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

COUNTRY REPORT – AUSTRALIA
(Prepared 17 February 2006)

In general, this Country Report only notes events since the last Report was prepared for the November-December 2005 IPSASB meeting. For a more comprehensive description of some of the projects on the AASB's work program, see the web site www.aasb.com.au.

STRATEGIC ISSUES

Sector Neutrality

At its recent planning day in February, the AASB agreed a strategy that AASB standards should be 'transaction neutral' as between the for-profit, not-for-profit private and not-for-profit public sectors. That is, no matter in which of these three sectors the transaction takes place, the Accounting Standards should require the same accounting treatment. However, the AASB acknowledged that there are different business models in the three sectors. Consistent with the approach of the IPSASB, the AASB believes that the IFRSs should provide the core direction for the treatment of transactions and other events. In recognition of the fact that the IASB has written IFRSs specifically for the for-profit sector, and in view of the different business models in the other sectors, the AASB is prepared to modify the IFRSs, where necessary in order that they are also appropriate for use in the other sectors. The AASB also considers it is responsible for making standards especially for use in the not-for-profit private and not-for-profit public sectors in order to reflect unique features and unique needs of these sectors.

It is also relevant to note that the Financial Reporting Council (FRC), which is the Australian body that specifies the strategic direction of the AASB, has engaged a consultant to revisit the issue of the appropriateness of sector neutral standards. The consultant has begun a series of forums hosted mainly by CPA Australia and some others to better understand some of the issues. At this stage, it is expected that the consultant's report to the FRC will finalised in the third quarter of 2006.

TECHNICAL ISSUES

Specific projects for which substantial progress has been made since the November 2005 Country Report are outlined in the following.

GAAP/GFS Convergence

The Board commenced its consideration of the submissions on ED 142 *Financial Reporting of General Government Sectors by Governments*. Constituents' comments contained a wide range of conflicting views.

The Board decided to continue developing a Standard for the General Government Sector (GGS) of a federal, state or territory government based on the proposals in ED 142 amended, where appropriate, to take account of constituents' comments.

The Board decided that:

- consistent with the proposals in ED 142, the GGS of a government is a reporting entity that should prepare a general purpose financial report (GPFR) that does not consolidate the controlled entities that are part of other sectors on a line-by-line basis. Given the controversial nature of this decision, the Board will articulate its rationale in the basis for conclusions that will accompany the Standard;
- the investment of a GGS in non-consolidated controlled entities should be recognised and measured in accordance with the proposals in ED 142 (fair value or, if that is not available, net assets);
- GAAP information included in the GPFR of a GGS should be recognised and measured in accordance with the proposals in ED 142, including the proposal that current GAAP options should be limited to those that are in accordance with GFS principles and rules;
- GFS information included in the GPFR of a GGS should be determined in accordance with the publication of the Australian Bureau of Statistics known as *Government Finance Statistics, Australia: Concepts, Sources and Methods* (ABS GFS), as updated from time to time and not to permit amounts determined using alternative GFS interpretations in lieu of, or in addition to, ABS GFS to be included in the GPFR of a GGS;
- the principles proposed in ED 142 for presenting GAAP and GFS information in the GPFR of a GGS, including any reconciliations, should be adopted. However, the Board decided that:
  (i) the format of the illustrative financial statements included in Appendix B of ED 142 should be replaced with an illustration of a single-column format, with GAAP presented on the face of the financial statements, GFS aggregates presented in a box at the bottom of the statements, reconciliation of any remaining convergence differences presented in the notes to the statements, and other GFS information presented either on the face or in the notes as appropriate; and
  (ii) to undertake further consultation with constituents, including users, to develop an illustration;
- consistent with the proposals in ED 142, the Standard should require the GPFR of a GGS to include a cross-reference to the related whole of government GPFR and that the Standard should not imply that it is necessary for the whole of government GPFR to exist or to be publicly available at the time the GPFR of a GGS is finalised;
- in relation to the disclosure of budget information, the Standard should require:
  (i) budget information (being the original budget that relates only to the financial statements themselves that was presented to parliament) to be presented in the GPFR of a GGS on a comparable basis to the GGS financial statements; and
  (ii) explanations of major variances between the actual amounts and the budgeted amounts should be disclosed in the GPFR of a GGS;
- the mandatory application date for the GGS Standard should be determined at a future meeting. In deciding on the date, the Board will have regard to the implications of the GGS requirements for other public sector entities.

The Board also decided that:

(i) it will not necessarily apply the accounting treatments that will be included in the GGS Standard to other public sector entities that are the subject of the other parts of Phase 1 or the other Phases of the GAAP/GFS Convergence Project; and

(ii) in due course it will develop an issues paper considering the extent to which the Board's decisions for GGSs should be applied to other public sector entities.

The Board will continue reviewing the responses to ED 142 at future meetings.

Review of AAS 27, AAS 29 and AAS 31 and the ongoing Public Sector Strategy

Consistent with the Board's strategy of incorporating financial reporting requirements into topic-based rather than industry-based Standards, the Board finalised its paragraph-by-paragraph review of AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*. The Board has now identified those paragraphs that it will propose can be removed because they are adequately or more appropriately addressed in other Standards or the *Framework* or, given the progress in financial reporting, no longer needed. The Board has also identified those paragraphs that it will propose are not adequately addressed in other Standards and identified the Standards into which the contents should be incorporated (amended only to the extent necessary to integrate them into those Standards) and the status of that relocated content (black letter, grey letter or implementation guidance). The Board will issue an ED proposing that AAS 27, AAS 29 & AAS 31 be withdrawn (mandated for reporting periods ending on or after 30 June 2007 but allowing early adoption) without leaving a vacuum of guidance for federal, state, territory and local governments and government departments. The ED will be accompanied by a basis for conclusions that provides an explanation of how the Board proposes to deal with the contents of each paragraph and the rationale for that treatment.

The noteworthy specific decisions made by the Board at this meeting include the following:

- the current guidance in section 9 of AAS 31 relating to government control of entities should be retained where appropriate and integrated into implementation guidance to accompany AASB 127 *Consolidated and Separate Financial Statements*. In due course, a separate project on reviewing the concept of control as it applies in the public sector will be initiated;
- the current references to and/or guidance on infrastructure, cultural and heritage assets contained in the three Standards should be condensed into a statement to be incorporated into AASB 116 *Property, Plant and Equipment* clarifying that such assets fall within the scope of that Standard. The separate project reviewing the accounting treatment of such assets will continue to be progressed;
- the current guidance in all three Standards on revenue from non-exchange transactions (including contributions and parliamentary appropriations) should be incorporated into AASB 1004 *Contributions*. The separate project reviewing the accounting treatment of non-exchange transactions (see below) will continue to be progressed;
- consideration should be given to amending AASB 114 *Segment Reporting* in such a way as to incorporate the current requirements and guidance on the disclosure of segment-like information in the three Standards. The separate project

reviewing the requirements for segment reporting (see below) will continue to be progressed; and

- an attempt should be made to revise the requirements relating to disclosure of administered items currently in AAS 29 with a view to issuing a topic-based Standard addressing the issues in a more contemporary way to coincide with the withdrawal of AAS 29. In the event that this objective cannot be achieved with the resources and time available, consideration will be given to incorporating the current requirements and guidance in an appropriate Standard on a temporary basis.

An updated Public Sector Strategy Paper reflecting the decisions of the Board will be posted on the AASB website shortly. The paragraph-by-paragraph basis for conclusions will also be posted on the website as soon as it is available.

Revenue Recognition by Not-for-Profit Entities

In November 2005, the Board issued Exposure Draft ED 144 “Proposed Australian Guidance to accompany AASB 1004 *Contributions*” for a short comment period. The proposed Guidance was developed to reinterpret the requirements for contributions in AASB 1004 (which applies to not-for-profit entities) and clarify the interaction of AASB 1004 with AASB 118 *Revenue*. Contributions are transfers in which the entity receives assets or services or has liabilities extinguished without directly giving approximately equal value in exchange to the other party or parties to the transfer. Under the reinterpretation proposed in ED 144, some types of contributions previously initially recognised as income would initially be recognised as a liability.

At its December 2005 meeting, the Board considered the submissions received on ED 144. The Board decided not to issue the proposed Guidance, but clarified in its *Action Alert* for that Board meeting that AASB 1004, rather than AASB 118, is the relevant Australian Accounting Standard for not-for-profit entities to apply when accounting for contributions. It decided to await the outcome of the IPSASB project on revenue from non-exchange transactions before amending the required treatment of contributions received by not-for-profit entities. In that regard, the Board is issuing IPSASB Exposure Draft ED 29 for comment to both the IPSASB and the Board.

