrafting of the strategies and added explanations.
57. The one specific implementation issue that the AcSB raised in the 2005 Invitation to Comment was the question of whether the changeover to IFRS should be accomplished in a single step or phased in over the transitional period. A clear majority of respondents preferred a one-time, single step changeover. As paragraph 24 points out, this changeover will apply only to those individual IFRSs that have not been adopted during the transitional period. As of the date of this plan, several projects are under way that could result in significant new standards during the transitional period. Other than such standards, it may

not be practicable to bring any individual IFRSs into Canadian GAAP before the progress review, and there will not be sufficient time after the review and before the changeover date for any significant degree of phasing in to occur. These matters will be addressed in some detail in the IFRS convergence implementation plan.

58. After considering all of the various points outlined above and the widespread support for the proposed strategy among its stakeholders, the AcSB decided that it should adopt IFRS convergence for publicly accountable enterprises. The AcSB also concluded that the concerns raised by commentators can be addressed and that difficulties in practice can be mitigated, although the issues will need continuous monitoring and a concerted effort by the AcSB to achieve the best possible transition.

***Non-publicly accountable enterprises***

59. The AcSB's strategy for non-publicly accountable enterprises, which is further described and explained in paragraphs 60-69, is as follows:
- (a) The AcSB will undertake as a matter of urgency a comprehensive examination of the needs of the users of these enterprises' financial statements, and then determine and implement the most appropriate financial reporting model to meet those needs. This will require research to identify more clearly who the financial statement users are, what their information needs are and what reporting model or models might best satisfy those needs. In formulating this strategy, the AcSB has reached no conclusions on the extent to which the basis of financial reporting for this sector needs to differ from the basis of financial reporting for publicly accountable enterprises or how it might differ.
  - (b) The research will take some time to complete, during which the current differential reporting model will remain in place. Existing differential reporting alternatives will be maintained, and any additional alternatives will be developed through the existing process with the advice of the AcSB's Differential Reporting Advisory Committee.
  - (c) In carrying out its strategy for non-publicly accountable enterprises, the AcSB will consider the needs of those enterprises that do not have significant external users of their financial statements. Such enterprises may not need GAAP-basis financial

statements, which are designed for entities that have significant external users of financial information and require the application of a common basis of financial reporting.

- (d) Individual enterprises in this sector will have the option of applying the set of standards for publicly accountable enterprises when those standards better serve their needs.

### **Applying the strategy**

- 60. The strategy summarized in paragraph 59 and the discussion that follows are intended to apply to “non-publicly accountable enterprises,” which are all profit-oriented entities that are not publicly accountable in the sense defined in DIFFERENTIAL REPORTING, Section 1300 of the Handbook. The AcSB notes that, while many non-publicly accountable enterprises are small businesses (however one construes “small”), this category also includes some quite large and complex enterprises. The common factor is that they report to a limited number of identifiable external stakeholders whose financial reporting needs are commonly believed to differ from those of stakeholders in publicly accountable enterprises. In implementing this plan, the AcSB will review the definition of “non-publicly accountable enterprise” to ensure that the strategy will apply to those entities for which it is intended.
- 61. The strategy for non-publicly accountable enterprises represents a significant further step along a path adopted under the AcSB’s previous strategy, which was the adoption of the differential reporting model. The strategy in this plan is to approach the non-publicly accountable sector separately and independently of the publicly accountable sector. The objective is to ensure that Canadian GAAP includes standards that will address the financial reporting needs of the users of non-publicly accountable enterprises’ financial statements.
- 62. The new GAAP requirements for non-publicly accountable enterprises are not intended to be a form of “add-on” to, or departure from, requirements developed for publicly accountable enterprises. In this respect, the new model will differ from the differential reporting model the AcSB has been applying or any other model that ties together requirements for both publicly accountable and non-publicly accountable enterprises. The AcSB has no preconceived notion of what the new model for non-publicly accountable enterprises should

- be. The strategy is not focused on a particular outcome (unlike the strategy for publicly accountable enterprises); it is primarily a process for determining what the outcome should be.
63. The strategy encompasses the possibility of building a completely new set of GAAP standards from basic principles, founded on the same conceptual framework that underpins all GAAP-basis financial reporting and the findings of the AcSB's research program. Such a new set of standards would be tailored to the needs of the non-publicly accountable sector. It could draw on any requirements under Canadian GAAP, IFRSs or other sources. At the same time, the AcSB does not intend to create needless differences from the standards applicable to other entities under Canadian GAAP. Accordingly, while the outcome of the process could be a set of standards quite different from those currently in place under the differential reporting model, it could also be something quite similar.
64. The necessary first step in addressing the financial reporting needs of this sector is to undertake a thorough investigation into who uses the financial statements of non-publicly accountable enterprises and what their information needs are. The research will include a review of the accounting literature that summarizes past research into those questions and a consideration of current work underway at the IASB and in other countries to address substantially the same issues that the AcSB's strategy is designed to resolve, including:
- (a) the information gathered by the CICA Study Group that produced the 1999 Research Report, "Financial Reporting by Small Business Enterprises";
  - (b) studies done of the application of Section 1300 in practice;
  - (c) the responses to the 2004 Invitation to Comment that provide some specific information about issues of concern to the private business sector;
  - (d) information made available by the American Institute of Certified Public Accountants on its Private Company Financial Reporting project;
  - (e) the work of the FASB's Small Business Advisory Committee;
  - (f) developments in the IASB's project on Accounting Standards for Small and Medium-sized Entities (SMEs); and
  - (g) developments in the evolution of the UK and New Zealand differential reporting models, which are occurring in the context of both countries' adoption of IFRSs.

The research will include in its scope all of the diverse types of non-publicly accountable enterprises, without regard to the question of whether GAAP is intended to apply to them. Accordingly, the research will encompass enterprises without significant external users of their financial statements even though the AcSB does not intend to develop guidance on management accounting.

65. The research will investigate the needs of the users of non-publicly accountable enterprises' financial statements by considering what information is useful to them in making economic decisions. It will also consider the cost/benefit trade-offs involved in developing such information in non-publicly accountable enterprises and in having requirements that differ from those applicable to other entities (as discussed in paragraphs 16-18). The purpose of the research is to provide the AcSB with concrete evidence to support a conclusive evaluation of user needs, rather than a survey of opinions or current practices.
66. The AcSB intends to proceed expeditiously with its research program, recognizing that research activities can take extended periods of time to complete and can become a basis for inaction. As of the date of this plan, work had already commenced on the research and the AcSB expects to complete it by the end of 2006. Forecasting the timing of the next steps in carrying out the strategy is difficult without knowing the outcome of the research and the decisions that will flow from it. However, the AcSB expects to be able to propose new standards for this sector within approximately two years following completion of the research.
67. The AcSB will maintain the existing differential reporting model and related processes in place pending the outcome of the process described above. Non-publicly accountable enterprises will continue to be affected by changes to current GAAP that come into effect prior to the adoption of the new financial reporting model for this sector.
68. Some non-publicly accountable enterprises have an intention of "going public" and need to be able to provide financial statements prepared on the same basis as publicly accountable enterprises in advance of registering with securities regulators. Some larger non-publicly accountable enterprises may need to satisfy the reporting requirements for publicly accountable enterprises to obtain financing or to meet industry regulatory requirements. For

these reasons, the AcSB will ensure that, regardless of the outcome of the process to develop new standards for non-publicly accountable enterprises, those enterprises will all have the option of applying the full set of standards applicable to publicly accountable enterprises.

69. GAAP is a basis of financial reporting applicable to a variety of reporting entities but, as this plan acknowledges, “one size does not necessarily fit all.” GAAP is intended to apply to general purpose financial statements that meet the common information needs of a range of external users. There are limits to how much latitude GAAP can provide for diversity in practice while still achieving the purpose for which it is intended, as set out in the conceptual framework. In carrying out the strategy for non-publicly accountable enterprises, the AcSB will consider whether some enterprises should be given the option of not applying some or all of the new GAAP standards for this sector (and, equally, the option of applying all of the relevant standards). The option would be available only to those enterprises that do not have any significant external users of their financial statements. Such enterprises might then choose to apply some other comprehensive basis of accounting, or adopt their own unique set of accounting policies that satisfies the needs of internal users of its financial statements. If the AcSB were to proceed to develop optional exemptions from its standards, it would first consider the basis for concluding who constitutes a significant external user by relying on findings from its research program. While the AcSB has the power to exempt entities from individual GAAP standards, it cannot exempt entities from any legal requirements to apply GAAP.

#### **Basis for conclusions**

70. Paragraphs 54-75 of the 2005 Invitation to Comment set out a discussion of the principal issue for non-publicly accountable Canadian enterprises — how best to address the needs of this sector that differ significantly from the needs of the publicly accountable enterprise sector. That discussion rests in turn on information and discussion in the 2004 Discussion Paper and the responses to the 2004 Invitation to Comment. Not all of that material is reproduced below but, in general, it remains pertinent to the AcSB’s final decisions on its strategy for non-publicly accountable enterprises.

