IFAC PUBLIC SECTOR COMMITTEE
IFAC PSC MEETING – July 2004

COUNTRY REPORT – AUSTRALIA
(Prepared 28 May 2004)

This Country Report only notes events since the last Report was prepared for the March 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.

Current AASB projects that have particular implications for public sector entities for which no further substantial progress has been made since the March 2004 Country Report was prepared include:

- Fair Value and Deprival Value
- Statement of Financial Performance/Performance Reporting
- Public Infrastructure Arrangements

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) and, as reported in the previous Country Report, has broken the task into three phases:

Phase 1 – focuses on general purpose financial reporting by State, Territory and Commonwealth governments (commonly referred to as whole-of-government). This includes consideration of sector reporting issues (in particular General Government Sector [GGS] financial reporting) included in whole-of-government general purpose financial reports. It is planned that Phase 1 will result in a revised AAS 31 "Financial Reporting by Governments". The review of AAS 31 is also addressing a number of issues that do not arise directly out of the GAAP/GFS project, including guidance on determining when control over entities exists in the public sector.

Phase 2 – (being progressed concurrently with Phase 1, to the extent that resources allow) focuses on general purpose financial reporting by entities within the GGS (including government departments currently within the scope of AAS 29 "Financial Reporting by Government Departments"). It is planned to issue a standard that replaces AAS 29 and incorporates a GAAP/GFS convergence solution as soon as possible after the Phase 1 solution is issued. The review of AAS 29 is also addressing a number of non-GAAP/GFS convergence issues, as noted in the AAS 29 section below.

Phase 3 – will be considered once Phases 1 and 2 are sufficiently progressed and will focus on general purpose financial reporting by local governments, and other public sector entities (such as universities and government business enterprises).[1]

As also noted in the previous Country Report, the AASB has received two comprehensive submissions from Heads of Treasuries (HOTs) on a wide range of GAAP/GFS convergence issues. They note that some issues will be resolved through the adoption of IASB standards in Australia by 1 January 2005, and the IASB Reporting Comprehensive Income Project that anticipates a comprehensive single performance reporting statement that splits total performance into its two significant parts (whether on the emerging IASB basis of before remeasurements/remeasurements or on the GFS basis of transactions/other economic flows). Other issues will not be "naturally" resolved, but the HOTs submissions support the view that current GAAP should be retained for general purpose financial reporting for some of those issues (such as the treatment of dividends and defence weapons platforms). However, on other issues, HOTs advocate a change to GAAP, and therefore a difference between for-profit GAAP and not-for-profit public sector GAAP.

In considering an underlying guiding principle for dealing with GAAP/GFS convergence issues, the AASB has formed the preliminary view that, consistent with its policy of issuing sector neutral standards, unless there are compelling reasons to do otherwise, GAAP definition, recognition and measurement principles should be retained.

Following its consideration of the two comprehensive HOTs submissions, as reported in the previous Country Report, the AASB has prepared two Project Advisory Panel Consultation Papers – the first issued to Panel members on 18 November 2003 and the second on 17 December 2003 – for comment by 31 January 2004. These Consultation Papers contain preliminary AASB views on the main issues identified in the HOTs submissions. Copies of the Consultation Papers, together with the relevant HOTs submissions, are available on the AASB web site (http://www.aasb.com.au/workprog/board_papers/hot_subs/index.html).

Panel members' comments (and the comments of other respondents) on the issues are now being considered by the AASB in making its final decisions for inclusion in an Exposure Draft, which is planned to be issued in March 2005, after follow-up consultation with the Project Advisory Panel and other constituents on a range of issues.

The AASB received an additional submission from HOTs in March 2004 dealing with additional technical issues relating to dividends and superannuation.

At its 27 May 2004 meeting the AASB decided that an Exposure Draft staff should be developed that is based on the following approach:

- Regard GGS as a sector of whole of government and specify whole of government general purpose financial reporting requirements that include disclosure of a "partially consolidated" GGS financial report, which could be extracted as a stand alone financial report (that is not a general purpose financial report).

[1] At its December 2003 meeting the AASB expressed the preliminary view that it is unlikely that GAAP/GFS convergence will be applicable to government-owned business enterprises, or Government owned financial institutions.

Review of AAS 27 "Financial Reporting by Local Governments"

Following the comment period ending 27 February 2004, the AASB has received 29 submissions in response to ED 125 "Financial Reporting by Local Governments". AASB staff are currently collating the various responses in preparation for consideration by the AASB.

Review of AAS 29 "Financial Reporting by Government Departments"

As reported in the previous Country Report, the AASB decided that the scope of the proposed Standard to replace AAS 29 should be extended to apply to all entities within the General Government Sector (as defined by Government Finance Statistics) of a jurisdiction. The Board considered that this would promote consistency across jurisdictions.

A review of AAS 29 is being undertaken concurrently with the GAAP/GFS Convergence project (see the comment above under GAAP/GFS Convergence). A sub-committee of the AASB has been established, to make out-of-session progress on the review of AAS 29.

Issues papers have been prepared by staff on implications of expanding the scope of the standard to entities within the GGS, and disclosures about administered items for consideration by the sub-committee.

The decisions of the sub-committee are not intended to be a substitute for the full Board's consideration of the issues. Refining of the issues papers to reflect sub-committee views will hopefully expedite their passage through future Board meetings.