Segment Reporting

In January 2006, the Board issued Exposure Draft ED 145 *Operating Segments* for comment by 20 April 2006. It is the equivalent to IASB ED *Operating Segments* to replace IAS 14 *Segment Reporting*. The Australian Preface to the ED includes questions on the appropriateness and implications of adapting the IASB proposed ‘management approach’ to identifying segments for application by not-for-profit entities in either or both of the public sector or private sector. In due course, the AASB will issue a separate AASB ED and determine the basis of the approach following review of comments received on those questions.

IASB Convergence (by 2005)

As reported in the November 2005 Country Report, since ‘finalising’ the 2005 set of standards, the AASB has been making amendments to those standards to keep up with changes made by the IASB and to deal with implementation issues that have arisen in the Australian reporting environment.

The AASB is continuing to monitor all of the IASB's projects and makes comment on IASB papers at relevant stages of their development. The AASB is progressing three research projects on behalf of the IASB (Intangible Assets, Joint Ventures and Extractive Activities) and is assisting with two active projects (Insurance phase 2 and Revenue Recognition).

Non-Financial Liabilities

In Australia, some of the responses to AASB Exposure Draft 140 (which is the Australian equivalent of the IASB *Exposure Draft of Proposed Amendments to IAS 37 Non-financial Liabilities (formerly known as Provisions, Contingent Liabilities and Contingent Assets) and IAS 19 Employee Benefits*) recommended that the revised AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* include a scope exception for the provision of social policy obligations, similar to that provided in IPSAS 19. At present, this scope exception is provided by public-sector specific accounting standards AAS 27, AAS 29 and AAS 31. However, with the AASB planning to withdraw AAS 27, AAS 29, and AAS 31 (see above), the AASB has indicated its intention to amend AASB 137 to scope out, in respect of not-for-profit public sector entities, obligations arising from local governments and government budget policies, election promises or statements of intent, and to effectively grandfather current practice in relation to those obligations. This intention will be noted in a forthcoming ED for the proposed withdrawal of the public-sector specific accounting standards.

Internationally, the IASB will begin considering the responses to its Exposure Draft of *Proposed Amendments to IAS 37 Non-financial Liabilities (formerly known as Provisions, Contingent Liabilities and Contingent Assets) and IAS 19 Employee Benefits* in the week of 20 February 2006.

URGENT ISSUES GROUP (UIG)

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

Since the previous Country Report, one UIG Interpretation has been issued: Interpretation 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*. This is the Australian equivalent of IFRIC Interpretation 6. The UIG has also approved Australian equivalents of IFRIC Interpretations 7 *Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies"* and 8 *Scope of IFRS 2*, but these have not yet been approved for issue by the AASB. That approval is expected in the short term.

In December, the AASB approved AASB Interpretation 1002 *Post-Date-of-Transition Stapling Arrangements*, which deals with the accounting for business combinations via the stapling of entities' equity instruments. This is a domestic Interpretation with no IFRIC equivalent. As the UIG did not support the views of the AASB on this issue, the AASB approved its own Interpretation.

The AASB has recently proposed replacing the UIG with a new interpretations model that would use advisory panels on a topic-by-topic basis to make recommendations for the AASB's consideration. The AASB has taken the view that a unique domestic interpretation of Australian equivalents to IASB requirements would only be required in rare and exceptional circumstances. Any new model is likely to be in place by mid-2006.

COMMONWEALTH GOVERNMENT, STATES AND TERRITORIES

Current Status

As reported in the November 2005 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.

HoTARAC (Heads of Treasuries Accounting and Reporting Advisory Committee - essentially the chief accountants from each jurisdiction) meets to discuss and consider accounting and financial reporting matters, and strives to achieve comparability in accounting and reporting across jurisdictions.

Commonwealth Government

As reported in the November 2005 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.

DATE: 15 February 2006

TO: Members of the International Public Sector Accounting Standards Board

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).

On-Going Projects

Performance Reporting

Status: Draft Statement of Recommended Practice approved for public comment.

At its January 2006 meeting, PSAB approved a Draft Statement of Recommended Practice (SORP) entitled *Public Performance Reporting*.

The draft SORP provides recommended practices for reporting performance information in a public performance report. It is not prescriptive with respect to the structure of the report and is not intended as a template for such a report.

The principles for the project are based on the nine principles of the Canadian Comprehensive Auditing Foundation (CCAF) as set out in its publication entitled "Reporting Principles - Taking Public Performance Reporting to a New Level".

Salient issues raised to date in developing the SORP have been the:

- need to provide guidance that helps users operationalize the principles;
- desire to allow practice to develop and progress aided by the non prescriptive nature of the guidance; and
- need for leadership in getting the SORP implemented.

The draft SORP incorporates comments received from the one day performance reporting forum held in Toronto, Canada on 28 September, 2005. The forum was held in partnership with the CCAF. (See Canada's country report from the November/December 2005 IPSASB meeting for more information on the forum).

The draft SORP is scheduled to be issued in early March with a response date in late April 2006.

Local Government Financial Statement Reporting Model

Status: Local Government Reporting Model – Comments on two Statements of Principle being analyzed.

Local Government Tangible Capital Assets – Final Public Sector Guideline approved and Public Exposure Draft approved.

Local Government Reporting Model

The two Statements of Principle (SOPs) entitled *Financial Statement Concepts, Section PS 1000* and *Financial Statement Presentation*, *Section PS 1200* were issued to PSAB's Associate community for comment in November 2005 with a closing date of January 16, 2006.

At the time of writing this report, comments were still being analyzed. However, a preliminary review shows respondents are concerned about reporting fund balances and balanced budget legislation if local government reporting moves away from the current modified accrual model. Further analysis will be provided in Canada's country report for the IPSASB's July 2006 meeting.

The SOPs establish a new framework for local government financial reporting. PSAB believes that as a starting point, it should consider the applicability of the full accrual based senior government reporting model approved in October 2002. As such, the SOPs introduce and explain the conceptual and significant reporting differences as a result of transitioning to a full accrual basis of reporting from the existing approach.

In this respect, the most significant aspects of the transition for local governments will be accounting for tangible capital assets (TCAs) and reporting surpluses/deficits using a full accrual method.

Local Government Tangible Capital Assets

In advance of revising the local government reporting model, PSAB has been focusing on the specific issue of accounting for TCAs by local governments.

As such, at its January 2006 meeting, PSAB approved Exposure Draft (ED) - Section PS 3150, *Tangible Capital Assets*; and Final Public Sector Guideline - 7, *Tangible Capital Assets of Local Governments* (PSG – 7).

The ED essentially broadens the scope of existing Section PS 3150 *Tangible Capital Assets* to include local governments. In broadening the scope, some amendments to Section PS 3150 are also proposed. The ED is scheduled to be issued in late February with a response date in late April 2006.

PSG-7, applicable to fiscal years beginning on or after January 1, 2007, provides guidance to local governments on presenting information in notes or schedules related to TCAs. In effect, PSG-7 is intended to promote disclosure of TCA information and act as a vehicle to encourage local governments to begin collecting information which ultimately will be accounted for in the financial statements via the application of PS 3150.

Local government responses have generally been supportive of the need to account for TCAs with one of the salient concerns being the practicalities associated with their inaugural recognition (identification, measurement, etc).

Financial Instruments

Status: Final Public Sector Guideline approved. Statement of Principles approved for Associate comment.

At its January 2006 meeting, PSAB approved:

- Final Public Sector Guideline – 6 (PSG-6) *Including Results of Organizations and Partnerships Applying Fair Value Measurement*; and
- Statement of Principles – *Recognition and Measurement of Derivatives,* for Associates' Comment.

PSG-6 essentially provides interim reporting guidance for governments with entities that have implemented the commercial financial instruments standards.

Commercial oriented entities that form part of the government's reporting entity (most notably, Government Business Enterprises - GBEs) are required to follow private sector GAAP. New private sector standards on financial instruments may result in these entities reporting 'other comprehensive income' (OCI). (OCI comprises revenues, expenses, gains and losses recognized in comprehensive income but excluded from net income).

The government's share of the net assets and income of a GBE is reported in government financial statements via the modified equity method.

Given PSAB is yet to fully explore the implications/application of fair value reporting in government financial statements, as well as concerns about including OCI in the government's statement of operations, PSG-6 requires that governments:

- Measure their investments in a GBE based on the reported net asset position of the GBE (including OCI); and,
- Exclude OCI from the determination of surplus or deficit for the period, instead reporting any OCI separately in reconciling the change in accumulated surplus or deficit for the period.