71. The basic direction of the strategy was welcomed by many commentators who responded to the 2005 Invitation to Comment. However, some commentators raised concerns, including those discussed in paragraphs 15-18 above. The other principal concerns related to timing and the proposal to consider exempting some non-publicly accountable enterprises from GAAP standards.
72. Some commentators felt that the AcSB did not need to take the time to carry out any research because the information it proposes to obtain is already available as a result of past work. It was suggested that further research would not identify any new information of value to the process of developing new standards for non-publicly accountable enterprises. Commentators expressed concern that carrying out research would slow down that process when there is an urgent need for change as soon as possible.
73. The AcSB acknowledges the need to consider change but does not wish to undertake changes only to find out subsequently that they do not properly address the needs of the users of non-publicly accountable enterprises' financial statements. The consultations leading up to the adoption of this plan revealed that the introduction of the differential reporting model may not have adequately addressed the longstanding "big GAAP/little GAAP" issue or other tensions involving the services provided by public accountants to their clients. The consultations also indicated that a better solution was not readily apparent, even though some stakeholders had provided suggestions as to the possible content of new standards for this sector.
74. The AcSB has obtained some information about financial statement users' needs in the non-publicly accountable enterprise sector, but it is incomplete and sometimes contradictory. Much of the push for change has come from public accountants serving the sector, who are often the preparers of financial statements and sometimes providers of assurance services (audits or reviews). They face pressures from their clients to reduce the cost of financial reporting because the clients do not perceive a benefit commensurate with the cost. Less has been heard from financial statement users. Their input has tended to highlight the general concern noted above that essentially the same transaction, event or circumstance could potentially be accounted for quite differently by different enterprises applying different sets



of standards within GAAP. Such a situation makes comparisons between enterprises difficult. It also forces financial statement users to be familiar with more than one set of standards and to attempt to reconcile information reported on different bases.

75. The AcSB concluded that it did not have enough detailed information about user needs and cost/benefit trade-offs within the non-publicly accountable enterprise sector to be able to make sound decisions on individual standards and specific requirements. The AcSB wants to avoid the possibility of making changes on the basis of opinions or the wishes of certain stakeholder groups rather than facts. The research program is designed to provide the AcSB with more information about how the financial statements of non-publicly accountable enterprises are used, what specific pieces of information currently provided in GAAP financial statements are not useful, and what information users want that is not currently provided. The research will also take into account current problems from the perspective of financial statement preparers and cost/benefit trade-offs from the perspectives of preparers and users. The AcSB will take full advantage of other research on this topic in Canada and elsewhere. The time anticipated to complete the research — less than one year — is considered to be well worthwhile relative to the additional information anticipated from it.
76. Some respondents to the 2005 Invitation to Comment proposed that the AcSB adopt the standards for small and medium-sized entities (SMEs) currently being developed by the IASB. There can be no certainty about the outcome of the IASB's project, but the AcSB concluded that it was not likely to be completed soon enough to address Canadian concerns on a timely basis and may well not address those concerns adequately. However, the AcSB will take account of developments in the IASB project in developing what it believes is the most appropriate reporting system for Canada.
77. The 2005 Invitation to Comment proposed that the AcSB would limit the scope of the GAAP standards to be developed for non-publicly accountable enterprises to those entities that have significant external users of financial information and require the application of a common basis of financial reporting. The intention was to exempt those enterprises, most likely smaller businesses, for which GAAP was not designed and would be unduly burdensome. This proposal was strongly criticized by some commentators. They felt that the AcSB has a

responsibility to provide standards for all enterprises and that all enterprises need standards. They also indicated that the term “significant external users” of financial statements is undefined and unclear. It had been suggested in some consultations that lenders and taxation authorities might not be considered significant external users, on the grounds that their relationship with an enterprise is such that they can obtain whatever information they require without depending on GAAP financial statements. Commentators challenged this suggestion.

78. After considering the comments on the proposed scope limitation, the AcSB decided to modify that aspect of its strategy. Without knowing what the standards for non-publicly accountable enterprises will be, there is no basis for determining whether a scope exemption is needed or not. On the other hand, the AcSB does not intend to alter the current definition of GAAP or to try to develop standards that accommodate purposes other than those for which GAAP is designed. GAAP cannot be modified so that it becomes “all things to all people” or simply a means of providing a “safe harbour” to protect financial statement preparers and auditors. Accordingly, the strategy for non-publicly accountable enterprises acknowledges that the AcSB may need to consider clarifying the purpose and scope of GAAP standards relative to enterprises without significant external users, but does not commit the AcSB to any particular course of action. One possibility suggested to the AcSB is the creation of a system of “appropriate disclosed bases of accounting” other than GAAP to satisfy the needs of those who do not want or need GAAP-based financial information.
79. The AcSB recognizes that changes to accounting standards alone cannot resolve all of the difficulties that have been experienced in financial reporting by non-publicly accountable enterprises. “Standards overload” and the replacement of audits and reviews with compilations by public accountants were among the most widely discussed issues in the consultations following publication of the 2004 and 2005 Invitations to Comment. The AcSB heard that, in this sector, GAAP requirements are unduly onerous and result in financial information of doubtful value to financial statement users. Canada is in the somewhat unusual position of having general statutory requirements to prepare GAAP-basis financial statements and assurance standards that do not permit audits or reviews of non-GAAP financial statements except in very limited circumstances. In practice, this commonly

results in public accountants undertaking compilation engagements that deprive businesses and external users of their financial statements of any independent assurance about the information prepared. Many commentators urged the AcSB and the AASB to work together to resolve the difficulties encountered in practice. The AcSB intends to take what steps it can and, wherever possible, to work with the AASB and others to produce a reporting system that meets the needs of this sector. The AcSB decided not to exclude the possibility that the new system would provide for an exemption from GAAP standards for some enterprises.

80. The AcSB has no reason to believe that the differential reporting model cannot continue in place in the short term pending the outcome of the new strategy for non-publicly accountable enterprises. For the reasons outlined in paragraphs 24 and 30, it will be important for non-publicly accountable enterprises to keep up with newly developed standards rather than “freezing” GAAP for the sector while the new financial reporting model is developed. The latter approach could result in non-publicly accountable enterprises having to make a number of catch-up changes in several years’ time, to the extent that the requirements applicable to them were harmonized with the requirements for other sectors.
81. After considering the various matters summarized above and making modifications to the proposal in the Draft Strategic Plan to address concerns, the AcSB concluded that there is widespread support for the strategy among its stakeholders.

### ***Not-for-profit organizations***

82. The AcSB’s strategy for NFPOs, which is further described and explained in paragraphs 83-87, is as follows:
  - (a) NFPOs will continue to apply those elements of GAAP for profit-oriented enterprises that are applicable also to the circumstances of NFPOs. The AcSB will consult with the not-for-profit sector to determine whether all NFPOs should base their accounting on the standards for publicly accountable enterprises, or whether the approach applied to non-publicly accountable enterprises should be applied also to some NFPOs.
  - (b) The AcSB will continue its current practice of developing standards that deal with the special circumstances of NFPOs, and will focus more of its attention on addressing those circumstances.

**Applying the strategy**

83. In providing standards for this sector, the AcSB recognizes that requirements applicable to profit-oriented enterprises are not necessarily appropriate for NFPOs. The AcSB has instituted a structure and processes for obtaining greater assurance that its standard-setting activities take appropriate account of the unique circumstances and needs of the not-for-profit sector. The AcSB expects to obtain input on implementing its strategy for this sector from its NFPO Advisory Committee which, in turn, will seek out input from the sector.
84. Some significant types of NFPOs fall within the public sector, even though the PSAB currently directs them to apply the AcSB's standards. The AcSB will take steps to improve the consistency of its standards applicable to NFPOs with the standards set by the PSAB, as well as co-ordinating activities with the PSAB on issues affecting public sector NFPOs.
85. When the transactions, events or circumstances to be accounted for by NFPOs are essentially the same as transactions, events or circumstances to be accounted for by profit-oriented enterprises, the same standards should apply to all reporting entities. However, it may be necessary for the AcSB to provide application guidance that is specific to NFPOs to ensure appropriate application of standards to NFPOs. When the transactions, events or circumstances to be accounted for by NFPOs are unique to that sector, the AcSB may need to provide standards specifically for that sector. The number of such unique transactions, events and circumstances is expected to be limited.
86. At present, the IASB only considers the circumstances of profit-oriented enterprises in developing IFRSs. When the AcSB incorporates IFRSs into Canadian GAAP for publicly accountable enterprises and thereby also for NFPOs, it will add any necessary application guidance for the specific circumstances of NFPOs as well as addressing the unique transactions, events and circumstances of NFPOs. In supplementing IFRSs in this way, the AcSB will look to corresponding standards developed in other countries that have adopted IFRSs and applied similar standard-setting approaches to NFPOs.
87. The diversity of NFPOs matches that of profit-oriented enterprises, with the result that it may not be appropriate to apply the same standards to all NFPOs. Some NFPOs are accountable to a number of diverse stakeholder groups, just as publicly accountable enterprises are, but

some NFPOs are accountable only to their own members. The AcSB will undertake research into the need for different standards for different categories of NFPOs, taking into account the outcome of the strategy for non-publicly accountable enterprises. By the date of the changeover to IFRS for publicly accountable enterprises, the AcSB expects that it will have completed the separate standards for non-publicly accountable enterprises and be in a position to assess whether they might also have application to some NFPOs.

#### **Basis for conclusions**

88. Paragraphs 77-85 of the 2005 Invitation to Comment provide a discussion of the basis for the NFPO strategy that the AcSB has adopted.
89. Respondents to the 2005 Invitation to Comment did not express any significant disagreement with the strategy for NFPOs as proposed in that document. Respondents supported the approach of not creating a separate set of standards for NFPOs, but also cautioned that the adoption of standards designed for other sectors needed to be undertaken with care. The AcSB believes that it has adequate processes in place to bring the NFPO perspective to bear on standard setting.