IASB Convergence (by 2005)

The AASB is continuing its program of aligning Australian accounting standards to the IASB standards that will be applicable on or after 1 January 2005 (see the AASB Plan for Adopting IASB Standards by 2005 on www.aasb.com.au). As part of this program, the AASB has issued the following Exposure Drafts:

- ED 110 "Request for Comments on IAS 7 Cash Flow Statements"
- ED 111 "Request for Comments on IAS 23 Borrowing Costs"
- ED 112 "Request for Comments on IAS 29 Financial Reporting in Hyperinflationary Economies"
- ED 113 "Request for Comments on IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions"
- ED 114 "Request for Comments on IAS 41 Agriculture"
- ED 115 "Request for Comment on IAS 19 Employee Benefits"
- ED 116 "Request for Comment on IAS 2 and IPSAS 12 Inventories"
- ED 117 "Request for Comment on IASB ED 4 Disposal of Non-current Assets and Presentation of Discontinued Operations"
- ED 118 "Request for Comment on IAS 11 Construction Contracts"
- ED 119 "Request for Comment on IAS 14 Segment Reporting" – for-profit sector only
- ED 120 "Request for Comment on IAS 16 and IPSAS 17 Property, Plant and Equipment"
- ED 121 "Request for Comment on IAS 31 Financial Reporting of Interests in Joint Ventures"
- ED 122 "Request for Comment on IASB ED 5 Insurance Contracts"

- ED 123 “Request for Comment on IASB ED of Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk”
- ED 124 “Request for Comment on: · The Definition of Reporting Entity; IASB *Framework for the Preparation of and Presentation of Financial Statements*; IAS 18 *Revenue*; and IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*”
- ED 126 “Request for Comment on IAS 34 Interim Financial Reporting”
- ED 127 “Request for Comment on IAS 37 Provisions, Contingent Liabilities and Contingent Assets”
- ED 128 “Request for Comment on IAS 12 Income Taxes”
- ED 129 “Disclosing the Impact of Adopting AASB Equivalents to IASB Standards”
- ED 130 “Request for Comment on IASB ED 6 Exploration for and Evaluation of Mineral Resources”
- ED 131 “Request for Comment on IASB ED Proposed Amendments to IAS 19 *Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures”*
- ED 132 “Request for Comment on IASB ED Proposed Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* — The Fair Value Option”

The outcomes of EDs 130, 131 and 132 may or may not apply for 2005 – see comment below about the IASB’s “stable platform”.

As noted in the previous Country Report, the AASB equivalents of IASB standards will, subject to AASB due process, broadly adopt the IASB standards word-for-word. Specific guidance for not-for-profit entities will be “embedded” in the AASB standards (for example, to address non-cash flow generating assets issues in relation to inventories, and property, plant and equipment for impairment purposes), clearly identified as only applying to not-for-profit entities. Where available and suitable in an Australian context, the not-for-profit entities text will be based on relevant IPSASs. Furthermore, the AASB standards may limit the options likely to be retained in IASB standards, and may also include requirements (such as disclosures) that are additional to the disclosures in IASB standards.

The IASB committed to delivering a “stable platform” of standards by 31 March 2004 for application in 2005. Notwithstanding this commitment, the IASB has responded to pressures from some constituents by proposing amendments to the stable platform (see above ED 132) that it proposes making applicable for 2005. This has created a difficult problem for the AASB that has a policy of allowing a reasonable time between issuing a standard and making it mandatory. The AASB’s oversight body, the Financial Reporting Council (FRC) has responded by noting that its “2005 directive” on IASB standards would be met by the AASB requiring application for 2005 of the set of standards existing at March 2004, and ignoring subsequent changes for the purposes of 2005 financial reports. This solves the issue of complying with the FRC directive, but if the AASB were to ignore the subsequent changes by the IASB, entities complying with the March 2004 set of standards, but not subsequent changes made by the IASB, would not be able to make a statement of unreserved compliance with IFRSs (although they would be complying with the AASB set of equivalents to IFRSs).

As reported in the previous Country Report, the AASB proposes in ED 124 that IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”, be applied by for-profit entities but that the existing Australian requirements continue to apply to not-for-profit (including public sector) entities. As part of its project to review AAS 27 "Financial Reporting by Local Governments", ED 125 includes commentary clarifying the existing Australian requirements relating to revenue recognition, including guidance on the accounting for government grants.

Employee Benefits

The AASB considered at its February 2004 meeting, draft Pending Standard AASB 119 "Employee Benefits" and approved it as a Pending Standard available on the AASB website. The Pending Standard incorporates the following decisions of the Board:

- not allowing the "corridor approach" option, and therefore requiring full recognition of actuarial gains and losses in relation to a defined benefit liability in the period in which they arise;
- require additional disclosure in respect of defined benefit plans about arrangements for employer contributions and funding;
- in relation to defined benefit plans, specifying that an entity must take into account any taxes of the superannuation fund when determining the defined benefit obligation or asset; and
- including Implementation Guidance, not forming part of the Standard, currently contained in AASB 1028 *Employee Benefits* in respect of non-monetary benefits, long service leave entitlements and termination benefits.

In April 2004, the AASB released an exposure draft, ED 131 "Amendments to IAS 19 *Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures*" that is based on the IASB ED. The IASB ED includes the following proposed amendments to IAS 19:

- introducing a third option for the recognition of actuarial gains and losses. This option permits entities with a full recognition accounting policy to recognise actuarial gains and losses directly in retained earnings;
- extending the provisions relating to multi-employer defined benefit plans to certain entities within a group; and
- requiring additional disclosures from US Standard SFAS 132 "*Employers' Disclosures about Pensions and Other Postretirement Benefits – an amendment of FASB Statements*".

These amendments, when incorporated in a revised IAS 19, are also expected to be incorporated in the Australian equivalent of IAS 19, AASB 119 *Employee Benefits*. However, the Board has decided to propose in the Australian Preface to the IASB ED that AASB 119 will prohibit the direct recognition of actuarial gains and losses in retained earnings, therefore, continuing with the requirement for full recognition of actuarial gains and losses in the income statement. The Board has tentatively indicated that the amendments to AASB 119 are expected to be operative for annual periods beginning on or after 1 January 2006 and early adoption will be permitted for annual reporting periods beginning on or after 1 January 2005 (the date of first adopting Australian equivalents of IFRSs). The comment period for submissions on ED 131 closes on 30 June 2004, while the comment period for the IASB ED closes on 31 July 2004.