The SOP, evaluated in relation to PSAB's conceptual framework, is intended to provide a clear direction for continuing efforts to develop public sector financial instruments standards proposals. The SOP is scheduled to be issued for Associate comment in early March with a response date in late April 2006.

Segmented Reporting

Status: Final Section PS 1900 Segment Disclosures approved.

At its January 2006 meeting, PSAB approved final Section PS 1900 *Segment Disclosures*. The objective of the disclosures is to help users better understand the different types of activities that governments engage in.

The salient issue for the project has been the usefulness of allocating assets and liabilities by segment – there is concern about the potential for arbitrary allocation (eg: allocating public debt) and its subsequent meaningfulness. As such the final section does not require recognition of assets and liabilities by segment though does acknowledge its potential usefulness.

Section PS 1900 *Segment Disclosures* is applicable to fiscal years beginning on or after April 1, 2007.

Government Transfers

Status: Public Exposure Draft under development.

PSAB continues in its endeavours to develop a public Exposure Draft (ED) for this project. The comment closing date for its Associates Exposure Draft #2 (AED2) expired with responses being inconclusive with only about half of respondents supporting the proposed approach (see below for more detail on AED2).

Given the above, at its January 2006 meeting, PSAB decided to develop an ED substantially based on the proposals in AED2. PSAB will also develop explanatory material detailing the reasons for the approach taken in the ED.

The ED is currently scheduled to be approved in March 2006, with final standards expected to be approved in September/November 2006.

AED2 was another attempt to build increased consensus in the government community on one key issue - accounting for multi-year government grants (including capital grants); diverse and strongly held views continue to exist.

Views essentially stem from two lines of thought – adherence to the conceptual framework (in particular strict adherence to the definitions of asset and liability) versus applying the concept of ‘matching’ with possible deferred amounts resulting on the balance sheet. Those on both sides of the controversy generally believe that substance over form is best achieved by following their approach.

At a general level, AED2 does not prohibit the recognition of assets and liabilities resulting from multi-year grants. Instead it prescribes their immediate recognition as an expense/revenue by the transferor/recipient unless it can be shown that the nature and extent of the stipulations associated with the grant mean that it meets the definition of an asset/liability. The onus is on the parties involved to satisfy the definitions rather than prescribing when an asset/liability would arise.

This is a less prescriptive more 'principles-based' approach compared to proposals in the first AED (AED1), which proposed a concept called "exchange-type transfers".

In AED1, a government that paid a transfer meeting the definition of an exchange-type transfer in advance of the recipient meeting the transfer stipulations acquired an asset. That asset comprised a right to compel another party to provide services or acquire or develop service capacity in accordance with the transferor's terms. This concept was narrowly defined and very prescriptive and thus did not garner support in the government community. AED2 relies more on the use of professional judgment and diligent application of the asset and liability definitions.

Revenue

Status: IPSASB Public Exposure Draft issued.

This project is leveraging and building upon the work being done on this topic by the IPSASB. In January 2006 the IPSASB issued for comment Exposure Draft (ED) *Revenue from Non-Exchange Transactions (Including Taxes and Transfers).*

PSAB will review the ED identifying any issues for Canada. It will distribute the ED with comments asking its Associates to provide input to both PSAB and the IPSASB - input that will be useful for the Canadian project. A Canadian advisory group will be recruited to provide PSAB with input on the appropriateness of the proposed international standard for Canadian governments. As PSAB is already working on a revised standard for government transfers (see elsewhere in this report) the IPSASB material sent out for comment in Canada will likely concentrate on the proposed principles for taxes.

The CICA PSA Handbook does not currently include a definition of revenue for governments (though a proposed definition applicable to all governments is being considered as part of the Local Government Reporting Model project – see project discussion above) though a general revenue recognition principle is included in the general standards of financial statement presentation for both senior and local governments.

Further, the CICA PSA Handbook does have specific Sections regarding restricted assets and revenues (Section PS 3100) and government transfers (Section PS 3410) – both of which are currently being revised as part of the government transfers project – see above).

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

New Projects

Introduction to the CICA Public Sector Accounting Handbook

Status: Project Proposal Approved

This project is scheduled to begin in approx June 2006. Approved in September 2005, 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.

Subsequent Events

Status: Project Cancelled

At its January 2006 meeting, PSAB approved cancellation of this project.

The project was initially approved in anticipation of a need to move quickly to align Section PS 2400 *Subsequent Events* with changes proposed to the CICA Handbook – Accounting that were expected to impact auditing standards, necessitating a re-evaluation of Section PS 2400.

However, at its November-December 2005 meeting, the AcSB voted to discontinue amendments to CICA HANDBOOK – Accounting, Section 3820, *Subsequent Events*.

The AcSB decided that changes to Section 3820 were not warranted at this time, particularly taking into consideration developments in the civil liability regime and other reporting requirements affecting public companies, and given constituents' views.

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

February 20, 2006
Ref:2006-6140 .חש

To: IPSASB Members, Technical Advisors, Observers & Staff

Subject: Country Report Feb. 2006

Section I: Standard Setting Overview

(1) Signing an MOU with IFAC

In December of 2005, Israel signed an MOU with the International Federation of Accountants ("IFAC") in order to adopt of Hebrew language versions of the IPSAS's .

(2) The process of adopting International Accounting standards

In recent years, government accounting in Israel has undergone a comprehensive reform, the principal part of which has been the transition of the government's financial reporting system from the cash basis to the accrual basis. In the context of this reform, which was adopted in July of 2004 at the recommendation of the Accountant General, the government decided to establish the Israeli Government Accounting Standards Board and to adopt IFAC's International Public Sector Accounting Standards ("the IPSAS").

The Israel Government Accounting Standards Board (hereinafter: "the Board"), operates as a professional board and is made up of six members. Three members are representatives of the Office of the Accountant General at the Ministry of Finance. One of these representatives is the Board's chairman, the Chief Accountant, who is the country's most senior official in the field of government accounting. There are three additional members who are representatives of the private sector, and this group includes a representative of the Israel Accounting Standards Board, a representative of the Institute of Certified Public Accountants in Israel, and a representative of the Israel Securities Authority.

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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 Technical Director of the Board's is the Project Manager - Government Accounting. She heads the Board's professional staff and is responsible for the Board's daily activities.

The Board's first meeting was on February 8 and is expected to convene every second week. At its first meeting, the Board approved a work program (see the appendix), according to which dozen standards are expected to be published during the coming year. The Board expects to approve another ten standards during 2007.

(3) Procedures overview

The following is a description of the procedure which the Board follows in adopting the accounting standards:

(a) Pursuant to the instructions of the chairman of the Board, the technical director and her staff will begin to prepare background material regarding a particular subject. After the staff completes its work, the Board's chairman will appoint an ad-hoc team to handle that subject. The ad-hoc team's work procedure will be discussed below in a separate paragraph.

(b) The Board's technical director will present the subject and the professional staff's recommendations to the members of the Board. At this stage, the Board can approve the work of the professional staff or it can raise various points for discussion and discuss them. After the Board gives its approval, the technical director will make the necessary changes, if there are any, and will distribute an exposure draft of the standard regarding the subject as follows[1]:

- The exposure draft will be published on the Board's website.

[1] The chairman of the Board and the technical director of the Board are currently working on the construction of the Board's website. The website will set out all the accounting standards and will include all the Board's professional publications. In the meantime, the Board gets web support from the formal web site of the Ministry of Finance.

- Any interested person may read the exposure draft on the Board’s website. Moreover, anyone who has previously registered on the Board’s website will receive notice of the publication of the exposure draft automatically.

- In addition, a notice of the exposure draft’s publication will be distributed to all members of the Institute of Certified Public Accountants in Israel, to the controllers of all government ministries, and to the senior management of the Accountant General's office.

- Responses to an exposure draft will be received for a period of three weeks following its publication, unless the Board has determined otherwise.

- A public hearing will be held during the responses period.

(c) The technical director will organize and analyze the responses that are received. The material will be presented to the members of the Board, who will decide whether there is a need to make changes to the exposure draft. After the members of the Board approve the exposure draft, the standard will be distributed, in the same way the exposure drafts are distributed (see above). In addition:

- The standard will be effective in accordance with the effective date.

- The Board adopts resolutions by a majority vote of all its members. The vote of the Board’s chairman carries equal weight when votes are cast. A member who is not present may vote through an alternative manner: telephone, e-mail, etc.

- Any member of the Board may, with the chairman’s approval, appoint a professional adviser who will accompany that member to meetings and participate in them. This professional adviser will not be entitled to vote. A professional adviser may, however, in the absence of the Board member who has appointed him, vote in that Board member’s name and in accordance with his instructions at a specific meeting regarding which written notice has been sent to the Board chairman in advance.