#### ***Maintaining Canada's standard-setting capability***

90. The final strategy adopted by the AcSB is as follows:

Canada will continue to maintain its own standard-setting capability to carry out the strategies outlined above, although the roles, structures, processes and resources will evolve to match those strategies.

#### **Applying the strategy**

91. Canada needs a high-quality standard-setting capability for the following purposes:
  - (a) to carry out the strategy for publicly accountable enterprises, in particular:
    - (i) to promote and support IFRSs as the global standards benchmark as well as the successful functioning of the IASB as an institution;
    - (ii) to participate in global standard setting by undertaking the activities outlined in paragraph 29;

- (iii) to deal with the transition to IFRSs in Canada, including dealing with “legacy” issues, for the transitional period; and
    - (iv) to act as a mechanism for importing IFRSs;
  - (b) to develop and maintain standards for non-publicly accountable enterprises and NFPOs, under the strategies discussed above; and
  - (c) to act as a “centre of excellence” in accounting thought and practice to maintain and improve the quality of financial reporting in Canada and Canada’s contribution to international standard setting.
92. The AcSB’s terms of reference are set by the AcSOC, which would have to consider any fundamental change in the AcSB’s makeup or mandate. Roles and processes will evolve, particularly in respect of standards for publicly accountable enterprises. Some additional resources may be necessary to implement the strategies but do not appear necessary to maintain the new standard-setting arrangements once they are fully established. Dramatic changes from the status quo are not anticipated even though the AcSB’s membership, processes and resources were designed with its previous strategy in mind. The AcSB will work with the AcSOC to effect changes that may be required in an orderly fashion.

#### **Basis for conclusions**

93. Paragraphs 87-94 of the 2005 Invitation to Comment set out the reasons why the AcSB concluded that Canada will continue to need a strong capability in accounting standard setting. The input received in response to both the 2004 and 2005 Invitations to Comment indicated strong support for that view.
94. Some respondents to the 2004 Invitation to Comment proposed specific changes to current standard-setting arrangements, and some changes may be found necessary as the new strategies are implemented. However, the AcSB could not identify any need for immediate or significant modifications to existing arrangements, and has none in mind beyond the need for some new committees to assist it with implementing specific aspects of this plan. It is more likely that any need for change will emerge as the new strategies are put into effect. For example, some existing structures and processes may become unnecessary once the IFRS transition for publicly accountable enterprises has been completed.

***Dealing with “standards overload”***

95. This plan includes the following commitment:

In carrying out its strategies, the AcSB will pay particular attention to the practical limitations on the ability of the Canadian financial reporting system to cope with change. In other words, the AcSB will be particularly sensitive to the “standards overload” issue. Where change is determined to be necessary, the AcSB will take such steps as it can to assist affected parties in dealing with change through, for example, participating in the development of implementation aids and training programs.

96. While not a strategy itself, this commitment to address change management issues is critical to the successful implementation of the strategies. It is clear that all aspects of the Canadian financial reporting system have been subject to considerable strain in recent years, as discussed in paragraphs 96-102 of the 2005 Invitation to Comment.

97. Some change is necessary, including changes designed to alleviate some of the burdens imposed by accounting standards developed under previous strategies. The AcSB will place more emphasis on meeting the needs of certain groups that have not occupied its attention as much under previous strategies, such as private businesses, not-for-profit organizations and financial statement users. Although sympathetic to those bearing the brunt of change, the AcSB sees no prospect that accounting standards will cease to change.

98. The increased pace of change in financial reporting requirements in Canada in recent years has resulted largely from efforts to address systemic weaknesses. People will need some time to adapt fully to various new requirements that have recently become effective or are about to become so. The timing of changes introduced in carrying out the AcSB’s strategies will be considered very carefully. The AcSB will endeavour to limit the number of changes to GAAP over the term of this plan but cannot control the pace of global standard setting that will affect publicly accountable enterprises. The AcSB will monitor the implementation of its strategies and consider any overload issues that may arise.

99. In introducing changes, the AcSB will take particular care to:
- (a) communicate the changes fully to as broad an audience as possible;

- (b) seek input from all affected stakeholder groups;
- (c) express new requirements clearly and provide adequate explanations for them;
- (d) provide a reasonable period between the issuance of requirements and their mandatory effective date, to permit entities to prepare for initial application (including the possibility of longer transitional periods for entities other than publicly accountable enterprises);
- (e) introduce changes to standards less frequently by “batching” them up and introducing several changes together;
- (f) develop implementation aids and assist others in developing them; and
- (g) assist those charged with the education and professional development of accountants and financial statement users to develop programs to teach the new accounting requirements.

The AcSB will also provide input to the IASB and the FASB on change management issues such as those listed above in the development of new global standards that will apply to some Canadian reporting entities.

100. The AcSB will consider what implementation aids it is able to provide within the limits of its mandate and resources, taking advantage of all available methods of providing guidance to those who most need it. Guidance will focus on indicating how new requirements might affect various types of entities, particularly those less able to determine the effects for themselves. The AcSB will also encourage and support professional organizations and others in providing such guidance and in developing education programs. The strategies in this plan will require a considerable amount of professional development effort by all affected parties. Successful implementation of the strategies will depend to a significant extent on educating accountants and financial statement users in the new standards.

### ***Communications with stakeholders***

101. The AcSB will continue and, to the extent possible, intensify its ongoing program for communicating with all those affected by its activities. Specific steps will be undertaken to inform all interested parties about the strategies in this plan and the implementation programs for carrying out the strategies. AcSB representatives are available to make presentations in



meetings, provide interviews for the media, and conduct consultations with stakeholders on issues of general interest, upon request. The AcSB will accept comments at any time on the plan or its implementation, and is particularly interested in relevant new information.<sup>7</sup>

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<sup>7</sup> Current [contact information](http://www.acsbcanada.org) is available on the AcSB website ([www.acsbcanada.org](http://www.acsbcanada.org)).

# Adopting International Standards on Auditing (ISAs)

The Auditing and Assurance Standards Board (AASB) is adopting International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB). After the adoption of the ISAs, Handbook Sections currently in the 5000, 6000 and 7000 series will be called “Canadian Auditing Standards” (CASs). This web page provides information about the transition to new Canadian Auditing Standards.

[ISAs to be Adopted](#)

[Timeline for Adopting ISAs](#)

[Effective Dates](#)

[AASB's Involvement in Developing Proposed Clarified ISAs](#)

[Modifications to ISAs when adopting them as CASs](#)

[Exposure Drafts](#)

[Changes to the Structure of the Handbook](#)

## ISAs to be Adopted

The AASB is adopting the ISAs that the IAASB issues as part of its Clarity Project. The IAASB's Clarity Project will result in all ISAs being revised using a new drafting convention. As a result of this new convention, ISAs and Canadian Auditing Standards (CASs) will have five distinct parts that will be headed:

- Introduction;
- Objectives;
- Definitions (as applicable);
- Requirements; and
- Application and Other Explanatory Material.

For some ISAs, the IAASB will go beyond the new drafting conventions and make more significant revisions as part of its Clarity project.

A brief description of each part of a CAS and its relevance to the auditor may be accessed by [clicking here](#).

These new drafting conventions differ significantly from conventions currently used in the CICA Handbook – Assurance. A brief comparison may be accessed by [clicking here](#).

### **Timeline for Adopting ISAs**

The planned timing for adopting ISAs as CASs is dependent on the IAASB's progress with its Clarity Project. The AASB will make every effort to issue an exposure draft of a proposed CAS at or near the same time as the corresponding IAASB exposure draft of the clarified ISA, and finalize the CAS as soon as possible after the IAASB issues the final clarified ISA.

The IAASB currently expects that all exposure drafts of proposed clarified ISAs will be issued by the end of summer 2007 and that the final clarified ISAs will be approved by the end of fall 2008. The IAASB's "Current Project Timetable" may be accessed by [clicking here](#).

### **Effective Dates**

The AASB will use the same effective date for its new standards as the IAASB uses for the clarified ISAs. The IAASB believes that the earliest effective date for clarified ISAs will be for periods beginning on or after December 15, 2008.

### **AASB's Involvement in Developing Proposed Clarified ISAs**

The AASB is very much involved in developing proposed clarified ISAs that it proposes to adopt as CASs. A summary of the AASB's involvement may be accessed by [clicking here](#).

### **Modifications to ISAs when adopting them as CASs**

The AASB recognizes that there may be occasions when it would be appropriate to modify proposed ISAs when adopting them as CASs. These occasions should be rare, as the AASB's focus is to be involved in the development of proposed ISAs such that they would be appropriate for the Canadian environment without modification.

The AASB has developed guidelines for identifying occasions when it would consider modifying a proposed ISA when adopting it as a CAS. These guidelines may be accessed by [clicking here](#).

Any modification made to an ISA when adopting it as a CAS would be clearly identified in the CAS.

### **Exposure Drafts**

An Exposure Draft of a proposed CAS consists of:

- a link to the IAASB's exposure draft of the proposed ISA;
- a description of the AASB's process for adopting ISAs and the effective date of new CASs;

- discussion of significant proposed Canadian modifications to the proposed ISA; and
- discussion of significant changes to current Canadian standards.

