

Paris 1 of February 2005

# France Country Report

**A summary of budgetary and financial reform in France is available in French.**

**A verbal update will be provided at the meeting by the French delegation.**

**STATE OF ISRAEL**  
**MINISTRY OF FINANCE - ACCOUNTANT GENERAL'S OFFICE**

**Country Report**

February 3, 2005

**Section I: Standard Setting Overview***General*

Our last Country Report indicated the Governmental Accounting Regulations in Israel<sup>1</sup>:

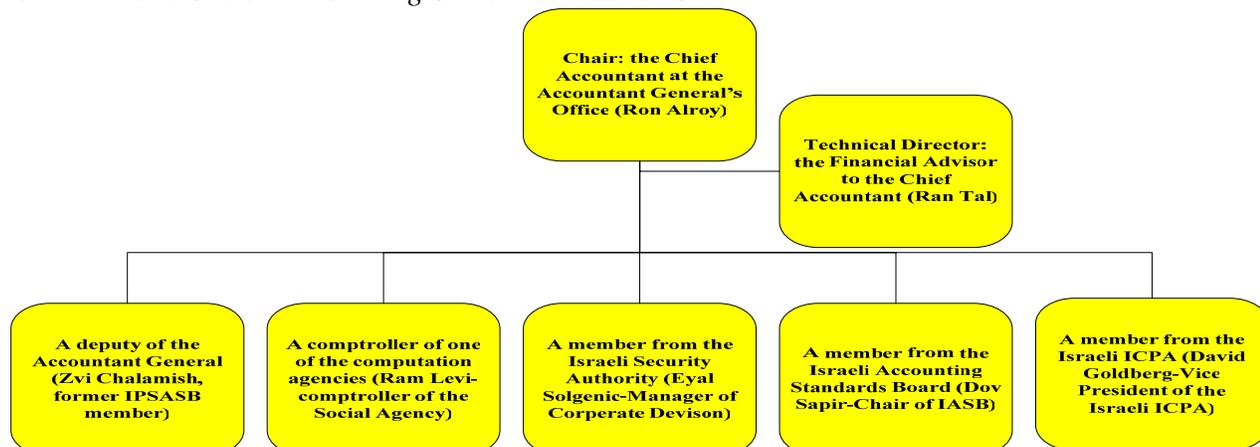
1. Regulation No. 1: Supports and Grants
2. Regulation No. 2: Fixed Assets
3. Regulation No. 3: Inventories and Emergency Inventories
4. Regulation No. 4: Liabilities, Commitments and Engagements
5. Regulation No. 5: Investments
6. Regulation No. 7: Revenues from Barter Transactions
7. Regulation No. 8: Recognition of Revenues from Unilateral Transactions
8. Regulation No. 9: Projects Executed Under Contract
9. Regulation No. 10: Credit and Loans
10. Regulation No. 11: Employee Benefits
11. Regulation No. 13: Intangible Assets

## Draft Regulations:

1. Regulation No. 6: Accounting for Leases and BOT Projects
2. Regulation No. 12: Consolidation of Entities, Proportionate Consolidation and Equity Method
3. Regulation No. 14: Provisions, Contingent Liabilities, Contingent Assets and Discontinued Operations
4. Ministry, Accountant General and Consolidated Financial Statements

*Israeli Public Sector Accounting Standards Board - Operation*

As reported, the Israeli Public Sector Accounting Standard Board (IPSASB) has started its operations during August (2004).

*Israeli Public Sector Accounting Standards Board - Structure*

<sup>1</sup> Please note that a draft standard with the topic "Management Discussion and Analysis" was added to our last country report by mistake.

*Israeli Public Sector Accounting Standards Board - IPSAS Adoption*

Since the board prioritized adoption of all IPSASs, the following (unapproved) schedule for adoption was set up (the list is organized by priorities in accordance with current gap in financial reporting):

| Feb 2005   | Mar 2005       | Apr 2005 | May 2005 | Jun 2005 | Jul 2005 | Aug 2005 | Sep 2005 | Oct 2005 | Nov 2005 | Dec 2005 | Jan 2006 | Feb 2006 | Feb 2006+ |
|--|----------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|
| IPSAS1<br>Presentation of Financial Statements                             |                |          |          |          |          |          |          |          |          |          |          |          |           |
| Translation  | ED Publication | Approval |          |          |          |          |          |          |          |          |          |          |           |
| IPSAS19<br>Provisions, Contingent Liabilities and Contingent Assets        |                |          |          |          |          |          |          |          |          |          |          |          |           |
| Translation  | ED Publication | Approval |          |          |          |          |          |          |          |          |          |          |           |
| IPSAS3<br>Net Surplus or Deficit for the period, Fundamental Errors and... |                |          |          |          |          |          |          |          |          |          |          |          |           |
| Translation  | ED Publication | Approval |          |          |          |          |          |          |          |          |          |          |           |
| IPSAS14<br>Events After Reporting Date                                     |                |          |          |          |          |          |          |          |          |          |          |          |           |
| Translation  | ED Publication | Approval |          |          |          |          |          |          |          |          |          |          |           |
| IPSAS18<br>Segment Reporting   |                |          |          |          |          |          |          |          |          |          |          |          |           |
| Translation  | ED Publication | Approval |          |          |          |          |          |          |          |          |          |          |           |
| IPSAS20<br>Related Party Disclosures                                       |                |          |          |          |          |          |          |          |          |          |          |          |           |
| Translation  | ED Publication | Approval |          |          |          |          |          |          |          |          |          |          |           |
| IPSAS5<br>Borrowing Costs  |                |          |          |          |          |          |          |          |          |          |          |          |           |
| Translation  | ED Publication | Approval |          |          |          |          |          |          |          |          |          |          |           |
| IPSAS16<br>Investment Property   |                |          |          |          |          |          |          |          |          |          |          |          |           |
| Translation  | ED Publication | Approval |          |          |          |          |          |          |          |          |          |          |           |
| IPSAS2<br>Cash Flows Statement   |                |          |          |          |          |          |          |          |          |          |          |          |           |
| Translation  | ED Publication | Approval |          |          |          |          |          |          |          |          |          |          |           |
| IPSAS4<br>The Effects of Changes in Foreign Exchange Rates                 |                |          |          |          |          |          |          |          |          |          |          |          |           |
| Translation  | ED Publication | Approval |          |          |          |          |          |          |          |          |          |          |           |
| IPSAS15<br>Financial Instruments: Disclosure and Presentation              |                |          |          |          |          |          |          |          |          |          |          |          |           |
| Translation  | ED Publication |          |          |          |          |          |          |          |          |          |          |          |           |
| IPSAS21<br>Impairment of Non-Cash-Generating Assets                        |                |          |          |          |          |          |          |          |          |          |          |          |           |
| Translation  | ED Public      |          |          |          |          |          |          |          |          |          |          |          |           |

