

DATE: 29 September 2006

TO: Members of the International Public Sector Accounting Standards Board

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).

### On-Going Projects

#### Performance Reporting

*Status: Final Statement of Recommended Practice (SORP) approved*

PSAB approved a Statement of Recommended Practice for Public Performance Reporting (SORP – 2) at its June 2006 meeting.

The SORP sets out recommended practices for reporting both financial and non-financial performance information in order to provide a comprehensive, balanced and transparent picture of the entity's performance. It is neither prescriptive about a report's structure or a template.

At the time of writing this report, plans are being drafted to develop implementation guidance supporting the application of the Public Performance Reporting SORP.

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

*Status: Reporting Model – Comments on Exposure Draft being analyzed  
Tangible Capital Assets – Final Section PS 3150 Tangible Capital Assets approved*

#### *Reporting Model*

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

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

It expands the scope of the reporting model proposing to include local governments. Among other things it also:

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

At the time of writing this report, comments were still be analyzed.

PSAB is scheduled to approve final sections regarding the Reporting Model in November 2006.

#### *Tangible Capital Assets (TCAs)*

The final Handbook Section was approved in June 2006.

#### Financial Instruments

*Status: Comments on First Statement of Principles – Recognition and Measurement of Derivatives being analyzed and a Second Statement of Principles – Financial Instruments under development.*

The first SOP – *Recognition and Measurement of Derivatives* (approved in January 2006) evaluated measurement and recognition of derivatives in relation to PSAB's conceptual framework. It set out fundamental principles and key definitions that will provide a clear direction for continuing efforts to develop public sector financial instruments standards proposals.

Responses supported the definitions proposed for financial instrument and derivative as well as the assertion that derivatives represent rights and obligations that meet PSAB's definitions of assets or liabilities.

A second SOP is under development that will build on the basic principles outlined in the first SOP and consider hedge accounting and measurement of non-derivative financial instruments.

In the meantime, a request for information has been issued to gather information regarding the use of hedges by governments.

PSAB is scheduled to approve the second statement of principles in March 2007.

## Government Transfers

*Status: Exposure Draft (ED) approved.*

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

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

The Board felt to date, no option was likely to please a majority of the government community so the more theoretically defensible option made the most sense. In June 2006 PSAB approved an Exposure Draft, "Government Transfers".

The ED proposals require a strict application of the conceptual framework such that:

- All transfers given out, even if multi-year or related to capital, are to be booked as expenses immediately once they are authorized and recipients have met any eligibility requirements.
- All transfers received, even if multi-year or related to capital, are to be booked as revenue immediately once they are authorized and the recipient government has met any eligibility requirements.

These proposals were based on the fact that transfers are non-exchange transactions and thus create no asset for the transferor and no liability for the recipient when they are provided or received.

The ED had a response date of September 30, 2006 which has been extended until October 13, 2006 to try and accommodate constituents request for additional time.

At its November 2006 meeting, PSAB will consider the next steps in the project with a final standard anticipated in March, 2007.

## Tax Revenue (formerly Revenue)

*Status: Comments on Invitation to Comment (ITC) being analyzed.*

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

Salient features of the ITC are:

- It proposes to adopt the definitions and standards in ED 29, for tax revenues in Canada.
- It provides a link to ED 29 on the IPSASB's website.
- It summarizes the main features of ED 29.
- It does not seek comment on the transfers proposals in ED 29 (PSAB has a separate project on this).
- Comments received will be sent to the IPSASB (unless confidentiality is requested).

At the time of writing this report the comments were still being analyzed. However, a preliminary review shows general support for the principles.

PSAB is scheduled to consider a public exposure draft based on the tax revenue recognition principles set out in IPSASB ED 29, Revenue from Non-Exchange Transactions, in March 2007

### Introduction to the CICA Public Sector Accounting Handbook

*Status: Project Proposal Approved*

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

- improve the usefulness of the CICA PSA Handbook by making the Introduction more comparable with the Introductions to the CICA HANDBOOK-ACCOUNTING and CICA HANDBOOK-ASSURANCE – most notably with respect to how those Handbooks reflect their respective Sections on hierarchies for generally accepted accounting principles/generally accepted auditing standards; and
- re-evaluate existing guidance in the Introduction as to what basis of accounting some categories of entities that are part of the 'public sector' should be applying in preparing their own general purpose financial statements.