(d) At the chairman’s discretion, the Board will also issue professional clarifications of the accounting standards it publishes. The procedure for preparing such clarifications will be identical to the procedure for writing a standard, except that the period in which responses regarding a proposed clarification may be received will be no less than two weeks, rather than three weeks.

(e) The ad-hoc teams will be appointed through the following process:

- The Board chairman will appoint the members of the ad-hoc team.
- The technical director will administer the ad-hoc team's work.
- When the Board meets to discuss the particular subject regarding which a particular ad-hoc team was established, any member of that ad-hoc team who objects to the team's decision regarding that subject may state his position to the members of the Board.
- The Board may ask that the ad-hoc team continue to appear and advise it even after the team's work has been submitted to the Board.
- The ad-hoc team's decisions will not in any event bind the Board.

(4) <u>The Ad - Hoc Teams' Work</u>

The Board is currently hard at work with regard to the adoption of IPSAS's. An ad-hoc team composed of representatives from Israel's largest accounting firms (the big four), the Office of the Accountant General, the Israel Securities Authority, etc., has been established for each standard. 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.

As of now, the Board's chairman has established four ad-hoc teams, as follows:

December 2005

(a) Presentation of Financial Statements - this team is working on the adoption of IPSAS 1.

The team completed its work in January 2005 and the exposure draft *was approved at the Board's meeting in early February.*

(b) Events after the Reporting Date - this team is working on the adoption of IPSAS 14.

The team completed its work in January 2006 and the exposure draft *will be discussed at a meeting of the Board during February.*

January 2006

Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies - this team is working on the adoption of IPSAS 3.

The team expects to finish its work in February of 2006 and the exposure draft will be discussed at a meeting of the Board at the beginning of March 2006.

February 2006

Inventories - this team is working on the adoption of IPSAS 12.

The team expects to finish its work in February of 2006 and the exposure draft will be discussed at a meeting of the Board at the end of March 2006.

Section II: Government Financial Statements Overview

(1) An English version to the government's financial statements

In March of 2006, the government of Israel is going to publish, for the first time, an English version of its financial statements. The first statements to be translated are those for the year 2004. At the end of April 2006, the government is going to publish the financial statements for the year 2005 (a Hebrew version). The English version for the 2005 financial statements is expected to be published in July 2006.

(2) An external audit of government ministries

In March of 2006, the Accountant General is going to publish a public tender for auditing the financial statements of 3 government ministries: the Ministry of Justice, the Court Administration and the Water Commission. These selected ministries are going to be a "pilot test" for auditing the rest of the government entities and they were chosen because they had completed the transition from cash to accrual accounting including the full assimilation of the government's new ERP system.

Section III: Government Accounting at Academic Institutions in Israel

(1) The integration of government accounting in the curriculum

Following the accounting reform recently implemented in the government of Israel and in accordance with the significant changes that have taken effect, Israeli government ministries will now be undergoing external audits, beginning this year, with the external auditors being chosen through a public tender (see section II above).

These audits are expected to lead to the employment of thousands of accountants in this area and it is therefore important to provide students in institutions of higher learning with exposure to this subject as early as possible.

Thus, in November of 2005, representatives of Israel's academic institutions met with the Chief Accountant in order to determine the best way to integrate government accounting into the curriculum at these institutions. The meeting's participants decided to recommend that the topic be integrated as part of the curriculum for a bachelor's degree. This proposal accomplishes two goals: first, it allows students to be exposed to the subject at an early stage and in an academic context, and second, it gives students the opportunity of specializing in this particular field.

Pursuant to his decision, the Chief Accountant asked the heads of the accounting departments at these institutions for their views on the topic. Only a few responses have been received as of yet.

(2) Courses on this subject

During the first semester of the current academic year, a course in the field of government accounting was offered at the academic track of the College of Management. The course is the first in the field and other courses are expected to be offered in various academic institutions by next semester.

Sincerely,

Ron Alroy, C.P.A.

Chief Accountant at the Accountant General's Office,
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STATE OF ISRAEL
MINISTRY OF FINANCE, ACCOUNTANT GENERAL'S OFFICE
THE ACCOUNTING DIVISION
&
Israel Government Accounting Standard Board

	Standard	**Name of Standard**	**Translation**	**Ad - Hoc Team**	**Board Discussion**	**Publication of exposure draft**	**Additional Board Discussion**	**Publication of the Final Standard**
1.	IPSAS 1	*Presentation of Financial Statements*	✓	January 06	February 06	February 06	March 06	March 06
2.	IPSAS 14	*Events after the Reporting Date*	✓	January 06	February 06	March 06	April 06	April 06
3.	IPSAS 3	*Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies*	✓	February 06	March 06	March 06	April 06	April 06
4.	IPSAS 12	*Inventories*	✓	February-March 06	March 06	April 06	May 06	May 06
5.	IPSAS 17	*Property, Plant and Equipment*	✓	March 06	April 06	April 06	May 06	May 06
6.	IPSAS 9	*Revenue from Exchange Transactions*	March 06	April 06	May 06	May 06	June 06	June 06
7.	IPSAS 6	*Consolidated Financial Statements and Accounting for Controlled Entities*	April 06	May 06	June 06	June 06	July 06	July 06
8.	IPSAS 7	*Accounting for Investments in Associates*	May 06	June 06	July 06	July 06	August 06	August 06
9.	IPSAS 21	*Impairment of Non Cash-generating Assets*	June 06	July 06	August 06	August 06	September 06	September 06
10.	IPSAS 2	*Cash Flow Statements*	July 06	August 06	September 06	September 06	October 06	October 06
11.	IPSAS 20	*Related Party Disclosures*	August 06	September 06	October 06	October 06	November 06	November 06
12.	IPSAS 5	*Borrowing Costs*	September 06	October 06	November 06	November 06	December 06	December 06

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

	Standard	**Name of Standard**	**Translation**	**Ad - Hoc Team**	**Board Discussion**	**Publication of exposure draft**	**Additional Board Discussion**	**Publication of the Final Standard**
13.	IPSAS 18	*Segment Reporting*	October 06	November 06	December 06	December 06	January 07	January 07
14.	IPSAS 4	*The Effects of changes in Foreign Exchange Rates*	November 06	December 06	January 07	January 07	February 07	February 07
15.	IPSAS 11	*Construction Contracts*	December 06	January 07	February 07	February 07	March 07	March 07

REPORT FROM ITALY

The Italian legislation has got more than one Framework, because it varies according to the specific public entities regulation. Due to this, Italy presents diversified accounting models, such as:

- Local Governments accounting system;
- Non-market public agencies system;
- Government accounting model; and so on.

The Parliament is going to debate a Draft concerning the Accounting models harmonization and this act should take in consideration the International Public Sector Accounting Standards.
The most important Framework is the Local Government Accounting Framework issued by the "Osservatorio per la finanza e la contabilità degli enti locali".
The "Osservatorio per la finanza e la contabilità degli enti locali" enacted at the moment the following Accounting Standards:
PC 0 – *Framework (Finalità e postulati dei principi contabili per gli enti locali);*
PC1 - Budget (programmazione e previsione nel sistema del bilanci);
PC2 – Admisnitration and Management (Gestione nel sistema di bilancio);
PC3 - Financial Statements (Rendiconto degli enti locali).
Framework's aim is to give a general picture of financial statements qualitative characteristics in order to identify the stakeholders' needs. More specifically the sections of the mentioned Framework are:-

ITALIA
In Italia l'organo deputato ad emanare i principi contabili per il settore pubblico è l'Osservatorio per la finanza e la contabilità degli enti locali, istituito a suo tempo con l'art. 11 del decreto legislativo 23 ottobre 1998, n. 410 ora trasfuso nell'art. 154 del testo unico delle leggi sull'ordinamento degli enti locali. Esso ha emanato nell'anno 2004, i principi contabili per gli enti locali.
I Principi Contabili emanati sono:
PC 0 – *framework - finalità e postulati dei principi contabili per gli enti locali;*
PC1 - "programmazione e previsione nel sistema del bilanci";
PC2 - "gestione nel sistema di bilancio;
PC3 - "rendiconto degli enti locali".
Lo scopo del Framework è di fornire un quadro generale sistematico (framework) di postulati relativi al sistema di bilancio. Tali postulati sono soggetti ad evoluzione nel tempo, al fine di essere rispondenti alle crescenti esigenze dei destinatari dei bilanci per quanto concerne la qualità dell'informazione e l'attendibilità dei valori con il mutare delle situazioni.