The other IPSASs, listed below, will be adopted during 2006-2007 (a significant part of their guidelines had already been incorporated in current but not yet effective Israeli regulations. Therefore, their adoption is not considered to make practical change in current practice). As mentioned above, the list is organized by priorities in accordance with current gap in financial reporting:

1. IPSAS 17 Property Plant and Equipment
2. IPSAS 12 Inventories
3. IPSAS 13 Leases
4. IPSAS 6 Consolidated Financial Statements and Accounting for Controlled Entities
5. IPSAS 7 Accounting for Investment in Associates
6. IPSAS 8 Financial Reporting of Interests in Joint Ventures
7. IPSAS 9 Revenue from Exchange Transactions
8. IPSAS 10 Financial Reporting in Hyperinflationary Economics
9. IPSAS 11 Construction Contracts

#### *Israeli Public Sector Accounting Standards Board – Working Procedures & Internet Access*

The board has now established work procedures equivalent to those of the IPSASB in all material aspects, its vision, mission, goals and targets (unapproved yet). The board's website should be up and running within a couple of months so to provide maximum transparency of its deliberations to the public.

Currently, IPSAS 1 is in its final stages of translation to Hebrew in accordance with IFAC translation policy. Hopefully, the board will convene by the end of this month and approve the translated IPSAS as an official E.D. which would then be published for public comments.

Following are Israeli Regulations that do not currently have an equivalent under current IPSAS. Therefore the board is waiting for further developments in the IPSASB with regard to them:

- Regulation No. 1: Supports and Grants
- Regulation No. 8: Recognition of Revenues from Unilateral Transactions
- Regulation No. 6: Accounting for Leases and BOT Projects
- Regulation No. 11: Employee Benefits

## **Section II: Government Financial Statements Overview**

### *General*

A second step towards publishing a full set of accrual basis financial statements is being carried out by the Accountant General's Chief Accountant Division in the form of establishing new working procedures for year end and year open. Those procedures are placed in order to eliminate and/or reduced gaps found in 2003's publication "Information about Assets and Liabilities of the Government of Israel as at 31, December 2003". Note that 2003's report was regarded as a transitional report (from cash basis to accrual basis) it was decided to put an emphasis on the current gaps between current reporting and the requirement of the abovementioned (See standard Setting Overview) Regulations and on relevant IPSASs where needed. The third step towards publishing a full set of accrual basis financial statements is expected to be taken in financial statements of 2006 by which over 90% of Israel's government ministries (in terms of budget) will be working on the New ERP system.

### *Valuing Assets - Public Housing*

As explained in the previous country report a major part of Israel's government real-estate which are held by the Government Accommodation Unit (office buildings and governmental districts) were acquired/constructed/received decades ago (even prior to the formation of the Israeli state), and no historical cost data exists with regard to them. Therefore, a "fair value model"-an appraisal model which allows the user to put a price tag on each property based on different factors of the property such as its: location, area, age, construction materials, construction method and many other factors. Also, different coefficients were determined to adjust the value for factors that affect the value of the property such as deductions for large scale buildings and so.

A similar problem arose with regard to Public Housing properties which are held by the Ministry of Housing. We are now considering the use of a similar "fair value model" (with necessary adjustments) in order to register Public Housing assets on the government's financial Statements.

### *Determination of Control - Government Owned Companies*

In the transitional report for 2003 "Information about Assets and Liabilities of the Government of Israel as at 31, December 2003" government owned companies were included, for the first time, in the financial statements. Government owned companies were accounted for under the equity method - all ownership over 20% with material effect had been included. As a second step, working procedures, including a checklist to determine control were put in place. Those procedures will enable us to indicate which companies should be consolidated into the government's financial statements and which should be accounted for under the equity method. The determination of control is being carried under the guidelines set in IPSAS 6, "Consolidated Financial Statements and Accounting for Controlled Entities".