Director and Executive Disclosures

In January 2004, the AASB issued AASB 1046 *Director and Executive Disclosures by Disclosing Entities* that will be effective for years ending on or after 30 June 2004. The main aim of the new Standard is to improve the quality and comparability of disclosures by listed companies about the remuneration of those responsible for its governance. As is evident from the title of the Standard, the public sector has been scoped out (as well as other non-corporate entities and non-disclosing corporate entities). This is not because the principles were not applicable, but because of some earlier AASB debates over disclosures of Ministerial remuneration.

Related Party Disclosures

The adoption of the Australian equivalent to IAS 24 *Related Party Disclosures* is scheduled for consideration by the AASB at its next meeting, 27 May 2004. Despite the general principle that the Australian Standards equivalent to the IASB Standards should be 'sector-neutral', the staff recommendation is that at present the proposed AASB 124 should not apply to non-corporate entities and that the question of extension to the public sector should be deferred until the AASB has sufficient time to consider the ramifications.

Interests in Joint Ventures

At its December 2003 and March 2004 meetings, as part of its "IASB 2005" project, the AASB decided:

(a) to mandate the equity method and delete the proportionate consolidation method of recognising a venturer's interest in a jointly controlled entity in the Australian equivalent of IAS 31 *Interests in Joint Ventures*;

(b) that disclosures in the Australian equivalent of IAS 31 relating to interests in jointly controlled entities should conform with disclosures in the Australian equivalent of IAS 28 *Investments in Associates*; and

(c) to retain UIG 36 *Non-Monetary Contributions Establishing a Joint Venture Entity* as the Australian equivalent to SIC 13 *Jointly Controlled Entities-Non-Monetary Contributions by Venturers*.

Interests in Joint Ventures – the IASB's Research Project

Pursuant to the IASB's decision in April 2003 that the AASB should be responsible for a research project on Joint Ventures, a project team led by Australia comprising staff from the standard setters from Australia, China/Hong Kong, Malaysia and New Zealand was formed. The project team presented a research project proposal to the meeting of the National Standard Setters and the IASB in April 2004. The proposal approved at that meeting recommended that the following issues should be addressed by the research project:

(a) the structure of joint ventures;

(b) the substance of joint ventures and the effect of legal form on the substance;

(c) the definition of a joint venture;
  - (i) the concept of joint control;
  - (ii) contractual arrangements as the basis for joint ventures; and
  - (iii) the concept of an entity;

(d) the appropriate method of accounting by venturers for interests in joint ventures; and

(e) disclosures by venturers about interests in joint ventures.

URGENT ISSUES GROUP (UIG)

The UIG deals with accounting issues of relevance to the private sector and/or the public sector. Consensus views agreed by the UIG are subject to veto by the AASB before they can be issued as Abstracts.

Since the March 2004 Country Report was prepared, the UIG has issued one Abstract, which is relevant to some entities in the public sector:

- Abstract 55 "Accounting for Road Earthworks".

This Abstract is of significance to the Federal, State and local governments as the owners of the public road network in Australia. The Abstract specifies that particular road earthwork assets can be considered not to have a limited useful life in certain circumstances, and that depreciation of such assets is not required. The Abstract also requires an entity to distinguish its depreciable and non-depreciable road earthworks, rather than applying a single useful life estimate to all of its road earthworks.

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 as the UIG has instead concentrated on developing Abstracts equivalent to SIC 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.

COMMONWEALTH GOVERNMENT, STATES AND TERRITORIES

Current Status

As reported in the March 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 March 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.

IFAC COUNTRY REPORT: UNITED KINGDOM

FINANCIAL REPORTING COUNCIL

Accounting Standards Board Developments

Convergence with International Financial Reporting Standards (IFRS) and Future Role of UK Accounting Standards Board (ASB)

Main proposals on convergence with IFRS/IAS

The ASB has issued a Discussion Paper, *UK Accounting Standards: A Strategy for Convergence with IFRS* in March 2004. The Discussion Paper sets out the ASB's views on the future development of UK Accounting Standards and on the future role of the ASB. It seeks comments on the views expressed by June 30 2004.

The main principles underpinning the Discussion Paper are that:

- there is no case for having two sets of different standards in the UK in the medium term i.e. IFRS/IAS and UK Financial Reporting Standards/Statements of Standard Accounting Practice (SSAPs)

- the ASB should not plan to issue new standards that are more demanding or restrictive than IFRS

The Discussion Paper highlights the standards that the ASB expects to issue with an effective date in 2005 or 2006 and gives a rationale for these proposals.

The expected standards include:

- **Retirement benefits:** Full adoption of FRS 17, *Retirement Benefits*, which is broadly the UK equivalent of IAS 19, *Employee Benefits*. FRS 17 has already been adopted in full by many parts of the public benefit sector.

- **Financial instruments**: UK Standards based on IAS 32, *Financial Instruments: Disclosure and Presentation* and IAS 39, *Financial Instruments: Recognition & Measurement*. IAS 39 will only be mandatory for listed companies.

- **Post-balance sheet events:** a UK standard based on IAS 10, *Events after the Balance Sheet Date*. This will replace SSAP 17, *Accounting for Post-balance sheet Events*. Following the publication of the Discussion paper the ASB fulfilled this intention by issuing FRS 21 (IAS10), *Events after the Balance Sheet Date*, which implements IAS 10 into UK GAAP.

- **Related party disclosures:** a UK Standard based on IAS 24, *Related Party Disclosure.*

- **Agriculture:** a possibility of a UK standard based on IAS 41, *Agriculture* taking account of changes arising from the IASB's review of IAS 20, *Government Grants.*

At the time that the Discussion Paper was issued the ASB had already issued FRS 20, *Share-based Payment*, based on IFRS 2, *Share-based Payment*. FRS 20 will apply to listed entities in 2005, but not until 2006 for unlisted entities.

From a public sector perspective the most significant implications arise from the proposed standards on Financial Instruments. ASB proposes that the scope of disclosure requirements in IAS 32 should be extended to all entities other than those governing the Financial Reporting Standards for Smaller Entities (FRSSE), rather than just listed entities and banking entities as originally intended.