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

### **New Projects**

#### Trusts

*Status: Project Proposal Approved.*

Approved in June 2006, the project will prepare a public sector guideline to clarify how to account for trusts.

The main objectives of the project will be:

- To improve the definition of a trust to help ensure consistency and comparability;

- To clarify the difference between ‘trusts under administration’ and government established trusts (other trusts) to help ensure consistency and comparability;
- To clarify other trusts are not precluded from being a government organization;
- To clarify other trusts are assessed being a government organization using ‘control’; and
- To give additional guidance on applying control to other trusts.

### Infrastructure Deficit

*Status: Project Proposal Approved.*

Approved in June 2006, the project will result in a Statement of Recommended Practice for Reporting the Infrastructure Deficit that will provide general guidance to encourage and assist public sector entities in effectively reporting supplementary information on tangible capital assets that is useful in evaluating the entity’s financial condition at the financial statement date and its financial and non-financial performance during the reporting period.

The main objectives of the project will be to improve comparability and reliability of financial information within and across governments through the use of:

- Common language and understanding;
- Standard definitions of terminology;
- Standard measurements;
- Consistency between and within organizations; and
- Reliable and unbiased information.

### Environmental Liabilities

*Status: Project Proposal Approved.*

Approved in June 2006, the project will provide guidance to determine when a government could be obligated to address an environmental concern and where an obligation exists, what items need to be considered in determining the breadth of the obligation and the recognition, measurement and disclosure for such liabilities.

One of the key issues to be addressed in the project is what the scope of the standard being developed is. The first step will be to determine the types of obligations that will fall within the definition of an environmental liability.

### Foreign Currency Translation

*Status: Project Proposal Approved.*

Currently, Section PS 2600 permits a deferral and amortization approach to recognizing the foreign exchange gains and losses on long-term foreign currency-denominated monetary items. At the time of approval, given the move to immediate recognition by most other standard setters, both public and private, PSAB made a commitment to review the issue of deferral and amortization versus immediate recognition in three years.

This project will not address the issues associated with the hedge accounting provisions currently found in Section PS 2600. Application of hedge accounting is a separate issue and the Financial Instruments Project has been mandated to address hedge accounting from a broader perspective than just currency risk. Current hedge accounting provisions would be maintained until the Financial Instruments Project is completed.

#### Indicators of Financial Condition

*Status: Project Proposal Approved.*

To help users of financial statements understand the state of government finances, there is a need for simple, commonly used financial indicators beyond those presented in financial statements. Information provided by governments on the economic circumstances that influence financial statement measures is different among governments.

Providing guidance on those indicators contributes to consistency allowing a majority of users to draw reasonably similar conclusions about government finances.

#### Reference

More detailed information on the work of the Canadian Board can be found at [www.psab-ccsp.ca](http://www.psab-ccsp.ca)

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

**September 21, 2006**

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

**Subject: Country Report September 2006**

**Section I: The process of adopting International accounting standards**

(1) Work of the Israel Government Accounting Standards Board

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

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

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

- a) Exposure draft of standard no. 9 - *Revenue from Exchange Transactions*.
- b) Exposure draft of standard no. 6 - *Consolidated Financial Statements and Accounting for Controlled Entities*.
- c) Exposure draft of standard no. 7 - *Accounting for Investments in Associates*.

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- d) Exposure draft of standard no. 20 - *Related Party Disclosures* .
- e) Appoint an observer to the committee.

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

## (2) Final Standards

The following became final standards:

- (a) Standard no. 1 - *Presentation of Financial Statements (March 06)*.
- (b) Standard no. 2 - *Cash Flow Statements (September 06)*.
- (c) Standard no. 3 - *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies (May 06)*.
- (d) Standard no. 6 - *Consolidated Financial Statements and Accounting for Controlled Entities (August 06)*.
- (e) Standard no. 7 - *Accounting for Investments in Associates (August 06)*.
- (f) Standard no. 9 - *Revenue from Exchange Transactions (July 06)*.
- (g) Standard no. 12 - *Inventories (May 06)*.
- (h) Standard no. 14 - *Events after the Reporting Date (March 06)*.
- (i) Standard no. 17 - *Property, Plant and Equipment (June 06)*.