### *Implementing a new ERP System*

Implementation has been completed in 5 ministries: Ministry of Finance, Ministry of Science, Ministry of Justice, Courts Management, and Water Commissionership. Following is a schedule implementation of the ERP system until February 2006. Yellow (bright) bricks symbolizes the instruction period, whereas green (dark) bricks symbolizes the system upload:

| Jan 2005 | Feb 2005                        | Mar 2005 | Apr 2005 | May 2005                | Jun 2005 | Jul 2005                         | Aug 2005            | Sep 2005 | Oct 2005 | Nov 2005 | Dec 2005 | Jan 2006                         | Feb 2006+ |
|----------|---------------------------------|----------|----------|-------------------------|----------|----------------------------------|---------------------|----------|----------|----------|----------|----------------------------------|-----------|
|          | Ministry of Health              | Upload   |          |                         |          |                                  |                     |          |          |          |          |                                  |           |
|          | Ministry of Transportation      | Upload   |          |                         |          |                                  |                     |          |          |          |          |                                  |           |
|          | Ministry of Defense             | Upload   |          |                         |          |                                  |                     |          |          |          |          |                                  |           |
|          | Fountain of Religious Education | Upload   |          |                         |          |                                  |                     |          |          |          |          |                                  |           |
|          |                                 | Upload   |          | Ministry of Environment |          |                                  |                     |          |          |          |          |                                  |           |
|          |                                 |          |          |                         |          | Ministry of National Infrastruc. | Upload              |          |          |          |          |                                  |           |
|          |                                 |          |          |                         |          | Ministry of Tourism              | Upload              |          |          |          |          |                                  |           |
|          |                                 |          |          |                         |          |                                  | Employment Services | Upload   |          |          |          |                                  |           |
|          |                                 |          |          |                         |          |                                  |                     |          |          |          |          | Ministry of National Infrastruc. |           |
|          |                                 |          |          |                         |          |                                  |                     |          |          |          |          | Ministry of Tourism              |           |

The ERP system allows a more comprehensive reporting within offices that already implemented the system and work in the new ERP and accounting environment. The ERP project, together with the new accounting standards and the accrual accounting, create a revolution in accounting and disclosure which has already started in this recent report.

Sincerely,

Alroy Ron, C.P.A. (Isr.)



Chief Accountant at the Accountant  
General's Office,  
Ministry of Finance, State of Israel

Ran Tal, C.P.A. (Isr.)



Financial Advisor to the Chief  
Accountant

## Country Report - Germany

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|                |   |
|----------------|---|
| <b>To</b>      | Members of IFAC International Public Sector Accounting Standard Board (IPSASB)  |
| <b>Date</b>    | 08.02.2005<br>H:\Public_Sect\IFAC\Country Reports\Country Report March 2005.doc |
| <b>Subject</b> | <b>Country Briefing Report for Germany</b>                                      |

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### **Current Developments with respect to accrual based accounting**

Two big milestones have been reached since the meeting of the IPSASB in Delhi. Shortly after the meeting the parliament of North Rhine Westphalia (NRW) passed a law on November 10, 2004 introducing new accounting standards. This law requires local governments in the state of NRW to convert their accounting to the accruals basis by December 31, 2008. Among other things this law also requires the local governments to set product-oriented goals taking the revenue and the consumption into account. This law was published on November 24, 2004.

The ministry of the interior in NRW is responsible for the oversight of the local governments and their processes for implementing accruals accounting. Therefore the ministry intends to set up an advisory board to assist with technical questions such as accounting issues, measurement issues in the opening balance and the analysis of the accrual financial statements applying financial ratios. The advisory board shall be made up of representatives of the local governments, the local supervisory bodies, the state supervisory body and other experts.

The parliament of Hesse also passed a similar law for the local governments in Hesse on January 26, 2005. The exact wording of the law has not been published yet. The parliament of Lower Saxony is expected to adopt a comparable law in the near future.

The ministry of the interior of the state Baden-Wuerttemberg is currently preparing draft legislation to regulate the transition of financial statements prepared by local governments within its jurisdiction from a cash basis of accounting to an accruals basis. The publication of this draft is expected in April 2005.

Our country report for the Delhi meeting dated October 12, 2004 contains further details concerning these laws.

## COUNTRY REPORT FOR THE IPSASB

### SOUTH AFRICA

#### FEBRUARY 2005

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#### 1. Accounting Standards Board (ASB)

Since the last country report, the ASB approved for issue a discussion paper on intangible assets.

The comment period for the discussion paper closes on 15 May 2005.

Progress on an accounting guide on public-private partnerships (PPP) continues. The basis for splitting a unitary payment between the service component and the asset component is currently being debated.

#### 2. Auditing and Assurance Standards Board

The following exposure drafts are currently open for comment:

| <i>Title</i>        | <i>Comment Date:</i> |
|---------------------|----------------------|
| IFAC ED Materiality | 15 Apr 2005          |
| IFAC ED Estimates   | 15 Apr 2005          |

South Africa has adopted International Auditing Standards verbatim with effect from 1 January 2005. Therefore, the ED's noted above are as issued by IAASB.

### 3. South African Institute of Chartered Accountants (SAICA)

The following exposure drafts are open for comment:

| <b>Title</b>   | <b>Comment Date</b> |
|--|---------------------|
| <ul style="list-style-type: none"> <li>ED 193 Changes in contributions to employee share purchase plans</li> </ul>   | 14 February 2005    |
| <ul style="list-style-type: none"> <li>ED 192 Constitution Review Consultation Paper</li> </ul>  | 9 February 2005     |
| <ul style="list-style-type: none"> <li>ED 191 Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</li> </ul> | 25 January 2005     |

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

### 4. Draft Auditing Profession Bill

A new draft was released on 1 December 2004, proposing amongst other things the following:

- The Bill is drafted on the principle of accreditation of professional bodies with the Independent Regulatory Board for Auditors (IRBA) having no direct responsibility for the education and training of candidates to the profession.
- The intention underlying the draft Bill is for the disciplinary processes of the IRBA to be sharpened to ensure that public interest matters receive more focused attention.
- The perception and reality of self-regulation by the profession will be finally laid to rest. The Minister of Finance will be directly empowered to appoint the ten members of the new IRBA of whom no more than 40% shall be registered auditors. The Minister is also empowered to appoint a Treasury official to play an oversight role and the IRBA will be required to report formally directly to the Minister on a quarterly and annual basis.
- The Bill proposes that in addition to being subjected to disciplinary action by the IRBA, auditors who issue false audit opinions or other reports

knowingly or recklessly may be subject to a fine or imprisonment of up to ten years.