The proposal to introduce a standard based on IAS 41 may have indirect public sector implications related to the review of IAS 20. ASB has no immediate intention to adopt IAS 20.

ASB's intentions in relation to the current UK standards FRS 5, *Reporting the Substance of Transactions* and FRS 15, *Tangible Fixed Assets* are highly significant from a public sector perspective. Application Note F to FRS 5 has underpinned the approach of the UK public sector to accounting treatments arising from the Public Finance Initiative.

ASB reaffirms its confidence in FRS 5 and asserts its belief that FRS 5 plays a critical role in UK financial reporting. Although some derecognition requirements in FRS 5 are addressed in IAS 39, there is little in IAS/IFRS on the derecognition of non-financial assets. ASB therefore proposes the retention of FRS 5 in UK GAAP until its most important requirements have adequate counterparts in IFRS. ASB acknowledges the International Financial Reporting Interpretation Committee (IFRIC) project on service concessions and states that this may lead to a replacement for Application Note F, but notes that this project is some way from completion.

On property plant and equipment, ASB considers that FRS 15 is far clearer on the measurement basis for assets on a revaluation model than IAS 16, *Property, Plant & Equipment*. Therefore there is no intention at present to replace FRS 15 with IAS 16 and IAS 23, *Borrowing Costs*. In particular the reliance on open market value existing use (OMVEU) for the measurement of non-specialised assets in continuing use and depreciated replacement cost (DRC) for specialised assets is particularly welcome from a public sector perspective.

ASB proposes that it will not implement three recently issued IFRSs, IFRS 3, *Business Combinations*, IFRS 4, *Insurance* and IFRS 5, *Disposal of Non-current Assets and Presentation of Discontinued Operations* into UK GAAP. The rationale varies. For IFRS 3 the ASB does not consider implementation appropriate until the IASB's Business Combination project is fully complete. In stating that it does not intend to implement IFRS 4, the ASB alludes to its own study of insurance accounting in response to a request from the Government following the Penrose Report into failures at Equitable Life, a major UK life assurance provider. The proposal not to implement IFRS 5 is due to the measurement issues for tangible fixed assets highlighted above. In general ASB does not wish to implement into UK GAAP standards that are likely to change in the short to medium term future, as this would require reporting entities to make two changes to accounting policies in a short period.

A further notable point in the Discussion Paper is the consideration of recycling, The ASB has been assiduous in its view that recycling gains and losses from equity to the profit and loss account is misleading, conceptually unsound and therefore inappropriate. However, the Discussion Paper notes that US GAAP requires recycling of gains and losses outside the profit and loss account. Under international GAAP recycling is required in relation to financial instruments designated as “available for sale” under IAS 39 and in relation to translation differences originally taken to equity on disposal of a foreign operation under IAS 21, *The Effects of Changes in Foreign Exchange Rates.* For financial instruments, ASB proposes partially to implement IAS 39 in relation to cash flow hedging and to accept recycling in respect of ‘available for sale’ instruments. For IAS 21 ASB considers that the main options are

- to continue with the proposal in a previous exposure draft FRED 24, *The Effects of Changes in Foreign Exchange Rates: Financial Reporting in Hyperinflationary Economies* to implement IAS 21 into UK GAAP but with an appendix to eliminate recycling; or

- to retain the current UK standard, SSAP 20, *Foreign Currency Translation,* until the IASB project on reporting comprehensive performance is complete.

The ASB concedes that IAS 21 is a superior standard to SSAP 20.

Statements of Recommended Practice (SORPs)

The Discussion Paper addresses Statements of Recommended Practice (SORPs). SORPs provide interpretations of FRSs for specialised sectors of the economy and have no international equivalent. SORPs cover a number of areas of the UK public benefit sector including, local government, tertiary education and charities. The ASB accepts that “it seems unlikely that SORPs will be mandatory for accounts prepared under the (EC) regulations”. However, the ASB believes that SORPs have made a significant contribution to the quality of UK financial reporting and proposes to continue to support their development and maintenance.

ASB's Future Role

In the discussion of its future role ASB states an intention to address issues that arise in the context of entities using UK Standards. In this context there is a specific reference to the public benefit sector.

Revisions to IAS 19, Employee Benefits and IFRIC Interpretation D6

The ASB has welcomed the proposals by the IASB for limited amendments to IAS 19, *Employee Benefits* and has issued the proposals as a Consultation Paper for UK constituents. In particular, IASB's proposal for the introduction of an alternative accounting treatment allowing entities to choose to recognise actuarial gains and losses in full when they arise, outside profit and loss, in a statement of recognised income and expense goes a considerable way to narrowing the differences between FRS 17, *Retirement Benefits* and IAS 19. The treatment in FRS 17 is for actuarial gains and losses to be recognised in the Statement of Recognised Gains and Losses. There are no current intentions to adopt IAS 19 into UK GAAP.

The ASB is preparing a response to the draft IFRIC Interpretation D6, *Multi-Employer Plans.* One of the main purposes of draft D6 is to clarify, and make more stringent, the circumstances in which an entity that is a member of multi-employer plan can adopt the defined contribution approach. Although FRS 17, *Retirement Benefits* governs the UK approach to the treatment of surpluses/deficits in multi-employer plans draft D6 has some resonance for the local authority component of the UK public benefit sector as the individual funds comprising the main UK Local Government Pension Scheme contain a large number of participant entities. The assertion in draft D6 that an entity shall not make an automatic assumption that, because it is an multi-employer plan, it does not have access to sufficient information to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes, is therefore of interest to the local authority sector. The assertion in fact seems consistent with the current approach in the Local Government SORP, which requires entities to report on a defined benefit basis unless clearly defined criteria are met.