Le funzioni dei principi contabili sono:
(a) quella di interpretare in chiave tecnica le norme di legge in tema di ordinamento finanziario e contabile, secondo i fini voluti dal legislatore; e
(b) quella di collegare a dette norme tutte quelle alle quali direttamente od indirettamente si fa o si deve far riferimento.

Osservatorio per la finanza e la contabilità degli enti locali

Objectives and accounting policies in local governments' accounting[1]

(Approved July 4th 2002)

Legal Framework

1. Local governments' financial and accounting law, after a period of immobility, aligned to the State accounting thanks to the D.P.R. 19 June n. 421 and then made continuous changes by local finance annual decree. In the end, the entire subject was revised and modernised and the previous law deleted with the approval of D.lgs 25 February 1995, n.77,. The legislative decree was included in its entirety in the Testo unico delle leggi sull'ordinamento degli enti locali (TUEL), approved with the enactment of the D.lgs 18 august 2000, n,267. Legislators required local governments to update their operative instruments and their procedures, renewing economic-financial regulations and acts, by means of precise requirements, such as those included in the Law art.152, 153, 165 etc. They ensured them technical support, setting up the Osservatorio per la finanza e la contabilità degli enti locali, whose main objective is "to promote the protection of financial statements balances, the adoption of accounting policies, the adequateness of implementation instruments, and the application of new accounting models (art. 154, comma 2, TUEL). In order to reach these goals, he required the Osservatorio to present the Ministry of the Interior (Ministro dell'interno) at least one annual report on the rules applications, with proposals relating to legislative and generally accepted accounting principles integration.
   The instrument of accounting policies seems to be essential and modern whether it is related to the experiences of enterprises, national government agencies and international organisations, as will be mentioned later.
   The enactment of accounting policies does not seem to be contrary to the Constitutional law 18 October 2001, n.3, given that these policies clarify the extent of existing legislative requirements and lend themselves to any further integration dependent on legislative changes in the interests of local governments.
   The accounting policies, as technical rules, are the basis for the preparation of "financial statements" ("sistema generale di bilancio"). With reference to this, the Legislator provided general rules concerning the programming activity in the following fields: finance, budget, management, treasury, investment, economic-financial auditing, internal control, general report and rehabilitation of unbalanced local governments (enti locali dissestati).
   They are directed at politicians, those responsible for services, accountants and treasurers.

Role and Systematics of Accounting Standards

2. The role of accounting policies is twofold:
   (a) First: to technically interpret legislative rules concerning financial and accounting law, compliance with the Legislator's scope.

[1] Traduzione a cura di Matteo Pozzoli, componente della "Commissione di supervisione per la traduzione italiana dei Principi contabili internazionali per il settore pubblico IFAC" del Consiglio Nazionale dei Dottori Commercialisti.

(b) Second: to relate to the afore mentioned rules upon which other rules are or should be directly or indirectly based.

3. The scope of this Standard is to provide a framework for financial statements. Accounting policies are changed over time, in order to suit the growing needs of the stakeholders, as far as the changing quality of disclosure quality and the reliability of merits are concerned.

4. Specific accounting policies on institutes and executions follow these general lines. If there is no specific accounting standard on a not ruled circumstance, those who prepare these documents can apply these general rules. .

5. The objective of the framework is to:
   (a) promote the accounting model harmonisation, in order to present a true and fair view of local governments' programs and economic and financial performances, as well as an easy consolidation of public accounts as required by the TUEL, art.157, .
   (b) support those who prepare these documents and specifically, those responsible for services in the implementation of rules and in not ruled accounting treatments;
   (c) support auditors to judge whether the financial statements are compliant with the existing rules and permit them to execute fairly their duties;
   (d) support users to interpret disclosures included in those statements prepared in compliance with international and national accounting standards.

Relations with National and International Accounting Standards

6. These general accounting policies are inspired by the National Accounting Standard 11 enacted by the Commissione per la statuizione dei principi contabili del Consiglio nazionale dei dottori commercialisti e del Consiglio nazionale dei ragionieri and to the Framework, enacted by the International Accounting Standards Committee.

7. Accounting policies take into account the "Preface to International Public Sector Accounting Standards" and the "International Public Sector Accounting Standards", whereas these requirements are compliant with local governments' law.

Scope

8. The framework deals with:
   (a) the objective of financial statements;
   (b) the qualitative characteristics that determine the usefulness of information in financial statements;

9. Accounting policies dealt with in this Standard are to be referred to the financial statements law.

10. The set of financial statements includes, on a mandate programming basis:
   (a) programmatic guidelines (linee programmatiche);
   (b) general development plan (piano generale di sviluppo);

11. The set of financial statements includes, on a budgeting basis:
    (a) budgeting and programmatic report (relazione previsionale e programmatica);
    (b) annual budget (bilancio annuale di previsione);
    (c) plurennial budget (bilancio pluriennale);
    (d) executive management project (piano esecutivo di gestione);
    (e) schedules to annual budget (allegati al bilancio di previsione).

12. The set of financial statements includes, on a management basis:
    (a) changes to annual budget (variazioni di bilancio), withdrawals from the reserve fund (prelievi dal fondo di riserva) and changes to executive management project;
    (b) acts related to inflows acquisition and ouflows payment (gli atti relativi alle fasi di acquisizione delle entrate e di erogazione delle spese) such as assessments, collections, in-payments, commitments, settlements, payment orders and down-payments (accertamento, riscossione, versamento, impegno, liquidazione, ordinazione e pagamento).

13. The set of financial statements includes, on a treasury basis:
    (a) treasury convention (la convenzione di tesoreria);
    (b) cash book (giornale di cassa);
    (c) acts related to cash operations, such as receipt dispositions, orders for payment, quittances, etc. (ordinativo di incasso, mandato di pagamento, quietanza, ecc.);
    (d) acts related to financing operations, such as treasury prepayments, payment delegacies, etc. (anticipazioni di tesoreria, delegazioni di pagamento, ecc.);
    (e) treasurer’s account (il conto del tesoriere).

14. The set of financial statements includes, on an investment basis:
    (a) investments programming acts (atti di programmazione degli investimenti);
    (b) economic-financial plans (i piani economico-finanziari);
    (c) statements of financing by indebtedness (i documenti di attuazione di finanziamenti mediante indebitamento).

15. The set of financial statements includes, on an economic- financial control basis:
    (a) opinion on the draft of the annual budget and on the changes to annual budget (parere sulla proposta di bilancio di previsione e sulle variazioni bilancio);
    (b) relation on the council deliberation proposal concerning the report and the report plan (relazione sulla proposta di deliberazione consiliare del rendiconto e schema di rendiconto);
    (c) report on serious irregularities (referto su gravi irregolarità);
    (d) cash inspections (verifiche di cassa).

16. The set of financial statements includes, on an internal control basis:
    (a) recognition of plans and safeguarding balance financial statements (ricognizione sullo stato di attuazione dei programmi e la salvaguardia degli equilibri di bilancio);
    (b) opinions of those responsible for services and those responsible for financial services (pareri dei responsabili dei servizi e del responsabile del servizio finanziario);
    (c) approval of accountancy regularity certifying financial backing on responsible of services acts which imply commitments, etc. (visto di regolarità contabile attestante la copertura finanziaria sui provvedimenti dei responsabili dei servizi che comportano impegni di spesa, ecc.).

17. The set of financial statements includes, on a report basis:
    (a) Statement of financial condition (conto del bilancio) ;
    (b) income statement (conto economico);
    (c) statement of assets and liabilities (conto del patrimonio);
    (d) schedules to report (allegati al rendiconto).

18. Local governments applying the lines included in accounting standards show this fact in the budgeting and programmatic report (relazione previsionale e programmatica) and in the relation to report (relazione al rendiconto della gestione).

Users and Their Information Needs

19. The users of financial statements include citizens, executives and directors, auditors and governmental agencies, employees, lenders, suppliers and other creditors. They use financial statements in order to satisfy some of their different needs for information. These needs include the following:
    (a) Citizens. Citizens should be provided with a statement permitting them to understand administration effective policies (in terms of services, efficacy and costs), levels of fiscal burden programmed and realised by the local government, outcome of territorial public policies;
    (b) Councillors and directors. Councils are the body of political administrative approach. It is up to them to decide on main operations, such as «plans, budgeting and programming reports, financial plans, triennial plans and annual list of public works, annual and plurennial budgets, and related changes, report…» (TUEL, art. 42, c. 2.). It is clear that this allocation can be totally executed only if financial statements are able to provide a true and fair view of plans and outcome of the local government's administrative operations;
    (c) Governing body and other governmental agencies. Financial statements represent a basic document to comprehend the administrative operations. Governmental agencies and governing bodies have to present a disclosure able to permit them to comprehend the local government's economic and financial performance, so that it is possible to act in a knowledgeable way;
    (d) Employees. Employees and their representative groups are interested in information about the stability and profitability of the local government. Specifically, the service managers need to use an instrument which enable them to understand and realise local governments' programs and control the results.
    (e) Lenders. Lenders are interested in information that enables them to determine whether their loans, and the interests attaching to them, will be paid when due. The unbalance (istituto del dissesto), TUEL, title VIII, makes the lenders' interest particular focalised on the local government's financial performance;
    (f) Suppliers and other creditors. Suppliers and other creditors are interested in information that enables them to determine whether amounts owing to them will be paid by the local government when due. As far as unbalance is concerned, disclosure on local government's performance becomes crucial to suppliers and other creditors as well.