- The Bill has been drafted as a vehicle to empower the new IRBA and the two related bodies being the Standard Setting Board for Ethics (SBE) and the Standard Setting Board for Auditing (SBA) to regulate the profession.

The draft bill is available on [www.treasury.gov.za](http://www.treasury.gov.za)

## 5. Corporate Law Review

In addition to the corporate law review referred to in the September 2004 Country Report, the proposed amendments to the Auditing Profession Bill requires further amendments to the Companies Act. These are, amongst others, the following:

- Only registered auditors to be appointed

It is proposed that no person may henceforth be appointed auditor of a company unless that person is a registered auditor in terms of the Bill.

- Audit committees

- Obligation to appoint

It is proposed that the board of directors of every public interest company must for each financial year appoint an audit committee consisting of not less than three independent non-executive directors.

A director is an independent non-executive director if (except as a director and member of the audit committee) the director:

- Does not receive any direct or indirect remuneration or other benefit from;
- Does not undertake any consultancy, advisory or other work for; and
- Is not directly or indirectly connected with;

the company or any subsidiary or parent of the company or, if the company is a member of a group, any other member of the group.

- Functions and funding

An audit committee of a public interest company will have the following duties with respect to the financial year for which it is appointed:

- to nominate an auditor for appointment who, in the opinion of the audit committee, is independent of the company;
- to determine the fees to be paid to the auditor and the auditor's terms of engagement;
- to ensure that the appointment of the auditor complies with the provisions of the Companies Act and the Bill;
- to determine the nature and extent of any non-audit services which the auditor may provide for the company;
- to insert a statement in the financial statements as to whether or not the audit committee is satisfied that the financial statements and any audit of them are in compliance with the provisions of any applicable law and that the auditor is independent of the company;
- to receive and deal appropriately with any complaints (whether from within or outside the company) relating either to the accounting practices of the company or to the content or auditing of its financial statements or to any related matter.

A public interest company may appoint an auditor other than one nominated by the audit committee. Where such an auditor is appointed the appointment is only valid if the audit committee certifies that, in its opinion, the proposed auditor is independent<sup>3</sup> of the company and that it is satisfied that it can carry out its duties with respect to the proposed auditor.

A public interest company will be required to meet all expenses reasonably incurred by its audit committee including, if the audit committee considers it appropriate, the fees of any consultant or specialist engaged by the audit committee to assist it in the performance of any of its duties.

○ Filling of casual vacancies

Where a casual vacancy arises in the office of the auditor of a public interest company during the tenure of an audit committee the directors must within twenty days propose to the audit committee a registered auditor to become the new auditor. Appointment of firm as auditor

The appointment of a firm as the auditor of a public interest company will be valid only if, in addition to the name of the firm, the appointment specifies the name of the individual registered auditor who is the member of the firm that will undertake the audit.

Where a change in the composition of the members of the appointed firm results in less than one half of the membership that existed at the time of the appointment remaining, such a change constitutes as a resignation of the auditor and a casual vacancy shall be taken to have arisen accordingly.

○ Rotation of auditors

The same individual may not serve as the nominated auditor of a public interest company for more than four consecutive financial years. Where an individual has served as the nominated auditor of a public interest company for two or more consecutive financial years and then ceases to be the nominated auditor, the individual may not again become the nominated auditor of that company until after the expiry of at least two further financial years.

○ Certain non-audit services not open to current auditor of public interest company

An individual that is the nominated auditor of a public interest company may not perform any book-keeping, accounting (as distinct from auditing) or internal audit services for that company.

Additional limitations on non-audit services are also proposed:

- The Minister may prescribe further services which an auditor may not perform for a public interest company during a financial year for which she is the nominated auditor.
- The audit committee may limit further the services which an auditor of a public interest company may perform; and
- A registered auditor may not conduct the audit of any financial statements of an entity (whether as an individual auditor or as a member of a firm) if, at any time during a period to which those financial statements relate or at any time during the two years ending at the beginning of that period the auditor has or had a financial interest in the entity.

○ Resignation of auditor

An auditor intending to resign will be required to deliver to the company and to the Registrar a written notification (in the prescribed form) to the effect that he or she has no reason to believe that in the conduct of the affairs of the company a reportable irregularity, within the meaning of section 22 of the Auditing Profession Bill has taken place or is taking place which has caused or is likely to cause financial loss to the

company or to any of its members or creditors, other than an irregularity (if any) which has been reported to IRBA under that Act.

- Attendance of certain meeting by auditors

Public interest company:

- The appointed auditor will be required to attend a meeting of the board (which meeting may not take place more than one month before the date of the annual general meeting at which the financial statements of the company for any financial year are to be considered) to consider with the board matters which appear to the auditor or the board to be of importance and relevant to the proposed financial statements and to the affairs of the company generally.
- The appointed auditor must attend every annual general meeting at which the financial statements of the company for a financial year are to be considered or agreed, and respond to the best of his or her ability to any question which is put to his or her and is relevant to the audit of the financial statements.