Readers of the AASB's exposure drafts of proposed CASs are invited to comment on:

- the IAASB's proposals as reflected in the IAASB's exposure draft of the proposed ISA;
- any modifications to the proposed ISA that the AASB proposes to make when adopting the proposed ISA as a CAS; and
- the need for further modifications to the proposed ISA when adopting them as CASs. These further proposed modifications should be within the AASB's guidelines for modifying ISAs when proposing to adopt them as CASs.

Comment periods for the AASB exposure drafts will be set so that comments received can be considered by the AASB in developing its response to the IAASB's exposure drafts. Readers of the AASB's exposure drafts are also encouraged to provide their comments directly to the IAASB.

Exposure drafts of proposed CASs may be accessed by [clicking here](#).

## Changes to the Structure of the Handbook

The new Handbook will have a different structure from the current Handbook. The top five changes to the structure of the Handbook are as follows:

1. The structure of the new CICA Handbook – Assurance will be the same as that of the auditing and assurance segments of the Handbook of International Auditing, Assurance and Ethics Pronouncements (IFAC HB).

An example of the impact of this change is that CASs dealing with the audit of historical financial information, including financial statements, will be separate and distinct from standards dealing with other assurance and related services. A table of the key features of this new structure may be accessed by [clicking here](#). Note that this proposed structure is preliminary and subject to change.

2. For each ISA, there will be a corresponding CAS that has the same number and title.

The number and title of CASs that are the result of adopting ISAs will be the same as the number and title of the equivalent ISAs. For example, Section 5370, *Management Representations*, will be replaced by Canadian Auditing Standard 580, *Written Representations* (CAS 580), when clarified and revised ISA 580 is adopted as a CAS.

A table showing the planned numbers and titles for each CAS in the new Handbook, and the number and title of the corresponding current Handbook Section may be accessed by [clicking here](#). The table is preliminary and subject to change.

3. In the new Handbook, CASs for which there are no equivalent ISAs will be identified by a “-C” following the number of the CAS.

In the table accessible in point 2. above, it has been assumed that each Section or Guideline for which there is no corresponding guidance in the IFAC HB will

be carried forward. However, the AASB will determine whether such Sections or Guidelines should be carried forward on a case-by-case basis.

4. The scope of certain Canadian “assurance” standards will change to deal separately with financial statement audits and audits of other subject matter.

Two Handbook Sections currently cover all assurance engagements:

- Section 5030, *Quality Control Procedures for Assurance Engagements*; and
- Section 5049, *Use of Specialists in Assurance Engagements*.

Also, Section 5050, *Using the Work of Internal Audit*, covers all types of audit engagements (not just audits of historical financial information).

The new Handbook will include CAS 220, CAS 620 and CAS 610, which will correspond with ISA 220, *Quality Control For Audits of Historical Financial Information*; ISA 620, *Using the Work of an Expert*, and ISA 610, *Considering the Work of Internal Auditing*, respectively. These ISAs apply only to audits of historical financial information. To the extent considered appropriate by the AASB, matters regarding other assurance services currently addressed in Sections 5030, 5049 and 5050 will be addressed in separate CASs.

5. “Guidelines” in the current Handbook will be called “Practice Statements” in the new Handbook to adopt IFAC HB terminology.

There are only a few International Auditing Practice Statements (IAPSS) in the IFAC HB. At some future point, the IAASB will consider whether to continue issuing IAPSS. The AASB will decide which Guidelines should be carried forward (updated as needed) as Canadian Auditing Practice Statements (CAPSS) in the new Handbook.

There will be separate series of Practice Statements, as follows:

- Canadian Auditing Practice Statements (CAPSS)
- Canadian Review Engagement Practice Statements (CREPSS)
- Canadian Assurance Engagement Practice Statements (CAEPSS)
- Canadian Related Services Practice Statements (CRSPSS)
- Canadian Practice Statements on Securities Regulations (CPSSRs)

Also, some ISAs cover matters addressed in Guidelines in the current Handbook. Such matters will be addressed in the CASs in the new Handbook, when appropriate. For example, matters addressed in Assurance and Related Services Guideline AuG-25, *Auditor's Report on Summarized Financial Statements*, will be addressed in CAS 800 in the new Handbook.

### Further Information

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# Description and relevance of each part of a CAS

The following is a brief description of each part of a Canadian Auditing Standard (CAS) and its relevance to the auditor. The five parts of a CAS are:

- Introduction
- Objectives
- Definitions
- Requirements
- Application and Other Explanatory Material

## Introduction

The Introduction may include, as needed, such matters as explanation of:

- the purpose and scope of the CAS, including how the CAS relates to other CASs;
- the subject matter of the CAS;
- specific expectations of the auditor and others;
- the context in which the CAS is set; and
- the effective date of the CAS.

## Objectives

The Objectives provide the context in which the requirements are set. The auditor aims to achieve the Objectives, having regard to the interrelationship among CASs. The auditor uses the Objectives in the CAS to judge whether, having complied with the Requirements, sufficient appropriate audit evidence has been obtained to:

- provide the auditor with reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- report on the financial statements in accordance with the auditor's findings.

Where an individual Objective in a CAS has not been or cannot be achieved, the auditor considers whether this prevents the auditor from obtaining reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and from reporting on the financial statements in accordance with the auditor's findings.



## Definitions

A CAS may include the meanings attributed to certain terms for purposes of the CASs. These are provided to assist in the consistent application and interpretation of the CASs, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. Unless otherwise indicated, these defined terms will carry the same meanings in all CASs.

The new Handbook will also include a Glossary of Terms that contains a complete listing of terms defined in the CASs and their meanings, along with the meanings of other terms used in CASs that may not be defined in any CAS.

## Requirements

Requirements are expressed using the words “the auditor shall.” Requirements are to be applied in the context of the other material included in the CAS.

The auditor complies with the Requirements of a CAS when they are relevant in the circumstances of the audit. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant Requirement by performing alternative audit procedures to achieve the aim of that Requirement. The need for the auditor to depart from a relevant Requirement is expected to arise only where the Requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective.

A Requirement is not relevant only when the CAS is not relevant, or the circumstances envisioned do not apply because the Requirement is conditional and the condition does not exist.

Where Application and Other Explanatory Material is provided to assist with the interpretation and application of a Requirement; the Requirement will be clearly cross-referenced to the relevant Application Material.

## Application and Other Explanatory Material

Application and Other Explanatory Material is an integral part of CASs as it provides further explanation of, and guidance for carrying out, the Requirements of a CAS, along with background information on the matters addressed in the CAS. It may include examples of procedures, some of which the auditor may judge to be appropriate in the circumstances. However, such guidance is not intended to impose a requirement on the auditor. Appendices, which form part of the Application and Other Explanatory Material, are an integral part of a CAS. The purpose and intended use of an Appendix are explained in the body of the related CAS or within the title and introduction of the Appendix itself.

Application and Other Explanatory Material will be clearly cross-referenced to the Requirements to which they relate.

## Application of “Clarity” drafting conventions

The AASB in using the IAASB’s “Clarity” drafting conventions in drafting CASs. These conventions differ from previous Canadian conventions as follows:

Previous Canadian drafting convention	New Canadian drafting convention
<ul style="list-style-type: none"><li>• Handbook Sections did not include the objective to be achieved by the auditor in applying the Recommendations.</li><li>• Professional standards were included in italicized paragraphs throughout the Section. These italicized paragraphs were referred to as “Recommendations”.</li><li>• Recommendations used the phrase “the auditor should” to communicate professional standards.</li><li>• Guidance on the application of Recommendations was included in non-italicized paragraphs immediately after the relevant Recommendation paragraph.</li><li>• The present tense was used when discussing the auditor’s actions or audit procedures in guidance on the application of Recommendations.</li></ul>	<ul style="list-style-type: none"><li>• Handbook Sections will state, under the heading “Objective”, the objective to be achieved by the auditor in applying the Section.</li><li>• Professional standards will appear under the heading “Requirements”. These paragraphs will not be italicized.</li><li>• Requirements will use the phrase “the auditor shall” to communicate professional standards.</li><li>• Guidance on the application of Requirements will be included under the heading “Application and Other Explanatory Material”. Cross-references between paragraphs in Requirements and the relevant paragraphs in Application and Other Explanatory Material will be provided.</li><li>• The use of the present tense will be avoided when discussing the auditor’s actions or audit procedures in Application and Other Explanatory Material.</li></ul>



## AASB's involvement in developing proposed clarified ISAs

The redrafting and, where applicable, revision of existing ISAs as part of the IAASB's Clarity Project are subject to the IAASB's normal due process. This due process involves the use of task forces, public availability of all material discussed by the IAASB and recordings of the IAASB's discussions. This material and the relevant recordings are available on the IAASB's website. Information about accessing IAASB material and recordings is available on the relevant **AASB project summary**.

The AASB has a four-stage process for participating in the development of proposed clarified ISAs. The following is a summary of this process:

1. The AASB staff analyze material to be discussed at the IAASB's upcoming meeting. Staff's analysis is provided to:
  - the AASB;
  - Canada's representative on the IAASB; and
  - the Director, Auditing & Assurance Standards, in his capacity as Technical Advisor to Canada's representative on the IAASB.
2. The AASB meets to deliberate on staff's analysis of the IAASB material. The AASB staff and Director attend this meeting and Canada's representative on the IAASB is invited to attend. Briefing notes are subsequently prepared by staff and provided to Canada's representative on the IAASB and the Director.
3. Canada's representative on the IAASB uses the briefing notes when discussing material at IAASB meetings. However, matters raised by this representative are at his or her discretion.
4. The Director subsequently reports back to the AASB on developments and discussions at the IAASB's meeting. The AASB staff listen to recordings of the IAASB's discussions and analyze subsequent IAASB material to monitor whether comments provided in briefing notes are reflected.