Interpretation of Statement of Principles for Public Benefit Sector

Work is progressing on a further version of the *Interpretation of the Statement of Principles for Financial Reporting* and it is likely that an Exposure Draft will be issued in the final quarter of 2004. The Exposure Draft is likely to reflect further discussion and analysis in areas raised by respondents to the Discussion Paper issued in 2003. A number of these topics are in the same areas covered by the PSC's Invitations to Comment on the policy obligations of government and non-exchange revenue earlier this year. They include:

- whether performance related grants are analogous to executory contracts
- conditionality for multi-year non-performance related grants
- treatment of capital contributions (gains v. increases in residual interest)
- external capital grants with repayment clauses
- treatment of voluntary services
- merger accounting in the public benefit sector

Operating & Financial Review

The Government has published draft regulations for consultation on the Operating and Financial Review (OFR) and the Directors' Report and announced that it proposes to use forthcoming legal powers to specify that the ASB produces a standard for a mandatory OFR, which will build on the Board's existing statement of best practice. OFRs, which are broadly the equivalent of Management's Discussion and Analysis (MD & A) in the USA, are already required in a number of areas of the public sector. Although a standard is likely to be initially targeted at listed entities it will probably also to a review of approaches to the OFR in the public benefit sector.

Auditing Practices Board Developments

International Standards On Auditing (ISAs) will have a more immediately pervasive influence in the United Kingdom than IFRS/IAS following the UK Auditing Practices Board (APB) proposal on 6 May 2004 to adopt ISAs. Prior to this the APB had announced that it intends to adopt the recently issued ISAs on audit risk, fraud and quality. Rather than initiate consequential changes to extant UK Statements of Auditing Standards (SASs) the APB concluded that it would be more efficient to adopt the complete suite of ISAs. In making this decision the APB was influenced by the expectation that the European Commission will require the replacement of national auditing standards with ISAs in the near future.

The APB has reviewed all its SASs to identify instances where they contain higher standards than those contained in equivalent ISAs. Where material is considered to be relevant and helpful such material will be incorporated into ISAs for UK application. This approach is known as "ISA Plus". The additional material will be differentiated clearly from the ISA content. The APB hopes to withdraw such supplementary material as further ISAs are revised by IAASB. The APB is likely to launch an extensive consultation on exposure drafts of 29 ISAs in late June 2004.

APB pronouncements can be downloaded from the APB website at www.frc.org.uk/apb.

RESOURCE ACCOUNTING AND BUDGETING/WHOLE OF GOVERNMENT ACCOUNTS

Resource Accounting

The last UK Country Report noted a significant improvement in the quality of resource accounts as measured by the number of resource accounts receiving unqualified audit opinions. Although full data are not yet available it appears that there are also improvements in the timeliness of reporting, where the UK has some way to go to match the performance of New Zealand and Australia. For 2005-06 resource accounts the aim will be to have audited and published resource accounts laid before Parliament before the Summer recess in July 2006.

The Financial Reporting Advisory Board (FRAB) sanctioned a review of the format and content of resource accounts late in 2003. A consultation involving preparers, users and auditors concluded in early June. The aim is to make resource accounts clearer and more user-friendly and to introduce changes for 2005-06.

There are also proposals to convert the Resource Accounting Manual (RAM) into a Government Financial Reporting Manual, which will incorporate the currently separate accounting requirements and guidance for trading funds and non-departmental public bodies. The aim is also to make the manual more principles based.

The next Annual Report of the FRAB is due to be published on June 28. A discussion of the main issues will be provided in the next UK Country Report. It will be accessible at www.hm-treasury.gov.uk..

Whole of Government Accounts

HM Treasury has issue a further suite of instructions and guidance in its Dear Consolidating Manager (DCM) series for Central Government Accounts (CGA). CGA consolidates entities within the central government boundary and is an intermediate step to the compilation of whole of government accounts. The guidance/instructions are:

- DCM 2/04: Post Balance Sheet Events for Second Dry Run CGA (2002/03)
- DCM 3/04: Central Government Accounts: Small and minor bodies
- DCM 4/04: Central Government Accounts - Agreement of 2003/04 Transaction Streams and 2004 Balances
- DCM 5/04: Central Government Accounts - Excel Consolidation Pack

DCM 2/04 sets out the treatment of post balance sheet events in the second dry run CGA and highlights the information required from departments. In relation to both post balance sheet events arising before and after 31 March 2004, a materiality level of £100 million has been adopted.

DCM 3/04 describes thresholds below which, from 2003-04, bodies will be considered to be “small” and introduces new thresholds below which bodies will be entitled to be considered as “minor” for central government accounts purposes. As before, bodies deemed to be “small” will submit a more limited return for the purposes of preparing CGA, whilst bodies deemed to be “minor” will submit no information for CGA purposes. Bodies which do not meet the criteria as “small” or “minor” bodies are deemed to be “standard” and will be required to make a full return. The thresholds are:

All of the following must be met:	**Threshold for small bodies**	**Threshold for minor bodies**
Gross annual expenditure	Each body must be less than £100m	Each body must be less than £5m
Net Book Value of fixed assets	Each body must be less than £100m	Each body must be less than £5m
Net assets	Each body must be less than £100m	Each body must be less than £5m
Sub consolidation threshold	All small and minor bodies in a group must be less than 2% of the group total	All minor bodies in a group must be less than 0.5% of the group total

DCM 4/04 contains requirements for the agreement and confirmation of balances in order to ensure the overall accuracy of the consolidated numbers. As for 2002/03, bodies are required to confirm and agree all balances greater than £1,000,000 as at 31 March 2004 and transaction streams greater than £1,000,000 in the year ending 31 March 2004 with all other designated bodies - and funds administered by them - within Central Government (with the exception of those identified as "minor" per DCM 3/04). Balances and transactions below £1,000,000 must still be identified and reported though they need not be agreed.

DCM 5/05 provides requirements to all designated bodies designated for the purposes of CGA, which do not have access to the Government On Line Data (GOLD) consolidation system and are required to submit financial data for preparation of Central Government Accounts.

Further evaluation has been carried out on the second CGA dry-run in 2002-3. One significant issue is to ensure that data submitted through consolidation packs and the GOLD system for CGA purposes is consistent with those used for final accounts.