Limited purpose company:

- Where due notice is given of the intention to move a resolution requiring the presence of the auditor at an annual general meeting of the company at which financial statements of the company for any financial year are to be considered, the auditor will be required to attend that meeting and respond to the best of his or her ability to any question which is put to him or her and is relevant to the audit of the financial statements.
- Failure to attend the above-mentioned meetings is an offence unless the nominated auditor:
  - is prevented by circumstances beyond his or her control from attending the meeting;
  - the auditor ensures that another individual who is a registered auditor attends the meeting in place of the nominated auditor and carries out the duties of the nominated auditor at the meeting; and
  - in the case of a public interest company and if the nominated auditor is a member of a firm, the individual attending the meeting in place of the nominated auditor is a member of that firm.

The proposed amendments to the Companies Act is available on [www.treasury.gov.za](http://www.treasury.gov.za)

#### 6. National Treasury

A Guideline for Legislative Oversight through Annual Reports has been published. The objective of the report is to open the debate on the development of a formal systematic process to consider annual reports, a process similar to that followed with national and provincial budgets.

The annual reports are key reporting instruments for departments to report against the performance targets and budgets outlined in their strategic plans, read together with the Estimate of National Expenditure. Annual reports are therefore required to contain information on service delivery, in addition to financial statements and the audit report. It is meant to be a backward-looking document, focusing on performance in the financial year. It reports on budget implementation.

It is envisaged that portfolio committees will use the annual report to complete the oversight process, in time to take their recommendations into account when formulating the budget for the following financial year's budget allocation process.

The document is available on the treasury website [www.treasury.gov.za](http://www.treasury.gov.za)

#### 7. Public Audit Act

The Public Audit Act, 25 of 2004, was enacted on 20 December 2004. It has introduced new functions of the Auditor-General (AG), provisions on auditing of institutions in the public sector, among others. Particularly, the AG may audit public entities, a role where many public entities used to previously engage private audit practices. The Act replaces Auditor-General Act, 1995 and Audit Arrangements Act, 1992.

#### 8. Office of the Auditor-General

The Auditor-General of South Africa is represented on the reference panel and special focus group of the Financial Auditing Working Group of INTOSAI's Auditing Standards Committee. INTOSAI is, in terms of the Memorandum of Understanding reached with IFAC, responsible for guidance on the implementation of ISA's in the public sector through this committee.

DATE: 11 February 2005  
TO: Members of the Public Sector Committee  
RE: Country Report – Canada

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## **INTRODUCTION**

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

### **Completed Projects**

#### *Generally Accepted Accounting Principles*

In November 2004, PSAB approved GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150. The Section is based on its private sector equivalent, CICA Handbook - Accounting GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section 1100.

PS 1150 establishes the Public Sector Accounting (PSA) Handbook as the primary source of GAAP for governments. If the matter is not covered in the PSA Handbook, then any prospective 'other source of GAAP' must be consistent with the:

- primary source of GAAP; and
- conceptual framework contained in the PSA Handbook.

The most prevalent issue raised by constituents on PS 1150 was the status of the private sector accounting handbook - which to date has been the most commonly referred to 'other source of GAAP' when the PSA Handbook is silent on an issue.

PS 1150's principles-based approach does not afford this handbook any special status but instead views it equally among all other possible sources of GAAP. The Board considered that adopting this approach would provide more scope for the best 'other source of GAAP' to be determined for that particular transaction.

Other key provisions of PS 1150 include:

- Financial statements prepared in accordance with regulatory, legislative or contractual requirements that conflict with PS 1150 cannot be described as being accordance with GAAP.
- Italicized and non-italicized text paragraphs in the PSA Handbook have equal authority – both texts must now be complied with. Previously, italicized tended to be viewed as 'the standard' with non-italicized being supportive guidance.

The Section applies for all fiscal years beginning on or after April 1, 2005.

#### *Measurement Uncertainty*

In November 2004, PSAB approved MEASUREMENT UNCERTAINTY, Section PS 2130.

During the development of LIABILITIES Section PS 3200, CONTINGENT LIABILITIES Section PS 3300 and CONTRACTUAL OBLIGATIONS, Section PS 3390 (these Sections were approved by PSAB in June 2004 - see Canada country Report of 21 September 2004), respondents urged PSAB to create a separate Section on measurement uncertainty that applied to other items.

PS 2130 differs to the equivalent private sector standard, CICA Handbook – Accounting MEASUREMENT UNCERTAINTY, Section 1508 as it applies to items both recognized in the financial statements and disclosed in the notes.

PSAB was of the view that when significant amounts are only disclosed in the notes, such as with certain contingent liabilities, information about any related measurement uncertainty should also be disclosed.

The Section applies for all fiscal years beginning on or after April 1, 2005.

#### *Accounting in Senior Government Budgets – Research Report*

The objective of this study is to provide a “state of the union” comparative and descriptive look at the accounting bases and policies used by Canadian federal, provincial and territorial governments in their budgets and appropriations as compared to their summary financial statements. The accounting relationships between these three sets of documents and how the budgets are reconciled to the financial statements in order to provide the budget to actual comparisons required by the CICA PSA Handbook would be key issues.

The information garnered from this research could be used as the basis for additional research on consolidated accrual budgeting.

A copy of the report has been sent to members of IPSASB.

### **On-Going Projects**

#### *Sale-Leaseback Transactions*

In September 2004, PSAB released for public comment, Draft Guideline ‘Sale-Leaseback Transactions – Expense Based’.