The AASB staff may also liaise directly with the IAASB staff on an "as needed" basis.

In addition to the above process that occurs on all IAASB projects,

- Canada's representative on the IAASB sits on specific IAASB task forces;
- the Director, Auditing & Assurance Standards, sits on specific IAASB task forces; and
- the AASB staff provide support to specific IAASB task forces.

## Modifications to ISAs when adopting them into the new CICA Handbook – Assurance

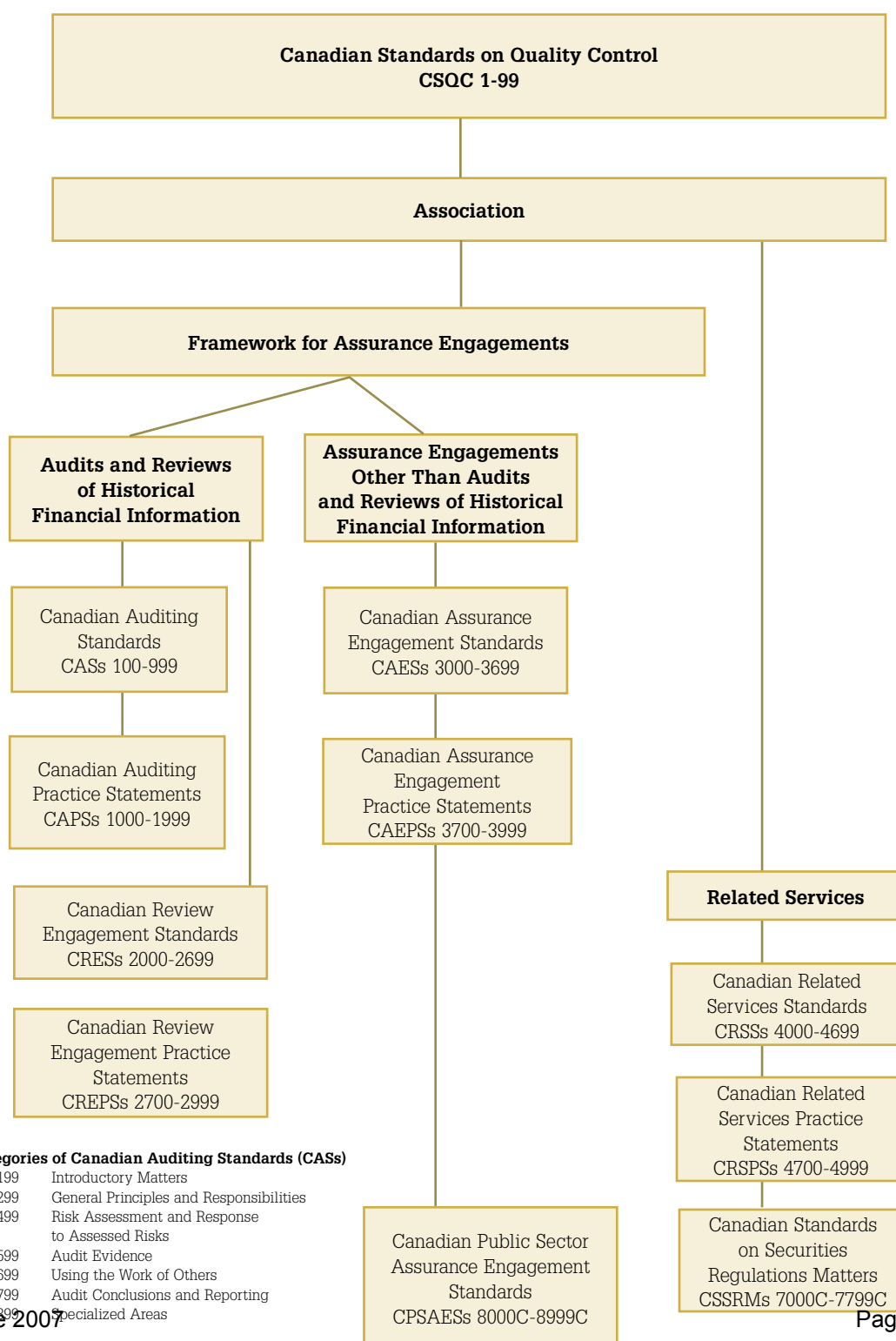
With respect to the adoption of International Standards on Auditing (ISAs), the AASB's overriding goal is to adopt ISAs into the new CICA Handbook – Assurance as generally accepted auditing standards for audits of financial statements without modification. However, there may be circumstances where modifications are required. The following sets out the limited circumstances when the AASB will make modifications to ISAs:

1. The AASB will limit additions to an ISA to those required to comply with Canadian legal and regulatory requirements.<sup>1</sup>
2. The AASB will limit deletions from, or other amendments to, an ISA to the following:
  - (a) The elimination of options (alternatives) provided for in the ISA.
  - (b) Requirements or guidance, the application of which Canadian law or regulation<sup>1</sup> does not permit, or which require amendment to be consistent with law or regulation.
  - (c) Requirements or guidance, where the ISA recognizes that different practices may apply in different jurisdictions and Canada is such a jurisdiction.
3. The AASB may make modifications to an ISA with respect to requirements or guidance that do not fall within 1 or 2 above when it believes that there are circumstances particular to the Canadian environment where such modifications are required to serve the Canadian public interest and maintain the quality of auditing and reporting in Canada.
4. To the extent possible, modifications that are:
  - (a) additions to an ISA will not be inconsistent with the current requirements or guidance in the ISA; and
  - (b) deletions from, or other amendments to, an ISA will be replaced by an appropriate alternative that achieves the objective of the deleted requirement.

Proposed modifications to an ISA will be highlighted in exposure drafts of proposed Canadian standards. The AASB will indicate the reasoning for the modifications and respondents will be invited to comment on them, including when the modification will not result in convergence with the ISA in accordance with the IAASB's guide for national standard setters. Modifications to ISAs will be clearly identified in the final Handbook material.

<sup>1</sup> Most Canadian incorporating and other governing legislation require entities to prepare financial statements in accordance with Canadian GAAP. Accordingly, if there are significant differences between Canadian GAAP and IFRSs that necessitate a different audit response in Canada, these differences fall within the definition of a legal or regulatory requirement.

# Preliminary structure of the new CICA Handbook – Assurance





NEW CICA HANDBOOK – ASSURANCE CANADIAN AUDITING STANDARDS / PRACTICE STATEMENTS		CURRENT CICA HANDBOOK – ASSURANCE SECTIONS/GUIDELINES	
New Standard No.	Title of Standard	Current Section/ Guideline No.	Title of Section/Guideline
200-299 GENERAL PRINCIPLES AND RESPONSIBILITIES			
CAS 200	Objective and General Principles Governing an Audit of  Financial Statements	5090	Audit of Financial Statements
		5095	Reasonable Assurance and Audit Risk
		5100	Generally Accepted Auditing Standards
CAS 210	Terms of Audit Engagements	5110	Terms of the Engagement
CAS 220	Quality Control for Audits of Historical Financial Information	5030	Quality Control Procedures for Assurance Engagements
CAS 230	Audit Documentation	5145	Documentation
CAS 240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	5135	The Auditor's Responsibility to Consider Fraud
CAS 250	Consideration of Laws and Regulations in an Audit of Financial Statements	5136	Misstatements — Illegal Acts
CAS 260	Communication with Those Charged with Governance	5751	Communications with Those Having Oversight of the Financial Reporting Process
CAS 261-C	Communications with Management of Matters Identified During the Financial Statement Audit	5750	Communications with Management of Matters Identified During the Financial Statement Audit
300-499 RISK ASSESSMENT AND RESPONSE TO ASSESSED RISKS			
CAS 300	Planning an Audit of Financial Statements	5150	<i>Planning</i>
CAS 315	Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment	5141	Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement
CAS 320	Materiality in Planning and Performing an Audit	5142	Materiality
CAS 330	The Auditor's Responses to Assessed Risks	AuG-41	Applying the Concept of Materiality
CAS 40X	Material Weaknesses in Internal Control	5143	The Auditor's Procedures in Response to Assessed Risks
CAS 402	Audit Considerations Relating to Entities Using Service Organizations	5220	Weaknesses in Internal Control
CAS 450	Evaluation of Misstatements Identified During the Audit	5310	Audit Evidence Considerations when an Entity Uses a Service Organization
		5142	Materiality
500-599 AUDIT EVIDENCE			
CAS 500	Audit Evidence	5300	Audit Evidence