LOCAL GOVERNMENT

As highlighted in previous UK Country Reports, the 2004 edition of the *Code of Practice on Local Authority Accounting in the United Kingdom (the Local Government SORP)* proposed a major change to requirements for local authority group accounts. The main point to emerge from consultation was the desire of respondents for transitional arrangements. In pushing for the introduction of transitional arrangements respondents highlighted a number of issues including the more demanding nature of the proposed requirements compared with current requirements and the task of negotiating arrangements to receive information from group bodies, especially associates.

The requirements in the exposure draft have therefore been amended to permit local authorities to delay introduction of the revised group accounts requirements by one year, whilst encouraging local authorities to implement the revised requirements in 2004/05 if possible. Authorities choosing to adopt the transitional arrangements will be required to provide comparatives in 2005/06. The proposed transitional arrangements were considered by the ASB' s Public sector and Not-for-profit Committee in late May and will go to the full Board for ratification in June.

John Stanford, UK Technical Adviser

Accounting Standards Board

COUNTRY REPORT FOR THE IFAC PSC

SOUTH AFRICA

MAY 2004

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Accounting Standards Board (ASB)

Since the last country report, the ASB approved for issue the following:

- Preface to the Standards of Generally Recognised Accounting Practice (GRAP)
- Standard of GRAP on Presentation of Financial Statements
- Standard of GRAP on Cash Flow Statements
- Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors

- Preface to Standards of Generally Accepted Municipal Accounting Practice (GAMAP)
- Standard of GAMAP on the effects of changes in foreign exchange rates
- Standard of GAMAP on consolidated financial statements and accounting for controlled entities
- Standard of GAMAP on accounting for investments in associates
- Standard of GAMAP on financial reporting of interests in joint ventures
- Standard of GAMAP on revenue
- Standard of GAMAP on inventories
- Standard of GAMAP on property, plant and equipment
- Standard of GAMAP on provisions, contingent liabilities and contingent assets
- Exposure draft on Inventories*
- Exposure draft on Leases*
- Exposure draft on Investment Property**
- Exposure draft on Property, Plant and Equipment**
- Request for comment

The exposure drafts and request for comments close on (*)15 August and (**) 15 September respectively.

The changes made by the IASB to IAS arising out of the improvements project, and the consequences of any IFRICs that have been issued since the development of the equivalent IPSASs have been taken into account.

The Minister of Finance will be asked to issue regulations to implement the Standards of GRAP for financial years commencing on or after 1 April 2005, and to implement Standards of GAMAP based on capacity to implement for financial years commencing on or after 1 July 2005, 1 July 2007 and 1 July 2008, respectively. Standards of GAMAP are applicable to municipalities only. Standards of GAMAP will be superseded when the relevant Standard of GRAP is issued.

Two new project groups have been formed drafting exposure drafts on consolidations, joint ventures and associates and segment reporting respectively.

These are likely to be issued for comment during the second half of the year.

The asset project group is working on draft discussion papers on intangible assets and heritage assets. Our government stakeholders have expressed an urgent need for guidance in these areas.

Another project where work has started is an accounting guide on public private partnerships in conjunction with the Public-Private-Partnership Unit of National Treasury and the Office of the Auditor-General.

Auditing and Assurance Standards Board

The following exposure drafts based on exposure drafts issued by the International Audit and Assurance Board, applicable to audits in the private and public sectors are open for comment:

Title	*Comment Date:*
IFAC ED Planning the Audit	31 Oct 2004
IFAC ED Fraud in Audit	31 Oct 2004

South African Institute of Chartered Accountants (SAICA)

The following exposure drafts are open for comment:

Title	*Comment Date:*
ED 174 Preface to Statements of Generally Accepted Accounting Practice	21 May 2004
ED 176 Strengthening the IASB's Deliberative Processes	10 June 2004
ED 177 Amendments to IAS 39 Financial Instruments: Recognition and Measurement – the fair value option	7 July 2004
ED 178 Amendments to IAS 19 – Employee Benefits – Actuarial gains and Losses, Group Plans and Disclosures	16 July 2004
ED 179 Amendments to IFRS 3 – Business Combinations – Combinations by Contract Alone or involving Mutual Entities	16 July 2004
ED 180 Multi-Employer Plans	16 July 2004

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

Ministerial Panel for the Review of the Draft Accountancy Profession Bill

The Minister accepted the recommendations (refer to the January 2004 Country report) made by the Panel except in three areas, namely minimum statutory prohibitions on the provision of consulting services, audit partner rotation and the framework for regulating corporate governance in South Africa.

In supporting the recommendation that auditors should be regulated separately from accountants, the Minister indicated that a holistic approach to improving corporate governance would be critical.

Legal backing for accounting standards should be simultaneously introduced with legislation to regulate auditors and increase the liability of management with regard to the presentation of financial statements. This would require amendments to the Companies Act, 1973, the promulgation of the Financial Reporting Bill and the establishment of a new system for regulating auditors.

The new system to regulate auditors would include an authority that would subsume the current Public Accountants' and Auditors' Board ("PAAB").

The Government of South Africa is committed to ensuring that the new authority would be entirely independent of the profession. Funding for such an authority would be sourced from the profession, relevant entities and the *fiscus.*

The recommendation on the role of the audit committee as adjudicator over the impact of consulting services on the independence of the auditor was accepted. In so doing, the Minister stated that the new regulatory authority should have the ability to issue regulations governing the way in which the external auditor would provide any consulting services to a client. He noted that this would be particularly important in the area of business consulting services. While this area has the greatest potential for compromising the independence of the external auditor, it is also, however, very difficult to define precisely in statute.

The Minister supported the contention that no statutory limit be imposed on the proportion of audit versus non-audit fees. The matter should rather be determined by the new regulatory authority as an element of guideline - regulations for assessing auditor independence.

The Minister did not accept the recommendation that no minimum statutory prohibitions be placed on consulting services. There should be flexibility in regulation allowing for further prohibitions to be introduced or repealed by the new regulatory authority. The reason underlying this is that there are certain services that should never be performed by the external auditor for the client. Examples include book keeping, accounting and internal audit.