Current public and private sector Canadian GAAP for sale-leaseback transactions are based on the view that the terms of the sale and the lease are not able to be separated objectively ie: there is ‘interdependence’. As a result, gains and losses arising on sale of

the property are deferred and amortized

The Draft Guideline introduces a new premise called the 'components' approach which assumes objective separation of the sale and leaseback is possible. This is done by comparing each of the sale and leaseback 'components' to their respective fair values (ie: fair value for both the property and the lease contract).

The Draft Guideline does not prescribe deferrals of gains or losses but instead, under certain circumstances, allows their immediate recognition. The ultimate objective of the Draft Guideline is to report the economic substance of these transactions.

Respondents to date are very supportive of the 'components' approach but there is concern about the availability of all the necessary fair value information for the lease contract – particularly for unique/specialized assets in the public sector.

The taskforce will meet in February 2005 with a final Guideline scheduled to be presented to PSAB for approval in March 2005.

### *Performance Reporting*

The project is designed to develop a set of basic principles that will guide the future development of performance reporting including a framework for identifying performance indicators.

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

A statement of principles is scheduled to be approved by PSAB in March 2005. Underlying principles for the project will be based on the nine principles established by the Canadian Comprehensive Auditing Foundation as set out in its publication entitled "Reporting Principles - Taking Public Performance Reporting to a New Level".

### *Local Government Financial Statement Reporting Model*

Currently, the local government reporting model is a modified-accrual 'expenditure' based approach to financial reporting. The project plans to revise this basis.

It is anticipated that upon completion, the new reporting model will in all material respects resemble the full-accrual expense-based reporting model which was approved by PSAB for Federal, Provincial and Territorial Governments in October 2002 (applicable from April 1 2005).

A significant implication for local governments resulting from the project will be the need to account for non-financial assets, more specifically tangible capital assets, on the statement of financial position. At present, the PSA Handbook requires local governments to record an expenditure when tangible capital assets are acquired.

A Statement of Principles (SOP) is currently being prepared to seek comment from PSAB's Associate community on proposed under-pinnings for the revised model. The SOP is scheduled to be provided to PSAB for approval in March 2005.

### *Financial Instruments*

Presently, guidance in the PSA Handbook on accounting for derivative financial instruments is limited. Derivative financial instruments are increasingly being used by governments to manage other financial exposures such as interest rate exposures.

Given the complexity of many financial instrument derivative contracts, a key objective of the project will be crafting standards that make reporting by governments as clear as possible.

Recently, the Canadian Accounting Standards Board approved three new CICA Handbook – Accounting Sections:

- FINANCIAL INSTRUMENTS — RECOGNITION AND MEASUREMENT, Section 3855;
- COMPREHENSIVE INCOME, Section 1530; and
- HEDGES, Section 3865.

with implementation no later than periods beginning on or after October 1, 2006.

The project will take these new sections into consideration.

The project is in the early stages with a detailed workplan scheduled to be reviewed by PSAB in March 2005.

### *Segmented Reporting*

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

In November 2004, PSAB approved an SOP which uses a hybrid approach to determining segments. The SOP brings together the 'management approach' applied in CICA Handbook-Accounting, Section 1701 SEGMENT DISCLOSURES and the 'distinguishable activities' method used in IPSAS 18 SEGMENT REPORTING.

The project is very sensitive to balancing 'costs vs benefits' of providing segmented information. Therefore the SOP examines different formats for presenting segmented information and also explores if the information needs of users of government financial statements impact the volume/nature of information disclosed.

Comment closing date was January 28, 2005 – responses are currently being reviewed.

### *Government Transfers*

PSAB has approved an Associates' Draft proposing new standards for accounting for government transfers by both transferring and recipient governments at all levels of government. The proposals address the input received from the October 29, 2003 Transfers Forum (see Canada country report of February 6, 2004).

The salient issue for the Forum related to the deferral vs immediate recognition in circumstances associated with pre-paid government transfers. The input received from the Forum indicated that there was wide support for the deferral in some instances. The majority of Forum attendees argued their points of view using PSAB's new conceptual framework - confirming that any proposals would have to be consistent with it.

Therefore, the main proposal in the Associates' Draft defines a concept called "exchange-type transfers". A government that pays a transfer that meets the definition of an exchange-type transfer in advance of the recipient meeting the transfer stipulations acquires an asset as a result of the transfer. That asset comprises a right to compel another party to provide services or acquire or develop service capacity in accordance with the transferor's terms.

Comment closing date is September 30, 2004. Responses are currently being reviewed.

#### *Revenue*

This project is leveraging and building upon the work being done on this topic by the PSC. PSAB is asking its Associates group to provide input to the PSC on the proposals in its ITC - input that will also be useful for the Canadian project.

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

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

However, the existing standards do not specifically address many other types of government revenue, such as income and property taxes. This project will address the gap.

Comment closing date is September 30, 2004. Responses are currently being reviewed.

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

**COUNTRY REPORT – AUSTRALIA**

(Prepared 9 February 2005)

This Country Report only notes events since the last Report was prepared for the November 2004 PSC meeting. For a more comprehensive description of some of the projects on the AASB's work program, see the web site [www.aasb.com.au](http://www.aasb.com.au).

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

***GAAP/GFS Convergence***

The AASB is continuing to implement the Financial Reporting Council's strategic direction to give urgent priority to GAAP/GFS harmonisation. The AASB has modified its plan for implementing the strategic direction (see [www.aasb.com.au](http://www.aasb.com.au)).