NEW CICA HANDBOOK – ASSURANCE CANADIAN AUDITING STANDARDS / PRACTICE STATEMENTS		CURRENT CICA HANDBOOK – ASSURANCE SECTIONS/GUIDELINES	
New Standard No.	Title of Standard	Current Section/ Guideline No.	Title of Section/Guideline
CAS 501	Audit Evidence—Additional Considerations for Specific Items	6030	Inventories
		6560	Communications with Law Firms Regarding Claims and Possible Claims
		AuG-26	Applying Audit Procedures to Segment Disclosures in Financial Statements
CAS 505	External Confirmations	5303	Confirmation
		6560	Communications with Law Firms
CAS 510	Initial Engagements — Opening Balances	5301	Analysis
CAS 520	Analytical Procedures		
CAS 530	Audit Sampling and Other Means of Testing	6010	Audit of Related Party Transactions
CAS 550	Related Parties	6550	Subsequent Events
CAS 560	Subsequent Events	5405	Date of the Auditor's Report (Canadian ED issued. AASB monitoring IAASB's project to clarify ISA 570.)
CAS 570	Going Concern	5370	Management Representations
CAS 580	Written Representations		
600-699 USING WORK OF OTHERS		6930	Reliance on Another Auditor
CAS 600	Audit of Group Financial Statements	5050	Using the Work of Internal Audit
CAS 610	Considering the Work of Internal Auditing	5049	Use of Specialists in Assurance Engagement
CAS 620	Using the Work of an Expert		
700-799 AUDIT CONCLUSIONS AND REPORTING		5400	The Auditor's Standard Report
CAS 700	The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements	PS 5200	Audit of Local Government Financial Statements
CAS 701	The Independent Auditor's Report on Other Historical Financial Information	5600	Auditor's Report on Financial Statements Prepared Using a Basis of Accounting Other than Generally Accepted Accounting Principles
		5800	Special Reports
		5805	Audit Reports on Financial Information Other than Financial Statements
		5815	Audit Reports on Compliance with Agreements, Statutes and Regulations

NEW CICA HANDBOOK – ASSURANCE CANADIAN AUDITING STANDARDS / PRACTICE STATEMENTS		CURRENT CICA HANDBOOK – ASSURANCE SECTIONS/GUIDELINES	
New Standard No.	Title of Standard	Current Section/ Guideline No.	Title of Section/Guideline
CAS 705	Modifications to the Opinion in the Independent Auditor's Report	5510	Reservations in the Auditor's Report
CAS 706	Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor's Report	5701	Other Reporting Matters
CAS 710	Comparatives	5701	Other Reporting Matters
CAS 720	Other Information in Documents Containing Audited Financial Statements	AuG-8	Auditor's Report on Comparative Financial Statements
800-899 SPECIALIZED AREAS		7500	Annual Reports, Interim Reports and Other Public Documents
CAS 800	The Independent Auditor's Report on Summary Audited Financial Statements		
CAS 880-C	Communications with Actuaries	AuG-25	Auditor's Report on Summarized Financial Statements
CAPSs 1000-1999 CANADIAN AUDITING PRACTICE STATEMENTS		5365	Communications with Actuaries
CAPS 1000	Inter-Bank Confirmation Procedures		
CAPS 1004	The Relationship Between Banking Supervisors and Banks' External Auditors		
CAPS 1005	The Special Considerations in the Audit of Small Entities		
CAPS 1006	Audits of the Financial Statements of Banks		
CAPS 1010	The Consideration of Environmental Matters in the Audit of Financial Statements	AuG-19	Audit of Financial Statements Affected by Environmental Matters
CAPS 1012	Auditing Derivative Financial Instruments	AuG-39	Auditing Derivative Financial Instruments
CAPS 1128-C	Using a Legal Opinion as Audit Evidence Concerning a Transfer Of Financial Assets	AuG-28	Using a Legal Opinion as Audit Evidence Concerning a Transfer of Receivables
CAPS 1129-C	Audit of Employee Future Benefits — Defined Benefit Plans	AuG-29	Audit of Employee Future Benefits — Defined Benefit Plans
CAPS 1140-C	Auditor's Report on the Financial Statements of Federally Regulated Financial Institutions	AuG-40	Auditor's Report on the Financial Statements of Federally Regulated Financial Institutions
CAPS 1142-C	Service Organizations That Use Other Service Organizations	AuG-42	Service Organizations That Use Other Service Organizations
CAPS 1143-C	Audit of Policy Liabilities of Insurance Companies	AuG-43	Audit of Policy Liabilities of Insurance Companies
CAPS 1145-C	Legislative Auditor's Report on Financial Statements of a Federal, Provincial Or Territorial Government	AuG-45	Legislative Auditor's Report on Financial Statements of a Federal, Provincial or Territorial Government



**ACCOUNTING STANDARDS BOARD**

**Preface to the Standards of Generally Recognised  
Accounting Practice**





**Accounting Standards Board**

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## **Preface to the Standards of Generally Recognised Accounting Practice**

### **Contents**

	<b>Paragraphs</b>
<b>Functions of the Board</b>	1
<b>Application of Standards of GRAP</b>	2 - 5
<b>Scope of Standards of GRAP</b>	6 - 8
<b>Publications issued by the Board</b>	9 - 14
<b>Setting of Standards of GRAP</b>	15 - 20
<b>Due process</b>	21 - 30
<b>Timing of application of Standards of GRAP</b>	31 - 33



## **Preface to the Standards of Generally Recognised Accounting Practice**

*This preface is issued to set out the objectives and operating procedures of the Accounting Standards Board (the Board) and explains the scope and authority of the Standards of Generally Recognised Accounting Practice (Standards of GRAP).*

### **Functions of the Board**

1. The functions of the Board are, in accordance with section 89 of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA), as amended, to:
  - a) i) set Standards of GRAP for the annual financial statements of institutions listed in paragraph 2;
  - ii) prepare and publish directives, guidelines and interpretations concerning the Standards of GRAP set in terms of paragraph (a)(i) above;
  - iii) recommend to the Minister of Finance (the Minister) effective dates of implementation of these Standards of GRAP for the different categories of institutions to which these Standards of GRAP apply;
  - iv) perform any other function incidental to advancing financial reporting in the public sector;
- b) take into account all relevant factors in setting Standards of GRAP;
- c) set different Standards of GRAP where necessary for different categories of institutions to which these Standards of GRAP apply; and
- d) promote accountability, transparency, and effective management of revenue, expenditure, assets and liabilities of the institutions to which these Standards of GRAP apply, in setting Standards of GRAP.



## **Application of Standards of GRAP**

2. The Board must determine GRAP for the following institutions in accordance with section 89(1)(a) of the PFMA:

- departments;
- public entities;
- constitutional institutions;
- municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality;
- parliament and the provincial legislatures.

The term “departments” is defined as both national and provincial departments.

3. The above are collectively referred to as “entities” in this document, as well as in the Standards of GRAP.

4. The Board has decided that Statements of Generally Accepted Accounting Practice (GAAP), codified by the Accounting Practices Board (APB) and issued by the South African Institute of Chartered Accountants (SAICA), should be applied by the following entities:

- government business enterprises (GBEs)(as defined in the PFMA);
- trading entities (as defined in the PFMA);
- any other entities, other than a municipality, whose ordinary shares, or debt are publicly traded, or are potentially publicly tradable on the capital markets; and
- entities under the ownership control of any of the above entities.



The Board believes GAAP has more relevance and applicability to such entities as their activities are comparable to entities with a profit objective.

5. All other entities and the entities under their ownership control should apply GRAP.

### **Scope of Standards of GRAP**

6. A Standard of GRAP should be read in the context of the objective stated in the standard and this preface. Any exclusion from the scope of that Standard of GRAP is set out in the Standard of GRAP itself.
7. In some cases, a Standard of GRAP permits alternative treatments for any given transactions, other events and conditions. When alternatives are allowed, additional disclosure requirements will be introduced to ensure comparability. The financial statements of an entity may appropriately be described as being prepared in accordance with Standards of GRAP if they use one of the alternatives with appropriate disclosures.
8. All paragraphs in Standards of GRAP have equal authority. The authority of appendices is dealt with in the preamble to each appendix.

### **Publications issued by the Board**

9. Standards of GRAP set out the recognition, measurement, presentation and disclosure requirements for financial reporting in the public sector in South Africa.
10. Directives may be used to set transitional provisions and transitional arrangements for the entities listed in paragraph 2.
11. Guidelines are used to explain and expand upon the Standards of GRAP issued by the Board and to provide practical assistance to entities making the transition from one basis of accounting to another, particularly if intermediate



steps are involved. Guidelines do not establish any new principles and do not have the authority of a Standard of GRAP.

12. The Board will issue interpretations similar to those issued by the International Financial Reporting Interpretations Committee of the International Accounting Standards Board (IASB), should the need arise in future. Any Standard of GRAP should be read in conjunction with the applicable interpretations. Compliance with GRAP requires compliance with every Standard of GRAP and every interpretation issued by the Board.
13. A *Basis for Conclusions* will be published to explain significant departures that are made from the international equivalent of the standard. These deviations will usually be made to meet specifically South African situations. Any Standard of GRAP should be read in conjunction with the *Basis for Conclusions* (where applicable). Where a departure from an International Accounting Standard (IAS) or International Financial Reporting Standard (IFRS) has been made by the International Public Sector Accounting Standards Board (IPSASB) and the Board concludes that the IASB text should be used, an explanation will also be made in the *Basis for Conclusions*.
14. Reference may be made in a Standard of GRAP to another Standard of GRAP that has not been issued. This is done to avoid having to change the standards already issued when a later standard is subsequently issued. The ASB is in the position to anticipate the issuance of a standard when it is included in its published work programme. Paragraph .12 of the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for the selecting and applying accounting policies in the absence of explicit guidance.



## Setting of Standards of GRAP

15. In developing Standards of GRAP the Board considers and makes use of pronouncements issued by:

- the IPSASB;
- the IASB;
- the APB;
- the SAICA Accounting Practices Committee (APC); and
- other national and international accountancy organisations that develop financial reporting, accounting and auditing standards in the public sector.