Exposure draft no. 20 has now been published for comments from the public.

## (3) The Ad - Hoc Teams' Work

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

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

The following is a specification of their work.

### **June 2006**

*Accounting for Investments in Associates* - this team was working on the adoption of IPSAS 7.

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

### **July 2006**

*Cash Flow Statements* - this team was working on the adoption of IPSAS 2.

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

### **August 2006**

*Related Party Disclosures* - this team was working on the adoption of IPSAS 20.

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

### **September 2006**

(a) *Borrowing Costs* - this team was working on the adoption of IPSAS 5.

*The team completed its work in September 2006 and the exposure draft is expected to be approved at the Board's meeting in October.*

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- (b) *The Effects of Changes in Foreign Exchange Rates* - this team was working on the adoption of IPSAS 4.

*The team completed its work in September 2006 and the exposure draft is expected to be approved at the Board's meeting in October.*

(4) A solution to professional issues

The Israeli government has two mechanisms for dealing with professional issues. Theoretical problems addressed by publication of an Israeli GASB interpretation. The dealing with practical implementation problems is through the issuance of an Accountant General's circular.

The committee intends to issue several interpretations in the near future, as needed. The following issues have been discussed in this context:

- (a) Inventories - the committee decided to issue an interpretation (to Government Accounting Standard Number 12) which would provide a detailed discussion regarding to confiscated inventory, emergency inventory, and forfeited inventory.
- (b) Recognition of income - the committee decided to issue an interpretation (to Government Accounting Standard Number 9) dealing with the subject of certainty of debts collection, which would establish that certainty of collection is a basic condition for recognition of income. This subject is especially important for the government, in light of the transfer to an accrual basis.
- (c) Cash flow - a number of issues were discussed (to Government Accounting Standard Number 2):

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- (1) One issue was the question of when an investment is to be considered as a cash equivalent. The Standard does not deal with this, but gives an example of a three-month or shorter investment. The professional committee decided to deal with this issue by appealing to the government ministries comptrollers in order to learn what is done in practice, and to examine, in accordance with the information gained, whether it is necessary to issue an interpretation.
- (2) An additional issue that was put on the agenda deals with short-term credit. The accounting Standard creates two alternatives regarding the presentation of short-term credit, and the question arose as to whether only one alternative should be chosen to be the method to be implemented in Israel.
- (5) The appointment of observers to the committee  
The professional committee approved the appointment of Mrs. Adi Cohen Mor to serve as an observer to the professional committee, representing the Israel Securities Authority. The Auditor General was recently asked to provide an observer from his office to serve as a representative at the professional committee's meetings.

## **Section II: Financial statements for 2005**

The English text of the State of Israel's financial statements for 2005 was published on August 2006.

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

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

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

### **Section IV: Absorption of accounting standardization**

- (1) An all day seminar was held at the beginning of September 2006 for the accountants of the various government ministries regarding the adoption of international accounting standards in the government ministries.
- (2) With the recommendation of the professional committee and with the blessing and approval of the Accountant General, a course will be offered in November of 2006 for the comptrollers of those government ministries that have already assimilated to the MERKAVA system, in order to teach the government accounting standards and to deal with as many issues as possible before those standards are adopted. The

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course will be taught by members of the professional committee, the professional staff and representatives from the ad hoc teams.

Sincerely,

**Ron Alroy, C.P.A.**

Chief Accountant  
Ministry of Finance

**Haya Prescher, C.P.A.**

Project Manager - Government Accounting,  
Ministry of Finance

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## Country Report – Malaysia

This report summarizes the activities of Malaysian Accounting Standards Board (MASB) and Public Sector Accounting Standards Committee (PSASC).