The recommendation to introduce audit partner rotation was also deferred. Further investigation of international trends would need to take place in this regard before the Minister takes a view on the matter.

The recommendations on changes to the regulatory framework governing corporate governance in South Africa were not supported. The Minister is of the view that any fundamental changes to the framework should be a result of collaboration between the department of Trade and Industry (DTI) and the National Treasury.

The National Treasury will redraft the Accounting Professions' Bill and other relevant legislation affected by the review. A redraft of the Bill is expected to be available for public comment in the second half of this year.

STATE OF ISRAEL

MINISTRY OF FINANCE - ACCOUNTANT GENERAL'S OFFICE

May 21, 2004

The International Federation of Accountants

Re: **<u>Country Report</u>**

Background

The government accounting records in Israel have thus far been made on a cash basis. The need for reforms in Israeli government accounting surfaced eight years ago. In November 1993, the Accountant General, in conjunction with the Institute of Certified Public Accountants in Israel, established a committee for reporting and accounting standards, for business enterprises that operate under the framework of the Budget Law.

In 1995, the Accountant General established a professional committee for examining the accounting regulations in the government's financial reporting. The committee's recommendations included – inter alia – a transition to financial reporting on a cumulative basis, while making the necessary adjustments given the uniqueness of the government sector, in accordance with the international accounting and reporting standards that exist in the business sector.

In July 2001, the Accountant General appointed a committee to formulate the accounting regulations and to assist in their adoption in the government ministries. The committee members were also entrusted with examining the implementation and adoption of the accounting regulations in the ERP system that was acquired for this purpose (*Merkava* – Comprehensive horizontal system in government ministries).

The new ERP system includes a financial module that will replace the existing financial systems and will support the performance of reforms in government accounting, in accordance with international accounting standards.

The principles of the reform – Modification of the accounting registration method and the accounting management, transition from a cash basis to an accrual basis and the inclusion of physical assets in the financial reporting.

It should be noted that the budget will continue to be obtained on a cash basis.

Within the framework of the adoption of the new ERP system, two government ministries have initiated the transition to cumulative accounting reporting (Ministry of Finance and Ministry of Science) and in accordance with the outcome – this reporting will gradually be assimilated in all government ministries.

The committee for the formulation of accounting regulations, headed by Deputy Accountant General, CPA Zvi Chalamish[1], includes representatives of the Accountant General, the Securities Authority, the Institute of CPAs in Israel and the Financial Accounting Standards Board. In formulating the government accounting regulations, the committee relied on international and American accounting and reporting regulations, while making slight adjustments, as necessary for the government sector in Israel. The committee has completed the formulation of 16 accounting regulations, of which five are in their final approval stages. (Appendix A).

According to the project's work plan, the adoption of the accounting reforms in Israel will be completed within three years, during which the ERP system will be integrated in all government ministries and will enable the adoption of the accounting regulations.

Summary

1. The regulations of the State of Israel are also based on American standards, while making the necessary changes for the government sector.
2. The timetable for adoption of the reforms will be approximately three years.

[1] In the next few weeks, CPA Ron Alroy, the Chief Accountant, due to replace CPA Chalamish as the head of the committee.

Under the aforementioned constraints, we shell be honored to join IFAC as members.

Sincerely,

Zvi Chalamish, CPA	Ron Alroy, CPA
Senior Deputy to the Accountant General	Chief Accountant

Appendix A – The Committee for the Formulation of Accounting Regulations at Government Ministries, Appointed by the Accountant General

1. Accounting regulations that were formulated:
   - 1.1 Regulation No. 1 – Supports and Grants
   - 1.2 Regulation No. 2 – Fixed Assets
   - 1.3 Regulation No. 3 – Inventories and Emergency Inventories
   - 1.4 Regulation No. 4 – Liabilities, Commitments and Engagements
   - 1.5 Regulation No. 5 - Investments
   - 1.6 Regulation No. 7 – Revenues from Barter Transactions
   - 1.7 Regulation No. 8 – Recognition of Revenues from Unilateral Transactions
   - 1.8 Regulation No. 9 – Projects Executed Under Contract
   - 1.9 Regulation No. 10 – Credit and Loans
   - 1.10 Regulation No. 11 – Employee Benefits
   - 1.11 Regulation No. 13 – Intangible Assets

2. Accounting Regulations in Final Stages of Approval
   - 2.1 Regulation No. 6 – Accounting for Leases and BOT Projects
   - 2.2 Regulation No.12 – Consolidation of Entities, Proportionate Consolidation and Equity Method
   - 2.3 Regulation No. 14 – Provisions, Contingent Liabilities, Contingent Assets and Discontinued Operations
   - 2.4 Management Discussion and Analysis
   - 2.5 Ministry, Accountant General and Consolidated Financial Statements

3. Accounting Regulations Planned for Stage B:
   - 3.1 Segment Reporting
   - 3.2 Events Subsequent to the Balance Sheet Date
   - 3.3 Impairment of Assets
   - 3.4 Financial Instruments
   - 3.5 Expropriation of Assets
   - 3.6 Materiality
   - 3.7 Capitalization of Borrowing Costs

IFAC – PSAC

PUBLIC SECTOR COMMITTEE

MEXICO'S COUNTRY REPORT – MARCH – MAY, 2004

Accounting principles:

- Standards issued
  - B-7 Business Acquisitions
  - E-2 Accounting and classification of contracts and Equity of non-profit entities
  - B-16 Financial Statements of non-profit entities

Starting June 1st, 2004, the accounting principles will be issued by the Mexican Council for research and development of Financial Reporting Standards (CINIF), an independent body.

Auditing Standards:

- Standards issued
  None
- Exposure drafts (same as in prior report)

DATE: 27 May 2004

TO: Members of the Public Sector Committee

RE: Country Report – Canada

INTRODUCTION

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

Financial Statement Discussion and Analysis (FSD&A)

At its March 2004 meeting, PSAB approved a final Statement of Recommended Practice for FSD&A.