16. In developing Standards of GRAP for the public sector, the Board is required to take into account all relevant factors, including:

- (a) best accounting practices, both locally and internationally; and
- (b) the capacity of relevant entities to comply with Standards of GRAP.

17. Standards of GRAP are developed either:

- (a) by adapting International Public Sector Accounting Standards (IPSASs) issued by the IPSASB. The Board attempts, wherever possible, to maintain the accounting treatment and original text of the IPSASs unless there is a significant South African public sector issue that warrants a departure; or
- (b) by developing a Standard of GRAP to deal with a specific public sector issue that is either not comprehensively dealt with in an existing IPSAS or for which an IPSAS has not been developed by the IPSASB.

18. The following are the processes involved in developing a Standard of GRAP, but these may not be applied always:



(a) Revisions of IASs and IFRSs

Any revision to an IAS or IFRS on which an IPSAS is based, after publication of the IPSAS, or any interpretation of an IAS or IFRS issued by the IASB, will be taken into account when drafting an exposure draft. Any draft interpretations or exposure drafts of proposed amendments will not be considered when drafting the exposure draft.

(b) Fundamental issues

Where an accounting principle or a significant element of a disclosure requirement contained in an international/national standard is considered to be in conflict with the current and developing body of international/national accounting knowledge, this would be regarded as a fundamental issue and the accounting principle or disclosure requirement may be changed. It is expected that such changes will not be in conflict with the framework.

(c) Alternative treatments provided in international/national standards

Alternative treatments will be retained, provided that they satisfy the overriding requirement of fair presentation, and are not seen to be disqualified in terms of the preceding guideline. However, where there is an allowed alternative treatment in the international/national standard in order to accommodate regulatory or other restrictions in other countries and, which is clearly not applicable in South Africa, such allowed alternative will be excluded from the South African standard. On the other hand, where the international/national standard does not provide an alternative, but there is an alternative that should be allowed in South Africa, due to its fundamental importance, the alternative will be included.





(d) Statutory authority

Where the South African regulatory or legislative environment requires an amendment to the international standard, the international standard may be amended accordingly.

(e) Disclosure requirements

Disclosure requirements may be amended where the amendments are regarded as being significant for improving fair presentation of the matter.

19. On topics for which there are no international/national equivalents, the secretariat is required to research and draft a discussion document, exposure draft and the final Standard of GRAP for consideration by the Board based on principles that conform to the concepts set out in the framework.

20. The Board has developed a work programme for the development of a core set of Standards of GRAP, which incorporates:

- (a) the development of Standards of GRAP based on IPSASs published to date that are relevant to the National Treasury's implementation plan and priorities; and
- (b) the development of a framework for the preparation and presentation of financial statements (framework) based on the IASB's framework, but incorporating those issues specific to the public sector that were already identified during the development of IPSASs. This will help the standard-setting process by providing guidance on the setting of Standards of GRAP and assisting with the identification of priorities. The framework provides guidance in the absence of a specific standard.

**Due process**

21. The Board consults with key stakeholders about its work programme and discusses technical matters in meetings that are open to public observation.



22. Standards of GRAP and other publications are developed through a due process that involves accountants, auditors, investors, legislators, preparers, regulators, and users of financial statements in the public sector. Representatives of stakeholders participate in project groups that develop Standards of GRAP.
23. In developing Standards of GRAP, research is carried out to identify and review issues associated with the topic and to consider the application of the framework to the issues. Other national accounting requirements, practices and standards issued by other national or international standard-setting bodies are also studied.
24. Where sufficient national or international material is available on which to base a Standard of GRAP, such as an existing IPSAS or an IAS or IFRS, a project group comprising representatives of stakeholders is formed to give advice on the development of an exposure draft and advise the Board on specifically South African matters that should be considered. To maintain the link with the IPSAS, the Standard of GRAP is allocated the same number as the IPSAS. For example, IPSAS 1 and GRAP 1 both deal with *Presentation of Financial Statements*.
25. Where there is insufficient material, the project group will assist in the development of a discussion document to provide the basis for the development of a local Standard of GRAP. The Board approves the discussion document for publication. The discussion document is published on the Board's web site and notice of its publication is given in the Government Gazette. This enables an exposure draft to be developed by the project group based on the comments received on the discussion document.
26. Where a Standard of GRAP is developed and there is no IPSAS equivalent, the Standard will be assigned a number in a series of Standards of GRAP



starting with 100. When IPSASB subsequently issues the equivalent Standard as an IPSAS, the 100-series Standard of GRAP will be withdrawn and reissued as a Standard of GRAP with the IPSAS number. Standards of GRAP have equal authority regardless of the numbering used.

27. The Board issues exposure drafts of all proposed Standards of GRAP for comment by interested parties including auditors, preparers (including treasuries), standard setters, and individuals. The exposure drafts are published on the Board's web site and notice of the publication is given in the Government Gazette. The Board sets a reasonable time (normally three months) to allow interested parties to consider and comment on its proposals. This provides an opportunity for those affected by the Board's pronouncements to present their views before the pronouncements are finalised and approved by the Board. The Board considers all comments received on exposure drafts and makes such modifications, as it considers appropriate. The basis for accepting or rejecting significant comments is published on the web site.
28. If considered appropriate, discussion forums are held in order to obtain further opinions on issues identified by the exposure process.
29. The draft of a Standard of GRAP, developed from the exposure process, is submitted to the Board for approval. On occasion, where there are significant changes or unresolved issues associated with an exposure draft, the Board may decide to re-expose a proposed Standard of GRAP.
30. For the purposes of approving a discussion document, an exposure draft or a Standard of GRAP, each Board member represented on the Board has one vote. A quorum of six members is required. A Standard of GRAP requires approval by at least three quarters of the total voting rights present at a meeting before the pronouncement is published and released. Discussion



documents and exposure drafts are approved by at least a majority of the total voting rights present at a meeting.

### **Timing of application of Standards of GRAP**

31. A Standard of GRAP applies from the date determined in a regulation issued by the Minister, after consultation with the Board.
32. The Board relies on the National Treasury and the Office of the Auditor-General to advise the Board on the capacity of the relevant entities to comply with the Standards. This assists the Board in its consultation with the Minister on the proposed implementation date. It does not, however, pre-empt the Minister's prerogative to determine the implementation date.
33. The Minister may exempt an entity from compliance with one or all Standards of GRAP or a specific requirement thereof. The National Treasury will administer the process of applying for exemptions.

# GOVERNMENTAL ACCOUNTING STANDARDS BOARD'S

## STRATEGIC PLAN 2005-2009

### VISION

Greater accountability and well-informed decision making through excellence in public-sector financial reporting.

### MISSION

To establish and improve standards of state and local governmental accounting and financial reporting that will:

- result in useful information for users of financial reports, and
- guide and educate the public, including issuers, auditors, and users of those financial reports.

### CORE VALUES

**INDEPENDENCE:** The autonomy to pursue the best answer for all constituents, free from undue influence or pressure.

**INTEGRITY:** Honest, ethical, and forthright behavior in our relationships with all constituents.

**OBJECTIVITY:** Impartial decisions informed by credible research and thorough deliberations, including due consideration of the views of constituents and other standards setters.

**TRANSPARENCY:** An open process that encourages and values public participation.

### GOALS

#### Goal I. Standards Setting

*Establish high-quality standards that improve public accountability and result in useful information for making decisions.*

High-quality standards address accountability issues in a timely and cost-effective manner and provide information that financial report users and the public need to make decisions. Citizens

need information to hold their governments—including states, tribal governments, counties, localities, school districts, and entities such as public hospitals, public colleges and universities, and public utilities—accountable for the stewardship and use of public resources. Legislatures need information to budget resources to meet the demand for public services. Oversight agencies need information to assess legal compliance and the effective use of resources. Investors and creditors need information to assess a governmental entity's creditworthiness.

**A. Objective:** Improve the usefulness of financial reports to better meet the needs of current and potential users.

**Outcome:**

- Users' satisfaction with the usefulness of governmental financial reports and GASB standards.

**Outcome Measure:**

- Percentage of users that are satisfied or very satisfied with the usefulness of governmental financial reports and GASB standards.

**Strategies:**

1. Conduct research and develop timely guidance on important areas of accounting and financial reporting that are identified as needing improvement.
2. Obtain regular input from the Governmental Accounting Standards Advisory Council (GASAC) and constituents regarding emerging issues and developments in the field, including electronic financial reporting.
3. Conduct a study of what users do, the decisions and assessments they make, and the information they require.
4. Further develop a conceptual framework to guide and inform the setting of standards.
5. Consider Financial Accounting Standards Board and Federal Accounting Standards Advisory Board standards when developing GASB standards for similar issues and provide feedback on their projects when requested.
6. Evaluate the effectiveness and impact of prior standards.

**B. Objective:** Increase the adoption and continued use of GASB pronouncements by governmental entities, including smaller and special-purpose entities.

**Outcomes:**

- Increase in the percentage of governmental entities that adopt and use GASB financial reporting standards
- Preparers' and attestors' satisfaction with the quality of GASB standards.

**Outcome Measures:**

- Percentage change over time in the number of governments that (1) adopt generally accepted accounting principles (GAAP) for the first time or (2) discontinue using GAAP
- Percentage of governments that follow GAAP
- Percentage of preparers and attestors that are satisfied or very satisfied with the quality of GASB standards.