Purpose of Financial Statements

20. The purpose of financial statements is to provide information on future and current programs, and on local government's financial performance in favour of a set of users in the political, social and economic decision-making needs.

21. More specifically, financial statements have to fulfil numerous roles:
    (a) a political-administrative role;
    (b) an economic-financial role;
    (c) a general information role.

22. On the political-administrative level, accounting statements are the basic instrument to execute prerogatives of policy and control that the local government's council, a political body, has to execute on the executive board (giunta).

23. It is to be underlined that an appropriate application of the political-administrative role is the respect of a specific procedure; this starts from the mayor's or president's administrative program, passes through programmatic lines reported to the council body, is included in the local government's general development plan – to address such a mandate program – and then results in the following statements: programming, budgeting and programmatic report, plurennial report, annual budget and, if mandatory - in the executive management project which is a management policy instrument.

24. Financial statements adds to an authorization role the economic-financial role. This consists of a budgeting analysis of the resources destination and of a control of their adequate use. It requires a policy and guide role, and a coordination and report of the executive activity.

25. Financial statements drawn up for these purposes satisfy the common needs of most users and, hence, perform a more general information role. Moreover, financial statements do not provide all information satisfying users decision making needs because disclosures are limited to:
    (a) financial information, thanks to annual and plurennial budget;
    (b) financial and qualitative-quantitative information through the budgeting and programmatic report.

26. To provide information about the financial position, changes of financial position, and local governments' economic performance is a basic activity in the decision-making process. The total financial budget could not be assumed sufficient – as of TUEL, art.162 – so as to formulate a rational judgment on the local government's future performance.

27. The economic balance guarantees the ability to pursue local government's institutional purposes. The economic balance over time is a basic objective; the missed aim of local government's institutional purposes conditions its own functionality. Therefore, the tendency to economic balance has to be addressed as a management objective to the local government's institutional purposes to expose to a constant control.

28. It is necessary to address the economic logic as primary and prepare a supplementary disclosure on financial and economic performances to be enclosed to the budgeting and programmatic budget.

29. Financial statements have to provide guidelines and assistance concerning management, treasury, investment, economic-financial auditing, internal control and recovery of unbalanced local governments.

30. From a business point of view, the report covers a significant role, because it permits a real control on the status of objectives and programs realisation and on compliance with economic and financial balances.

31. The report's purpose is to provide information about the status of a program's implementation, the financial and economic performance, and changes of financial performance of a local government to a wide range of report users in their political, social and economic decision-making process.

32. Reports shall satisfy common needs of most users. However, reports do not provide all the information users may need in the decision-making process because it reflects economic and financial effects on past events.

33. Reports, in addition, have to underline the socially significant outcome reached by the administration. In this context, the Relation to report (relazione al rendiconto della gestione) acquires a basic role. It has to provide qualitative-quantitative information and explain the local government's performance, which should be significant not only in relation to the achievement of economic-financial objectives but also in relation to the total level of reached social well-being.

Financial Statements Accounting Policies in the Financial and Accounting Law

34. The TUEL, art. 162, c. 1, states that «local governments approve annually the financial budget report, on the basis of the period, for the next year, complying with the following policies: unity, annuity, universality and integrity, faithfulness, financial balance and publicity».

35. The above accounting policies, with some indications on financial balance, are generally applicable and concern all financial statements and not only the annual budget. These accounting policies legally recognised are the following ones:
    (a) Unity (unità)
    (b) Annuity (annualità)
    (c) Universality (universalità)
    (d) Integrity (integrità)
    (e) Faithfulness and reliability (veridicità and attendibilità)
    (f) Financial balance (pareggio finanziario)
    (g) Publicity (pubblicità)

Unity

36. Local Governments are unitary legal entities. Therefore, their budget and report shall be unitary.

37. In addition, accounting statements can not be drawn up to allocate funds for fixed and specific uses, except for a legislative requirement.

38. In substance, the total inflows finance the local government and help to deal with the total outflows.

Annuity

39. Financial statements, both budgets and reports, have to be drawn up yearly and refer to a management period, which is the year.

Universality

40. Universality strengthens unity. It is necessary to include in the financial statements all operations and the related local governments' financial and economic amounts, in order to present a true and fair view of local governments' performance.

41. Off-balance-sheet operations are not compliant with universality. These are «operations» arisen by local governments or management unities – not self-government –which are off-balance-sheet.

42. Separate accounting is prohibited when it concerns operations not related to local governments' financial statements elements.

43. The preparation of a consolidated report is in line with the universality, even if it is not explicitly required by law. Osservatorio will enact a specific statement on this subject.

44. The TUEL, art. 172, b) does not include sufficient requirements to provide a true and fair view. This requires the presentation as a schedule to the annual budget «the consolidated accounts related to the last period but one prior to the current annual budget of unions of municipalities [unioni di comuni], special businesses [aziende speciali], associations [consorzi], institutions [istituti], corporations established to exercise public services».

Integrity

45. This accounting policy is a formal strengthening of the universality content.

46. Integrity requires that annual budgets do not include offsets. It is prohibited to record inflows deducting disbursements due to collections and, equally, to record inflows deducted by the related inflows.

47. This accounting policy shall be adopted in preparing the report, and it applies to economic amounts and financial items recognised in the income statement and statement of assets and liabilities as well.

Faithfulness and Reliability

48. Legislators using the terms «faithfulness» («veridicità») and «reliability» («attendibilità»), explicitly refer to the international accounting policy of true and fair view, implemented in the Italian legislation and practice by the requirement to «present a true and fair view of financial position and profit or loss for the period».

49. To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent.

50. Faithfulness raises several other accounting policies which the Legislator does not explicitly state and which will be clarified afterwards.

Financial balance

51. The annual budget has to be approved only if it presents a total financial balance, including all the inflows and all the outflows. This principle, as observed in the TUEL, art.193, affects the financial balances management and results consequently in the performance.

52. The TUEL, art.162, c.6, states that «the current estimated outflows added to the capital portion of loans and bonds amortisation rates can not totally exceed the first three estimated entrance titles and can not present other form of financing, except for those circumstances required by law».

53. With reference to this, it is said that it is prohibited to present the «current position» in debit. This wording substitutes accurate the wording «economic position» used earlier used, in order to avoid confusion between financial and economic concepts.

Publicity

54. Financial statements provide information to financial statements users. It is up to local governments to ensure citizens and bodies an appropriate knowledge of significant and relevant aspects of the annual budget and its schedules, even supplementing mandatory documents with other material.

55. The TUEL, art. 162, allows governments to include in their statutes and internal regulations specific rights to information.

Accounting Policies Under Accounting Standards

56. Accounting policies are the specific principles, criteria, procedures and application methods, identifying recordable events, accounting treatments, measurement and presentation criteria, functional to support the programming and control system.

57. Accounting principles are divided in accounting policies (principi generali o postulati) and applied accounting policies (principi contabili applicati).

58. Accounting policies are the general bases and rules on which applied accounting policies have to be based on.

59. The main underlying accounting policies are the following ones:

    (a) Understandability (transparency) [comprensibilità (chiarezza)]
    (b) Relevance and materiality (significatività e rilevanza)
    (c) Faithful representation (informazione attendibile)

(d) Consistency (coerenza)
(e) Reliability and propriety (attendibilità e congruità)
(f) Reasonable flexibility (ragionevole flessibilità)
(g) Neutrality (imparzialità)
(h) Prudence (prudenza)
(i) Comparability (comparabilità)
(j) Cash basis (competenza finanziaria)
(k) Accrual basis (competenza economica)
(l) Compliance with the preparation generally accepted accounting principles (corretti principi contabili)
(m) Information verifiability (verificabilità dell'informazione)

60. Applied accounting policies will represent specific pronouncements.

Understandability (Principio della comprensibilità)

61. Financial statements have to be understandable and present a clear classification of financial and economic items. The financial statements articulation has to support the comprehension and interpretation on a basis of programs, services and interventions.