The Board has made the following tentative decisions for the purpose of drafting an exposure draft specifying requirements for GGS financial reporting:

- (a) a GGS of a government is a reporting entity for which a general purpose financial report (GPFR) should be prepared. In order to converge with GFS principles, this GGS financial report would be prepared on a "partial consolidation" basis. In acknowledging that a requirement for the GGS to not consolidate certain controlled entities is a fundamental departure from the *Framework*, the Board decided that note 1 to the financial statements should be required to:
  - (i) explicitly state the accounting standard under which the GGS financial report is prepared;
  - (ii) state the purpose for which the GGS financial report is prepared;
  - (iii) describe the GGS and refer to a list of entities within the GGS, and any changes that occurred during the year;
  - (iv) provide a plain English description of how the GGS financial report differs from the whole of government, fully consolidated, GPFR; and
  - (v) provide a cross-reference to the whole of government GPFR.
- (b) the GGS asset "investment in controlled entities" should be subject to the requirements, including the measurement requirements, in AASB 139 *Financial Instruments: Recognition and Measurement* (although see (c) below in relation to the options in AASB 139);
- (c) with the exception of the non-consolidation of certain controlled entities, for definition, recognition and measurement purposes, current GAAP requirements, as reflected in the Australian equivalents to IFRSs, should be applied. Any differences from IMF GFS definition, recognition and measurement requirements should be disclosed as reconciliations/convergence differences (as noted in (e) below);
- (d) where an Australian equivalent to an IFRS standard allows for optional treatments and one of those treatments aligns with the GFS treatment, that treatment should be mandated for the purposes of GGS financial reporting;
- (e) the ED should propose principles for the format of the financial statements, including that key GFS amounts, measured in accordance with GFS principles, should be

required to be presented on the face of the financial statements together with current GAAP information. In particular, in relation to the:

- (i) operating statement: information that accords with current GAAP on-the-face requirements should be presented on the face, but in a form that presents, in addition to the operating result, the comprehensive result (comprising all non-owner movements in equity – in contrast to the requirements in AASB 101 *Presentation of Financial Statements*). In addition, key GFS amounts should be presented on the face, including transactions, net operating balance, net acquisition of non-financial assets, net lending/borrowing and other economic flows. To the extent there are differences between GFS amounts and amounts used in the determination of comprehensive result, they should be disclosed as “convergence differences”. The Board intends including an example of an acceptable format in the ED that comprises 4 columns: GFS transactions; GFS other economic flows; convergence differences; and comprehensive result. An explanation of technical terms would also be required to be provided in the notes;
- (ii) balance sheet: information that accords with current GAAP on-the-face requirements should be presented on the face. The Board noted that presenting items in a liquidity order within a GFS financial/non-financial classification would satisfy the requirements in AASB 101. In addition, key GFS amounts including net worth should be presented on the face (with an explanation of the term in the notes). To the extent convergence differences exist, they should be disclosed. The Board intends including an example of an acceptable format in the ED that comprises 3 columns: GFS assets/liabilities; convergence differences; and current GAAP assets/liabilities/equity;
- (iii) cash flow statement: information that accords with current GAAP on-the-face requirements should be presented on the face, together with key GFS amounts including cash surplus/deficit and its derivation, and the GFS distinction between net cash flows from investments in financial assets for policy purposes and for liquidity purposes. The GFS cash surplus/deficit presented should be determined in accordance with IMF GFS principles, and therefore should not include the effect of notional cash flows relating to finance leases and similar arrangements. The Board intends including an example of an acceptable format in the ED comprising a single column, with the derivation of GFS cash surplus/deficit at the foot of the statement.

The Board has deferred decisions on the extent to which its decisions on GGS financial reporting should be adopted into financial reporting by whole of governments, government departments, local governments, universities, government business enterprises and other public sector entities.

### ***Review of AAS 27 “Financial Reporting by Local Governments”***

The Board is continuing its review of submissions on ED 125 *Financial Reporting by Local Governments*.

In relation to the proposals relating to revenue recognition in ED 125, the Board will consider a plan for progressing the issue by considering it in the broader context of not-for-profit entities (including local governments, other governments, government departments and private sector entities) at a future meeting.

In relation to other issues, the Board agreed that local governments should be defined as reporting entities and be required to prepare general purpose financial reports (GPFRs). It decided that the financial reporting requirements for local governments should align with requirements for other entities in Australian equivalents to IFRSs relating to the content of GPFRs; disclosure of changes in equity; treatment of accumulated depreciation when revaluing non current assets; the classification of assets, liabilities, revenues and expenses; and disclosure of capital expenditure commitments.

The Board also decided that local governments should not be required to distinguish between capital and retained surplus or deficit in the equity section of the balance sheet as the distinction could not be done reliably and would provide limited information.

Furthermore, the Board decided that local governments should be allowed to include additional information in the GPFR that differs from information that is in accordance with accounting standards provided it does not detract from the effective communication of the information required by accounting standards. The Board noted that this approach is more consistent with requirements pertaining to corporations. The Board also noted implications that this decision may have on matters relating to budgetary information (to be addressed at a future meeting).

### ***Review of AAS 29 “Financial Reporting by Government Departments”***

The AASB confirmed that a single ED should be developed that proposes revised requirements for government departments, whether indirectly by cross-reference to other standards or directly where other standards do not address the requirements. Accordingly, the Board intends to finalise its views on administered items (see below) for the purposes of the ED and then move through the following outstanding issues before issuing the ED, as resources become available:

- (a) incorporating the key aspects of UIG Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*;
- (b) accounting for the restructuring of administrative arrangements;
- (c) disclosure of compliance with parliamentary appropriations; and
- (d) disclosure of disaggregated information on outputs and programs (including service costs and achievements).