*Strategies:*

1. Review previous research and conduct additional research on the number of governments that issue financial statements based on GAAP and with the assistance of constituent organizations, determine the reasons for compliance or noncompliance with GAAP.
2. Specifically address issues, particularly in the early stages of a project, that may make adoption or continued use of GASB pronouncements difficult for smaller governments or special-purpose entities.
3. Work with constituent organizations to promote the benefits of GAAP compliance and reliance on GAAP reporting, and to highlight the limitations of non-GAAP financial reporting.

**C. Objective:** Participate actively in international public-sector accounting standards setting.

**Outcome:**

- Influence the development of international standards and harmonize with those standards, where appropriate.

*Strategies:*

1. Review international standards and standards of other countries when developing GASB standards for similar issues.
2. Provide input before due process documents are issued on ongoing projects of the International Public Sector Accounting Standards Board of the International Federation of Accountants (IFAC-IPSASB) that could impact GASB standards and projects.
3. Prepare official GASB responses to IFAC-IPSASB due process documents that address issues relevant to GASB standards and projects.

## **Goal II. Constituent Relations and Communications**

*Foster constructive relationships with constituents to ensure that the GASB considers their needs and views.*

Constructive relationships between the GASB and its constituents, supported by clear and regular two-way communication, are essential to setting high-quality standards. Constituents of the GASB include financial report users, preparers, and auditors. The GASB requires input to understand the needs of its constituents and to consider their views. Constituents need to be informed about the GASB's activities and the reasons for its decisions. Effective communication is key to transparent standards setting.

**A. Objective:** Keep the GASB's constituents informed about its standards-setting and educational activities.

**Outcomes:**

- Increase in the percentage of constituents that believe the GASB's communication efforts help to keep them informed about standards-setting and educational activities
- Leaders of constituent organizations that are represented on the GASAC believe that the GASB's liaison activities provide information to keep members of their organizations informed.

**Outcome Measures:**

- Percentage of constituents that are satisfied or very satisfied with information on the GASB's standards-setting and educational activities
- Percentage of leaders of constituent organizations that are represented on the GASAC who believe that the GASB's liaison activities are effective or very effective at keeping members of their organizations informed.

*Strategies:*

1. Make the GASB's website a source of more detailed information about technical projects and publicize its availability.
2. Encourage and support GASAC members in publishing articles explaining GASB activities in the publications of their organizations.
3. Regularly write plain-language articles for publication in constituent periodicals and on their websites that explain the basis for technical projects, their primary accounting objectives, and how they are expected to improve financial reporting.
4. Tailor communications to specific constituent audiences and conduct liaison activities with specific constituent groups, focusing on issues expected to be of interest to them.

**B. Objective:** Maximize the number and variety of types of constituents who respond to the GASB's due process documents.

**Outcome:**

- Increase in the number of responses and in the variety of types of constituents that respond to the GASB's due process documents.

**Outcome Measure:**

- Average number of responses received by variety of types of constituents.

*Strategies:*

1. Make due process documents available immediately on the GASB's website.
2. Develop plain-language due process documents for selected major projects.
3. Develop easy-to-use response mechanisms to assist constituents in responding to due process documents.
4. Encourage GASAC members to work with their organizations to respond to GASB proposals.



**C. Objective:** Demonstrate to our constituents the importance of their participation in our standards-setting activities.

**Outcome:**

- Increased constituent confidence that due process is fair and open.

**Outcome Measure:**

- Percentage of constituents that believe or strongly believe that due process is fair and open.

*Strategies:*

1. Send a letter of acknowledgment and thanks to all respondents to due process.
2. Ensure that the Basis for Conclusions accompanying final documents adequately addresses major and common concerns raised by due process respondents.
3. Provide examples of how proposed standards were modified as a result of due process feedback.

**D. Objective:** Provide opportunities and mechanisms, in addition to responding to due process documents, for constituents to express their views to the GASB.

**Outcome:**

- Broader preparer, attestor, and user participation in the process of developing standards, including the involvement of constituents that previously have not participated or otherwise would not have participated.

*Strategies:*

1. Hold forums or roundtable discussions with constituents before major due process documents are issued to obtain input and increase constituent understanding of issues.
2. Expand and diversify the pool of people called on to serve on task forces and advisory committees.
3. Communicate with constituents as new projects are added to the technical plan to indicate the objective of the projects and to solicit feedback early in their development.

### **Goal III. Education**

*Promote the development of informed and competent financial report users, preparers, and auditors.*

Constituents need assistance in understanding GASB pronouncements, as well as in understanding and using the resulting information in financial reports.

**A. Objective:** Increase the number of people who use the information in financial reports and help them to access and use it more effectively by improving the common understanding of the nature and purpose of the information.

**Outcomes:**

- Greater number of people who use financial reports
- Wider variety of people who use financial reports
- People better understand financial report information.

*Strategies:*

1. Update the User Guide series as new pronouncements or other changes warrant and develop additional User Guides on specific topics; publicize their availability through handouts at conferences and advertising in user publications.
2. Provide and publicize the availability of plain-language articles and other materials to help constituents better understand government financial reports.
3. Work with the academic community to raise awareness of GASB resources for educational purposes and to develop improved curricula.
4. Prepare a standard, nontechnical opinion piece titled “How to Understand the Economic Condition of Our [City/State/County/District]” and provide it to reporters, editors, and citizen advocacy organizations.

**B. Objective:** Explain the distinguishing characteristics of the public sector and the importance of standards that address accounting issues from a governmental perspective.

**Outcome:**

- Increased knowledge level about the distinguishing characteristics of the public sector and the importance of standards that address accounting issues from a governmental perspective.

*Strategies:*

1. Prepare and publish a white paper explaining the distinguishing characteristics of the public sector, the importance of standards that address accounting issues from a governmental perspective, and the need for a higher level of public accountability.
2. Prepare articles for major accounting publications and constituent publications to communicate the points made in the white paper.

**C. Objective:** Guide and educate constituents about the content and value of the GASB’s reporting requirements and proposed standards.

**Outcomes:**

- A constituency that is better educated and appropriately guided
- Satisfaction of constituents that submit technical inquiries that they received timely, understandable, and relevant responses to their questions.

### Outcome Measures:

- Percentage of constituents surveyed that believe GASB's educational efforts have been effective or very effective in improving their understanding of GASB's reporting requirements and proposed standards
- Percentage of inquirers that are satisfied or very satisfied with the timeliness, understandability, and relevance of the GASB's responses to technical inquiries.

### Strategies:

1. Develop implementation guides for all major statements and incorporate questions on all pronouncements into the annual Comprehensive Implementation Guide.
2. Respond to technical inquiries on a timely basis.
3. Support the FAF's public relations efforts on behalf of the GASB, particularly on exposure documents and new pronouncements.
4. Attend and make presentations at constituent conferences and seminars to explain new GASB pronouncements.

## Goal IV. Organizational Effectiveness

*Improve the GASB's organizational capacity to pursue its vision, mission, and goals in a timely and sustainable manner.*

In order to work effectively toward accomplishing its mission, the GASB must hire and retain capable people and equip them with the technology, resources, and knowledge necessary to issue high-quality standards.

**A. Objective:** Attract and retain a knowledgeable, talented, and diverse staff.

### Outcome:

- A staff of knowledgeable, talented, and diverse professionals.

### Strategies:

1. Maintain a competitive compensation structure and provide a professional working environment.
2. Hire staff to meet diverse requirements, including those with experience with local governments, small governments, special-purpose governments, and various parts of the user community.
3. Provide internship opportunities for top students to gain first-hand work experience at the GASB.
4. Institute a fellowship program that would bring professionals to the GASB for one or two years.

**B. Objective:** Adopt efficient and effective internal operating procedures.

**Outcome:**

- Efficient and effective internal operating procedures.

*Strategies:*

1. Employ a team approach for most projects, using staff members with different knowledge, skills, and backgrounds.
2. Ensure that projects are prioritized for consideration to be added to the GASB's technical plan using appropriate criteria, including feedback from the GASAC.
3. Review the GASB's official operating procedures for efficiency and effectiveness and update the Research and Technical Activities Manual to incorporate methods adopted in recent years.
4. Maximize the effective use of technology.

**C. Objective:** Provide opportunities for Board members and staff to gain knowledge and skills related to technical issues, technology, and research methodologies.

**Outcome:**

- Board and staff with the knowledge and skills necessary to meet their responsibilities.

*Strategies:*

1. Conduct in-house staff training seminars and educational Board sessions on technical issues, technology, and research methodologies that may be used on projects.
2. Provide staff with opportunities to increase their knowledge on specific technical topics needed for particular projects by providing support for them to take formal courses on those topics.

**D. Objective:** Leverage the knowledge and resources of other organizations and their members.

**Outcome:**

- Academic and other research that addresses topics relevant to the GASB's technical plan and existing standards.

*Strategies:*

1. Encourage academics to conduct research on topics that are relevant to the GASB's technical plan and existing standards, and to share their data with the GASB.
2. Field-test proposed standards when the standards are expected to result in major changes.

**E. Objective:** Assist the FAF trustees in communicating the need for a stable and adequate long-term funding base.

**Outcome:**

- Increased long-term financial support for the GASB and decreased reliance on FAF deficit funding.

**Strategy:**

1. Provide advice and counsel regarding funding needs and potential funding sources to the FAF director of development and the FAF Development committee.