62. Financial statements have to be provided with a narrative disclosure supporting the comprehension and the understandability of the accounting model. Disclosure is included in the budgeting and programmatic report in the case of annual budget and in the statement to the annual report in the case of final statement (consuntivo). However, the disclosure has not to be excessive and unnecessary.

63. An important quality of the information provided in financial statements is that it is easily understandable by users. For this purpose, users are assumed to have a reasonable knowledge of the local government's activities and accounting and a willingness to study the information with reasonable diligence.

Relevance and Materiality

64. To be useful, information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.

65. The preparation of financial statements implies the exercise of estimates and evaluations. Therefore, the fairness of financial statements data are not referred only to the calculation procedures but also to the economic and financial fairness and to the reasonability, that is a reliable outcome arisen from a cautious and proper application of methods adopted in the preparation of budgets and final accounts.

66. Errors, simplifications and roundings off are technically unavoidable and find their limit in the materiality; they do not have to affect significantly financial statements data and users decisions.

67. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the

size of the item judged in relation to the total amounts included in financial statements or error judged in the particular circumstances of its omission or misstatement.

Reliability

68. Information has the quality of reliability when it is free from material errors and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent.

69. The more the information is significant, the more its contingent misleading representation has to be avoided.

70. To be reliable, information has to represent faithfully the transactions and other events it either purports to represent or could reasonably be expected to represent.

Consistency

71. It is necessary to create a logical link between planning, programming, budgeting and ordinary activity. Consistency implies that they are functional to the same objectives.

72. Internal consistency implies that:
    (a) on a budgeting basis, the budgeting and programmatic report is consequent to the local government's planning;
    (b) on a management basis, the decisions and operations are not contrary to the policies and objectives included in the budgeting and programmatic report and do not affect financial and economic balances;
    (c) on a final accounts basis, differences between outcome and declared goals are demonstrated and motivated;

73. Any change to objectives, programs and plans, with respect to what is declared in the budgeting and programmatic report, must be explicitly declared, showing the reasons which make it necessary.

74. External consistency implies a link between the local government's and regional programming, and the public finance objectives.

Reliability and Propriety

75. The reliability of inflows and the Propriety of outflows have a basic role in a fair local governments' management, to safeguard local governments' balances and to anticipate potential unbalances.

76. Reliability and propriety have to be demonstrated by evaluations, analyses, descriptions, and tested by the local government's auditor.

77. The propriety of outflows has to be judged in relation to the planned objectives, historical trends and to the impact of pluriennial commitments on the period.

78. The reliability of inflows has to be judged:
    (a) on a budgeting basis in relation to its ascertainability and taking into account acts that stems a collection right, appropriate and impartial references, and motivated expectations on resources acquisition and use;
    (b) on a final account basis in relation to an actual collectability of arrears.

Reasonable Flexibility

79. Budgeting statements can not be interpreted as unmodifiable because this would imply an inelastic management that can produce the opposite effect.

80. On the contrary, an excessive use of flexible instruments represents a negative fact, given that it affects the reliability of programming process and makes financial statements not credible.

81. It is necessary that a report of final accounts include an appropriate disclosure concerning the number, extent and reasons which led to changes to annual budget.

Neutrality

82. To be reliable, the information contained in financial statements must be neutral, that is, free from determined bias. Financial statements are not neutral if, by the selection or presentation of information, they influence decision making or judgement in order to achieve a predetermined result or outcome.

83. Preparation of financial statements has to be based on independent and neutral accounting principles to all stakeholders, without helping or facilitating specific interests or needs. Neutrality or impartiality has to be effective in all the phases of the preparation of financial statements especially as far as discretional aspects are concerned.

84. The existence of discretional elements is not a factor affecting the neutrality, reasonability and verifiability. Discernment, caution and wisdom are the bases for the preparation of the financial statements. They require two main characteristics: capacity and technical fairness. Accounting neutrality has to be understood as a fair and technical proper application in the preparation of financial statements and this procedure requires discernment, caution and common sense as far as discretional elements are concerned.

Prudence

85. Prudence has to be applied in all the financial statements.

86. The annual budget has to include only inflows which are expected to be ascertainable in the period and all the outflows and expenditures which are expected to be committed.

87. Prudence implies that income not realised can not be recorded in the report, while all expenditures – even if not definitively incurred – have to be presented in the financial statements.

88. Prudence represents one of the main elements in the process of preparation of the financial statements. Its excesses have to be avoided because it could affect the local government's true and fair view and produce financial statements not reliable or fair.

89. Prudence, therefore, does not lead to a discretional understatement of inflows and income, but to a quality of judgements necessary for the preparation of the financial statements.

90. The exercise of prudence implies that assets and liabilities are individually carried out to offset expenditures which have to be recognised and profits which can not be recognised because not realised.

Comparability

91. Users must be able to compare the financial statements of local government through time in order to identify the general trends. Users must also be able to compare the financial statements of different local governments in order to evaluate their relative financial position, performance and changes in financial position. Hence, the measurement and display of the financial effect of like transactions and other events must be carried out in a consistent way throughout an enterprise and over time for that local government and in a consistent way for different enterprises.

92. An important implication of the qualitative characteristic of comparability is that users be informed of the accounting policies employed in the preparation of the financial statements, any changes in those policies and the effects of such changes. Users need to be able to identify differences between the accounting policies for like transactions and other events used from period to period. Compliance with accounting policies, including the disclosure of the accounting policies used by the enterprise, helps to achieve comparability.

93. With reference to a local government, the comparability over time can be obtained if the following criteria are satisfied:
    (a) the presentation is consistent, that is the way the items are presented is identical or at least comparable;
    (b) adopted measurement criteria are consistent over time. Any change has to be justified by an exceptional circumstance related to its frequency and nature. In any event , the effect of changes in the measurement criteria on the performance and on equity has to be adequately illustrated and justified;
    (c) structural changes (such as an outsourcing) and extraordinary events are clearly illustrated;

94. The need for comparability should not be confused with mere uniformity and should not be allowed to become an impediment to the introduction of improved accounting policies. It is not appropriate for a local government to continue accounting in the same manner for a transaction or other event if the policy adopted is not in keeping with the qualitative characteristics of relevance and reliability. It is also inappropriate for a local government to leave its accounting policies unchanged when more relevant and reliable alternatives exist.

Cash basis of accounting

95. The "Preface to International Public Sector Accounting Standard" states as its primary objective to define public sector financial statements based on the accrual basis of accounting. We share this approach and judge that this is the right trend. However, one should take note take note, in compliance with an interpretative and integrative role of legislation, the coexistence of financial and economic statements.

96. The cash basis (competenza finanziaria) is the criterion on which inflows and outflows are referred to the financial period in which the right to collect (ascertainment) and the obligation to pay (commitment) has place.

97. The ascertainment (accertamento), TUEL, art.179, represents the first step of the inflow procedure; it verifies the existence of the receivable and the subsistence of an appropriate legal title, identifies the debtor, measures the amount to collect and determines its maturity.

98. The commitment is the outflow level, which determines the existence of an obligation on outflows in relation to the available resources and to a legal obligation, measuring the amount to pay, the person or entity and the reason connected to that outflow.

Accrual basis of accounting

99. The accrual basis of accounting is a specific accounting policy of the business accounting and it is, therefore, to refer to economic statements, particularly to income statement and to statement of assets. Its respect is basic to prepare the reconciliation statement (prospetto di riconciliazione).

100. It is to be observed that the economic factor is a primary goal in public legislation with respect to the objectives that the legislator assigns to the mandatory financial reporting system. It that financial items, on a budgeting basis, have to express the financial aspect of economic events previously judged.

101. In compliance with the accrual basis, the economic effect of operations and other events has to be recognised and allocated to the period in which those operations and events took place and not when the related financial elements arise.

102. The determination of economic amounts implies a procedure of identification, measurement and matching between income and costs related to the period.

103. Accounting policies on recognition and presentation of income and costs will be developed in a separate document. The following are clarifications on some specific principles.

104. Income and revenue, as general rule, have to be recognised when the following two criteria are met:
    (a) the production cycle of goods or services has been completed;
    (b) the distribution has already been made, the substantial pass and not the legal pass of the ownership or of the services) has been carried out.

    Fiscal income and transfers are achieved with reference to related inflows verifications made during the period.