In relation to budgetary reporting, the Board decided to monitor the work of the IPSASB, and therefore not address it as part of the review of AAS 29.

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

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

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

- (a) the term ‘administered items’ should be retained and defined as items that are managed but not controlled by the government department on behalf of its government; noting that the distinction between controlled and administered items

- should be determined by the government whereby the government effectively designates whether a government department administers or controls an item. The government should do this by reference to the concept of control articulated in the *Framework* having regard to the financial management framework of the government;
- (b) administered items should be presented by the government department on the face of the financial statements in a manner that clearly distinguishes them from items that are controlled by the government department;
  - (c) controlled and administered items should not be added together, either on a line item or sub-total basis;
  - (d) a government department should be required to adopt principles for reporting administered items that align with the definition, recognition and measurement principles that are adopted in the whole of government reports for items controlled by the government; and
  - (e) a government department should be required to disclose a change from one year to the next in the classification of an activity or item between controlled and administered, and the reason for the change.

### ***IASB Convergence (by 2005)***

On 15 July 2004, the AASB made all but one of the Australian equivalents to the IASB standards that will be applicable on or after 1 January 2005, including a number of Australian standards needed to deal with the grandfathering of various treatments. The remaining Australian equivalent standard (on extractive activities) applicable for 2005 was made in December 2004.

### ***Employee Benefits***

In December 2004, the AASB issued a revised AASB 119 *Employee Benefits*, the Australian equivalent to IAS 19 *Employee Benefits* as amended by the IASB in its release of *Amendments to IAS 19 Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures* on 16 December 2004.

The most significant change in the revised AASB 119 has been the introduction of two additional options to account for actuarial gains and losses associated with defined benefit plans – the “corridor” approach which was not permitted in AASB 119 as issued in July 2004 and the “direct to retained earnings” method introduced by the IASB amendments to IAS 19 Standard.

The revised Standard also specifies how group entities should account for defined benefit group plans in their separate or individual financial statements and requires entities to disclose additional information on defined benefit plans.

The revised AASB 119 is applicable to annual reporting periods beginning on or after 1 January 2006 with early adoption permitted for reporting periods beginning on or after 1 January 2005 to enable entities to apply the requirements in the revised Standard on their transition to Australian equivalents to IFRSs.

## URGENT ISSUES GROUP (UIG)

The UIG deals with accounting issues of relevance to the private sector and/or the public sector. Interpretations agreed by the UIG are subject to approval by the AASB before they can be issued. The authoritative status of UIG Interpretations is established through AASB 1048 *Interpretation and Application of Standards*, which lists the UIG Interpretations that are to be applicable from 1 January 2005, divided into two sets, those equivalent to IASB Interpretations and those that are not. This ‘service standard’ needs to be re-issued whenever UIG Interpretations are issued or revised. Accordingly, AASB 1048 was reissued in December 2004 to incorporate all UIG Interpretations issued in the second half of 2004.

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

| <b>Interp’n</b> | <b>Title</b>   | <b>Intern’l Equiv.</b> |
|-----------------|--|------------------------|
| 112             | Consolidation – Special Purpose Entities [revised]                               | SIC-12                 |
| 1017            | Developer and Customer Contributions for Connection to a Price-Regulated Network | –                      |
| 1042            | Subscriber Acquisition Costs in the Telecommunications Industry                  | –                      |
| 1047            | Professional Indemnity Claims Liabilities in Medical Defence Organisations       | –                      |
|                 |  |                        |

The UIG is continuing to address the revision of a number of other Abstracts for application alongside the Australian equivalents to IASB pronouncements:

| <b>Abstract</b> | <b>Title</b>  |
|-----------------|---|
| 13              | The Presentation of the Financial Report of Entities Whose Securities are “Stapled” |
| 52              | Income Tax Accounting Under The Tax Consolidation System                            |
|                 |   |

The topic of accounting for commodity pooling arrangements, which will be relevant to public sector entities involved in the marketing of commodities, has not been advanced significantly since the previous Country Report, given the work on new and revised Interpretations under the international adoption program.

The issue of distinguishing not-for-profit entities and for-profit entities is important because there are some different requirements in AASB Accounting Standards as between NFP and FP entities. Auditors-General are now working through the profit v not-for-profit decision with the respective Departments of Treasury and Finance, which may generally resolve the issue for the public sector in the short term. However, the issue is not restricted to the public sector and the UIG Agenda Committee has recently added it to the UIG’s agenda.

The UIG continues to consider IFRIC Draft Interpretations for the purpose of providing formal submissions to the IFRIC. The UIG also addresses the conversion of final IFRIC Interpretations to Australian UIG Interpretations.

## **COMMONWEALTH GOVERNMENT, STATES AND TERRITORIES**

### ***Current Status***

As reported in the November 2004 Country Report, most Australian jurisdictions prepare budgets and budget outcomes using an accrual GFS basis. Victoria and the ACT use GAAP. The Commonwealth uses both GFS and GAAP, but accrual GFS predominates.

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

Consequently, all jurisdictions seek harmonisation of GFS and GAAP.

### ***Commonwealth Government***

As reported in the November 2004 Country Report, the Commonwealth Government's Accounting Policy Branch, established within its Department of Finance and Administration, sets accounting and financial reporting policy for Commonwealth reporting entities. In addition, it is responsible for reviewing accounting policies for all GAAP and GFS reporting.

### ***State & Territory Governments***

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