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

### MASB Profile

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

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

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

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

### A. Approved Accounting Standards Issued

#### Financial Reporting Standards [FRS]

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

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

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

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

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

Standard	Title
FRS 1	First-time adoption of Financial Reporting Standards
FRS 2	<u>Share-based Payment</u>
FRS 3	<u>Business Combinations</u>
FRS 5	<u>Non-current Assets Held for Sale and Presentation of Discontinued Operations</u>
FRS 6	Exploration for and Evaluation of Mineral Resources
FRS 101	<u>Presentation of Financial Statements</u>
FRS 102	<u>Inventories</u>
FRS 107	Cash Flow Statements
FRS 108	<u>Accounting Policies, Changes in Accounting Estimates and Errors</u>
FRS 110	<u>Events After the Balance Sheet Date</u>
FRS 111	<u>Construction Contracts</u>
FRS 112	<u>Income Taxes</u>
FRS 114	<u>Segment Reporting</u>
FRS 116	<u>Property, Plant and Equipment</u>
FRS 117	<u>Leases</u>
FRS 118	<u>Revenue</u>
FRS 119	<u>Employee Benefits</u>
FRS 120	<u>Accounting for Government Grants and Disclosure of Government Assistance</u>
FRS 121	<u>The Effect of Changes in Foreign Exchange Rates</u>
FRS 123	<u>Borrowing Cost</u>
FRS 124	<u>Related Party Disclosures</u>

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



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

## B. Exposure Drafts Issued

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

ED	Title
ED 52	Private Entity Reporting Standards
Ed 53	Framework for the Preparation and Presentation of Financial Statement
ED 54	Amendment to Financial Reporting Standard FRS 121-The Effects of Changes in Foreign Exchange Rates

## C. Exposure Drafts Pending

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

ED	Title
ED 48	<u>Exploration for and Evaluation of Mineral Resources</u>
ED 49	<u>Amendment to FRS 119 Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures</u>
Ed 50	<u>Agriculture</u>
ED 51	<u>Insurance Contracts</u>
Draft IC Interpretation	IC Interpretations 1, 2, 5

## Public Sector Accounting Standards Committee Profile

The Public Sector Accounting Standards Committee is established in the year 1992 in order to enhance accountability and improve standards of government financial reporting. Public Sector Accounting Standards Committee is responsible for issuing of Government Accounting Standards (GAS) in Malaysia. The objectives of these Standards are to prescribe the basis for presentation of general purpose financial statements in order to ensure comparability and also to comply with

the Federal Constitution and Financial Procedure Act 1957 which are being enforced. Public Sector Accounting Standards applies to Federal Government and all States Governments.

The functions and powers of the PSASC are to:

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

## **A. Approved Accounting Standards Issued**

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

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

## **B. Exposure Drafts**

Exposure drafts on the following new standards have been issued in July 2006.

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

Currently, PSASC is in the process of finalizing this two accounting standards.

Prof. Andreas Bergmann, Dr. oec.

## **Country Report Switzerland**

(Norwalk CT Meeting, November 2006, prepared 25 September 2006)

### **A. Federal Government**

The IPSAS implementation project of the Federal Government is well on track. In a recent survey by the Auditor General, the offices and agencies almost unanimously signalized their preparedness for the operational start by 1 January 2007. None of the remaining issues is considered critical for the project as a whole.

The scientific report in respect of the scope of consolidation (consolidated financial statements are due to be implemented in a second stage by 2009) is strongly endorsing the need to present consolidated financial statements, despite whole of government financial statements are not very common from a global perspective and only a few countries have implemented them, as yet. The main obstacle when defining the scope of consolidated entities is the contradicting evidence in respect of control. Many entities show some evidence of control by the Federal Government, but have at the same time mechanisms in place that severely restrict control or require the Federal Government to share the power with other constituencies. This is mainly due to the negative meaning of “power” in the Swiss culture. However, the research report revealed the same difficulties in other countries. This could result in a very unbalanced scope of consolidation, because some entities effectively elude from consolidation while others, as a matter of fact even very similar ones, fail to do so and will consequently be consolidated. To prevent such an unbalanced situation, the research report advises to consider high levels of government subsidies for the operation as a main criterion for power and benefit, at least in the first place. This criterion can be observed in many countries when first introducing consolidated financial statement, because it is perhaps more robust than other criterions.