The FSD&A SORP provides guidance for the presentation of FSD&A when a government includes FSD&A in its financial report. FSD&A information includes narrative explanations and graphical illustrations of what has happened throughout the period highlighting the key relationships that exist among the quantitative representations set out in the financial statements, as well as explanations and illustrations of variances and trends.

FSD&A reporting should:

- communicate information embodying the basic characteristics of understandability, relevance, reliability and validity, and comparability;
- include an acknowledgment of the government's responsibility for its preparation;
- provide a financial highlights section; and
- include a financial analysis review.

Funds and Reserves

At its March 2004 meeting, PSAB approved a final Public Sector Guideline FUNDS AND RESERVES, PSG-4. Key discussion points of the guideline were raised in Canada's country reports of June 25 and September 22, 2003.

Generally Accepted Accounting Principles

At its March 2004 meeting, PSAB approved for public comment Exposure Draft GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150 (ED 1150). Key discussion points and/or aspects of the guideline were raised in Canada's country reports of February 6, 2004.

ED 1150 closely resembles its private sector equivalent, CICA-Handbook Accounting GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section 1100.

Comment deadline is August 31, 2004.

Government Reporting Entity

In May 2003, PSAB approved revisions to CICA PSA Handbook**,** GOVERNMENT REPORTING ENTITY (GRE), Section PS 1300 regarding the definition of the GRE (see Canada country report of 25 June, 2003 for information about the revisions).

Under the new definition, there will be organizations included in the government's financial statements that previously were not. Some concerns were raised as to whether any change in how these organizations are accounted for is needed.

The standard requires full consolidation of all government organizations except government business enterprises (GBEs – which are accounted for using modified equity). While the Board continues to favor full consolidation for all government organizations other than GBE's, they recognize that from a practical stand-point, fully consolidating SUCH sector organizations (schools, universities, colleges, hospitals) could be a challenging task due to their volume.

Therefore, at their March 2004 meeting, the Board approved transitional provisions that would allow modified equity accounting for certain organizations for a three year period. After the transitional period all government organizations except for GBEs would be fully consolidated.

Government Transfers

At its March 2004 meeting, PSAB approved an Associates' Draft that proposes 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.

Liabilities, Contingent Liabilities and Contractual Obligations

This project does not address contingent assets. An Exposure Draft for this project was issued in December 2003, with a comment deadline extended into March 2004. PSAB is scheduled to approve final Handbook Sections (one for each of 'Liabilities', 'Contingent Liabilities' and 'Contractual Obligations') at its meeting in June 2004.

The key issue for the project relates to the definition of a liability – in particular the treatment of constructive and equitable obligations.

The existing definition of a liability in the PSA Handbook is problematic as it:

- takes a narrow "legal" approach (e.g., legislation in force).
- does not envisage constructive and equitable obligations that meet the definition of a liability.
- does not provide the essential characteristics of a liability that provide additional guidance.
- does not include those obligations such as externally restricted inflows.

The proposed Handbook Section:

- Removes the "legislation in force" and focuses on the substance of the transaction or event.
- Recognizes that there may be occasions where a government can have a constructive or equitable obligation that meets the definition of a liability.
- Provides the characteristics of a liability and additional guidance for interpreting and applying those characteristics.
- Recognizes that liabilities can exist as the result of externally restricted inflows.

Sale-Leaseback Transactions

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'.

The approach within proposed draft Public Sector Guideline – 5 (PSG-5) is to account for the sale and leaseback in accordance with its 'components' most notably 1- the sale, and 2- the subsequent leaseback.

This approach differs from the interdependence approach as it is based on the principle that with the aid of fair value information it is possible to separate the sale-leaseback transaction into its components parts. Each of those components can then be accounted for according to their economic substance.

Proposed PSG-5 embraces the asset/liability viewpoint therefore making it compatible with the new reporting model for federal, provincial and territorial governments. A notable impact this has on traditional reporting of sale-leaseback transactions is the discontinuation of recognizing deferred gains and losses from these transactions on the balance sheet (such gains and losses not meeting the definition of an asset or liability within the reporting model).

Further, in keeping with reporting the economic substance of the transaction, proposed PSG-5 provides allowance for immediate recognition of gains and losses when the leaseback constitutes an operating lease. Such a leaseback arrangement in substance constituting an outright sale of the property concerned.

A draft of PSG-5 was approved in principle by PSAB in March 2004. Subject to PSAB ballot approval, release for public comment of draft PSG-5 is expected in June 2004.

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 deadline to PSAB is June 1, 2004.

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.

The study is continuing and is expected to be published in 2004.

Local Government Financial Statement Reporting Model

This project will examine accounting for and reporting of non-financial assets of local governments. Non-financial assets include tangible capital assets, inventories of supplies and prepaid expenses such as insurance.

The task force is exploring the applicability of the new reporting model for federal, provincial and territorial governments to the local government community. The project is still in the early stages with a Statement of Principles anticipated for September 2004.

Financial Instruments

The purpose of the project is to develop accounting standards for the recognition, de-recognition, measurement, presentation and disclosure of financial instruments in government financial statements. The standard should establish principles that will guide the development of appropriate accounting policies for existing financial instruments as well as the new variations that will undoubtedly be created in the future.

The first step in this project will be a survey to ascertain the nature, extent of, and reporting practices for, the financial instruments of Canadian governments.

Staffing for this project is close to completion.

Performance Reporting

The project is designed to develop a set of basic overarching principles that will guide future development of performance reporting including a framework for identifying performance indicators. As a starting point, PSAB agreed to use the nine principles established by the Canadian Comprehensive Auditing Foundation (CCAF) as set out in its publication entitled "Reporting Principles – Taking Public Performance Reporting to a New Level". The project is still in the early stages.

Segmented Reporting

This project will focus on disclosure of additional information about segments of the government reporting entity in the summary financial statements of governments. The objective of requiring disclosures on governmental segments is to help users of financial statements better understand the different types of activities that government engage in. The project is still in the early stages.