The second issue in the Federal Government implementation project is the

constitutional reform which will take place in 2008, the second year under IPSAS. This reform reallocates a large number of duties and responsibilities between the three levels of government. This includes in some cases the transfer of assets or liabilities, however, as part of comprehensive package also including future revenues and expenses, as well as duties and responsibilities which are, by their nature, unrelated. The main issue is whether or not to recognize the transfer of assets and liabilities as revenues and expenses or as balance sheet transactions. The package character of the entire reform led to the conclusion, that individual transactions do not meet the definition of a non-exchange transaction, according to ED 29. However, also the adoption of IFRS 3 on Business Combinations falls short, mainly because of the difficulty to determine positive or negative goodwill and lack of well confined entities. Before the reform takes place, many public duties and responsibilities are shared between the three levels with delimitations largely varying virtually on a case to case basis. Therefore a preliminary decision was taken, that assets and liabilities should be recognized in a balance sheet transaction rather than as revenue or expense in the moment the reform takes place.

## **B. State (Canton) Governments**

The two states Geneva and Zurich are on track for a 2008 implementation of IPSAS based financial reports. Both are still working on a few remaining technical issues, but mainly on the restatement.

The main technical issue remains, as reported in the July Country Report, employee benefits. The government of the state of Zurich has requested two independent expert opinions because of the disagreement between the state auditor general and the external advisors and experts (including the Swiss IPSASB member). The auditor general identified major conceptual flaws in IAS 19, while the external advisors and experts supported the position taken in IAS 19 and advised that a future IPSAS on employee benefits is likely to be similar to IAS 19. The two independent expert opinions have now fully confirmed the position taken by the previous experts. Eventually, the government has approved the adoption of IAS 19. However, one of the new experts has criticized some of

the actuarial assumptions used. Obviously not only interest rates, which are also controversial in the discussion of the IPSASB, but virtually all actuarial assumptions seem to be highly controversial amongst actuaries. Especially if the reporting entity is acting monopolistically in a substantial part of the market, i.e. because it is an almost exclusive employer for many professions such as teachers, police officers or nurses, market information is like to be unavailable or strongly biased by monopolistic power. The ongoing controversy on actuarial assumptions is major source of uncertainty and concern. It would be very much appreciated, if the IPSASB would consider clarifying the determination of actuarial assumptions in a basis of conclusion, when drafting its own standard on employee benefits.

The Conference of State Ministers of Finance in the mean time has confirmed preliminary results of the reform of the accrual Harmonized Accounting Model (HAM). The new HAM will allow states to adopt IPSAS and fully comply with both the HAM and IPSAS. However, it does not require or encourage the adoption of IPSAS. This will ultimately lead to substantial differences between the states. However, this not uncommon in a strongly federal country like Switzerland.

### **C. Invitation to the IPSAS-Board**

The Federal Departement of Finance and the Zurich State Departement of Finance have agreed to join ly apply for the hosting of the IPSASB fall 2008 meeting in Zurich. Both consider fall 2008 to be a very feasible moment for such an event, as the first financial reports under IPSAS of the federal government will be available by that time, while the first year under IPSAS in the State of Zurich (and Geneva) is almost over and many experiences could be shared in the seminar. Certainly Zurich, nick-named the "little big city", is a prime location for the IPSASB meeting itself, with its pristine location on the lakeshore and convenient transportation facilities.

Andreas Bergmann

**The United Kingdom public sector and public benefit sector report on a full accruals basis, using sector guidance based on UK GAAP. IPSASs have not been adopted.**

## **A. ACCOUNTING STANDARDS BOARD DEVELOPMENTS**

### **1. New Accounting Standards**

#### Standards Issued/ amended

The UKASB has amended no Financial Reporting Standards subsequent to those included in the report for the July 2006 meeting.

#### Urgent Issues Task Force

The UKASB UITF has issued no abstracts or draft abstracts subsequent to those included in the report for the July 2006 meeting.

### **2. UKASB Exposure Draft amending FRS 17 'Retirement Benefits' and proposing a new Reporting Statement 'Retirement Benefit – Disclosures'**

On 31 May 2006, the UKASB issued an exposure draft of an amendment to FRS 17 'Retirement Benefits' and proposing a new Reporting Statement 'Retirement Benefit – Disclosures'.

The exposure draft proposes an amendment to FRS 17, which replaces the disclosures required by FRS 17 with those of International Accounting Standard (IAS) 19. This achieves convergence between the FRS 17 and IAS 19 in relation to disclosures.

In addition, the exposure draft sets out a draft Reporting Statement which aims to complement the disclosures proposed in the amendment to FRS 17. The draft Reporting Statement sets out six principles to be considered when providing disclosures for defined benefit schemes. The draft Reporting Statement is designed as a formulation of best practice; it is intended to have persuasive rather than mandatory force.

The UKASB reviewed disclosures in the light of concerns expressed that financial statements do not contain sufficient information to allow users to adequately assess the risks arising from defined benefit schemes. They also took into consideration the significant changes that have been made to the UK regulatory regime for pensions since FRS 17 was developed.

Consultation on this exposure draft was completed in September 2006 and the UKASB is reviewing responses.

### **3. UKASB Exposure Draft amending FRS 25 (IAS 32) 'Financial Instruments: Presentation'**

On 21 July 2006 the UKASB issued an exposure draft of an amendment to Financial Reporting Standard (FRS) 25 (IAS 32) 'Financial Instruments: Presentation', to change the classification from liabilities to equity of certain financial instruments, following similar proposals to amend International Accounting Standard (IAS) 32 'Financial Instruments: Presentation' issued in June 2006 by the International Accounting Standards Board (IASB).

#### 4. UKASB Discussion Paper on 'Heritage Assets'

The UK exposure draft was released in January 2006. The comment period ended on 31 May 2006, after which the UKASB considered the responses. Proposals for amendments to FRS 15 'Tangible Fixed Assets' have been developed and submitted to the UKASB, but the issue of an exposure draft was not approved. It is expected that this will be reconsidered after some issues of detail have been addressed and certain audit issues have been resolved.

### B. AUDITING PRACTICES BOARD DEVELOPMENTS

#### 1 Revised ISAs (UK & Ireland)

The UKAPB has revised no ISAs (UK & Ireland) subsequent to those included in the report for the July 2006 meeting.

#### 2 APB Practice Notes

Practice Note 10(I): 'Audit of Central Government Financial Statements in the Republic of Ireland'.

The revision provides guidance on audit procedures following the replacement of the SASs with the ISAs (UK and Ireland). It supersedes the current Practice Note 10(I) which was issued in January 2002.

#### Consultations

Recent and ongoing consultations include

- Practice Note (PN) 20: "The Audit of Insurers in the United Kingdom"
- Practice Note (PN) 15: "The audit of occupational pension schemes in the United Kingdom"

#### 3 Bulletins

Bulletin 2006/5 – "The Combined Code on Corporate Governance: Requirements of Auditors under the Listing Rules of the Financial Services Authority and the Irish Stock Exchange".

Bulletin 2006/5 provides guidance for auditors when reviewing a company's statement made in relation to the "Combined Code on Corporate Governance" issued by the Financial Reporting Council and takes account of:

- The issuance of "Internal Control: Revised Guidance for Directors on the Combined Code" (Turnbull Guidance) in October 2005; and
- The issuance of revised Listing Rules in 2005.

**C. LOCAL GOVERNMENT****Local Authority Statement of Recommended Practice (SORP) 2006  
Consultation and Financial Instruments Discussion Paper**

Formal UKASB approval was given to the LA SORP 2006 on 15 June 2006.

**D. REGISTERED SOCIAL LANDLORDS**

On 21 July 2006, The National Housing Federation and the Welsh and Scottish Federations of Housing Associations issued an Exposure Draft of a third edition of the SORP for registered social landlords.

The Exposure Draft reflects changes in financial reporting standards and other accounting practice since the 2005 SORP Update. It also includes further guidance in areas such as shared ownership sales, onerous contracts and mixed tenure development and has been restructured to remove duplication and improve readability.

**E. CHARITIES SECTOR**

The UKASB has approved proposals under which the Charity Commission and the Office of the Scottish Charities Regulator will work as a joint SORP making body for the Charity sector.

**F. FINANCIAL REPORTING COUNCIL**

On 27 June 2006, the UKFRC published an updated version of the Combined Code on Corporate Governance.

A small number of changes have been made to the previous version of the Combined Code, which was published in 2003. These enable the company chairman to sit on the remuneration committee if considered independent on appointment; provide shareholders voting by proxy with the option of withholding their vote on a resolution; and encourage companies to publish the details of proxies lodged on resolutions where votes are taken on a show of hands.

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29 September 2006