105. Costs and expenditures have to be related to income and revenue or to the institutional operations. This correlation represents an accrual basis main appendix and intends to express the necessity to oppose current income with its relative costs, both realised and unrealised. This correlation results when:
    (a) there is a relation cause and effect between costs and distribution or disposal of products or of realised services. This association can be made analytically and directly or on the basis of expectations on cost flows;
    (b) an allocation of the pluriennal usefulness or function on a reasonable and systematic basis, without a more direct relation. Amortisation is a typical example.
    (c) direct allocation of costs to income statement either because they are associated with institutional functions or because costs are associated to timing or because usefulness or function of these costs defaults. Particularly when:
        1. costs occurred during a period complete their usefulness during that period or the future usefulness is not identifiable or measurable;
        2. future usefulness or function of costs already suspended in previous periods default or are not identifiable or measurable any more;
        3. the relation cause and effect or the allocation of usefulness on a reasonable and systematic basis is not substantially useful.;

106. The process of judgement is strictly connected to the accrual basis.

107. Economic valuations referred to costs and performance represent the financial statements basis. Reasons moving towards cost, as total expenditures which a local government effectively incurred to obtain a specific good, can be summed as it follows:
    (a) the cost does not represent an expenditure incurred towards the acquisition of goods, but it represents their qualitative factors and it expresses their working value.
    (b) the cost method is the less discretional method;
    (c) the cost method is easy to adopt and implement.

108. The cost is a measurement criterion and not an absolute amount included in the financial statements. The cost is a disclosure of the value of an element. The measurement process starts from the original cost measuring the original functionality of goods, which has to be reviewed in order to determine the residual value.

Compliance of Preparation of Financial Statements with Proper Accounting Policies

109. The entire processes for preparation of the financial statements is based on proper accounting policies. These are enacted by the Osservatorio sulla finanza e la contabilità degli enti locali. If there is no current accounting policy, these accounting policies can be used.

Information Verifiability

110. The economic and financial information provided by the financial statements must have to be verified through an independent restatement of the accounting procedure, taking into account discretional elements as well.

Country Report – Japan

February 2006

1. Accounting Pronouncements for Public Sector

1) Impairment on Fixed Assets

Ministry of Education, Culture, Sports, Science and Technology issues an accounting standard on impairment of fixed assets for national universities on December 22, 2005. The standard is effective for the fiscal year ended March 31, 2007.

The Standard requires recognition of impairment based on recoverable service amount of an asset that is higher of the asset’s fair value less cost to sell and its value in use. There are some differences between the standard and IPSAS 21. One of major differences is that the standard prohibits reversal of an impairment loss.

National universities were corporatized on 1 April 2004. Corporatization removes national universities from the national government organizational framework and greatly expands the independence and autonomy of each university.   Corporatized universities use full accrual basis accounting.

As we reported in our country report in July 2005, a similar accounting standard was issued for independence administrative agencies that also adopt full accrual basis accounting.

2. Other Information That May Affect Public Sector Accounting

1) A Decrease in Pension for Government Employees Is under Discussion

All Japanese citizens are currently covered by either one of three Social Pension Systems; 1) private sector employees, 2) public sector employees, or 3) self employee. The Government long-term policy is to unify 1) and 2) above. In advance to the unification of two systems, the Government considers decrease in benefit of public sector employees' pension to the same level as that of private sector employees. The consideration includes a decrease in benefit for those who already have been retired and is receiving benefit.

2) Restructuring of Social Service Agency

Social Insurance Agency is currently in charge of administration of publicly operated health insurance scheme (cover employees of smaller enterprises) and social welfare pension schemes for private sector employees and self employees. The Agency will be reorganized into two separate organizations: one is Napkin (Pension) Service Agency that take care of social welfare pension scheme, and the other is public sector entity that take care of the publicly operated health insurance scheme (name has not been decided yet).

The restructuring will be effective on October 1, 2008. It aims effective and efficient operation of both health insurance and pension schemes.

3. Other Key Accounting Issues

1) ASBJ released a Statement on Convergence

The Accounting Standards Board of Japan (ASBJ), which is an accounting standards setter for private sector entities, released in January 2006, a "Statement on Japan's progress toward convergence between Japanese GAPP and IFRSs". ASBJ and IASB have started a joint project of convergence of both standards since March 2005. The statements refers to current developments and future prospects for 2008 in order to remedy issues which the Committee of European Securities Regulators (CESR) identified technical advice on equivalence of third country GAAP in July 2005.

The third joint meeting between ASBJ and IASB will be held in March 2006 and an international conference will be held coincidently.

The statement can be download (English version is also available) from the URL below.
http://www.asb.or.jp/j_asbj/pressrelease/convergence_060131.html

2) ASBJ issued new accounting standards

ASBJ currently has issued various new accounting standards. The followings may draw interest of IPSASB members.

a) Presentation of Net Assets

ASBJ issued an accounting standard on presentation of net assets, together with implementation guidance thereto in December 2005. Main features of the standard are summarized as follows;

- Net assets are newly defined as total assets minus total liability.
- Mezzanine section is abolished (former accounting standards required to present some item such as minority interest in “mezzanine”)
- Net assets section is divided into shareholders equity, valuation differences, stock warrant and minority interest.

b) Business Separation

ASBJ issued an accounting standard on business separation, together with implementation guidance thereto in December 2005.

c) Stock Option

ASBJ issued an accounting standard on stock option, together with implementation guidance thereto in December 2005. The standard requires entities recognize an expense based on fair value of stock option rendered.

**IFAC INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD
IFAC IPSASB MEETING – MARCH 2006**

COUNTRY REPORT - MALAYSIA

Public Sector Accounting Standards

The Accountant General's Department is responsible for issuing of Public Sector Accounting Standards (PSAS) 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. As of to date, eight Public Sector Accounting Standards have been issued and they are as follows:

PSAS 1 - Government Accounting Policies
PSAS 2 - Presentation of Financial Statements
PSAS 3 - Consolidated Revenue Accounts
PSAS 4 - Consolidated Trust Accounts
PSAS 5 - Consolidated Loans Accounts
PSAS 6 - Investments
PSAS 7 – Cash and
PSAS 6 - Memorandum Accounts

Currently, we are working on two new accounting standards that are Effect of Changes Foreign Exchange Rate and Government Grants. These two new standards are expected to be issued in December 2006.

The Public Sector Accounting Standards (PSAS) apply to public sector entities except Local Governments, Statutory Bodies and Government Link Companies which are adopting Financial Reporting Standards issued by Malaysian Accounting Standards Board.

International Public Sector Accounting Standards (IPSAS) Under the Accrual Basis of Accounting

A committee was set up in the year 2004 to explore and evaluate the requirements of the IPSASs (Financial reporting under the accrual basis of accounting) presently in force so as to ensure compliance to these standards if Accountant General's Department adopts the accrual basis of accounting in the future. As of to date, the following IPSASs have been reviewed by the committee, the findings and recommendations have been forwarded to the top management for approval of the possible future adoption:

IPSAS 1 – Presentation of Financial Statements
IPSAS 2 – Cash Flow Statements
IPSAS 3 – Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies
IPSAS 4 – The Effect of Changes in Foreign Exchange Rates
IPSAS 5 – Borrowing Costs

IPSAS 6 – Consolidated Financial Statements and Accounting for Controlled Entities
IPSAS 7 – Accounting for Investment in Associates
IPSAS 8 – Financial Reporting of interests in Joint Ventures
IPSAS 9 – Revenue from Exchange Transactions
IPSAS 10 – Financial Reporting in Hyperinflationary Economies
IPSAS 11 – Construction Contracts
IPSAS 12 – Inventories
IPSAS 14 – Events after the Reporting Date
IPSAS 15 – Financial Instruments: Disclosure and Presentation
IPSAS 17 – Property, Plant and Equipment
IPSAS 20 – Related Party Disclosures

General Financial & Management Accounting System (GFMAS)

The Accountant General's Department is in the process of re-engineering and developing its accounting system which is 18 years old. The new accounting system also known as General Financial & Management Accounting System (GFMAS) being developed will be able to capture accounting transactions and prepare financial statements based on accrual basis of accounting. Among the characteristics of the GFMAS are listed as follows:

- Cash accounting with capability of accrual reporting
- Streamlining transactions towards accrual processing
- Data warehousing
- Single point of entry
- Distributed processing.

Modules that are being developed under GFMAS are as follows:

- General Ledger (GL)
- Accounts Receivable (AR)
- Accounts Payable (AP)
- Controlling (CO)
- Cash Management (CM)
- Fund Management (FM)
- Asset Management (AM)
- Treasury Management (TR)
- Loan Management (LM)
- Human Resource & Payroll (HR/PAY)
- Material Management (MM)
- Government-Advance & Loans Monitoring System (G-ALMOS)
- Government-Unclaimed Moneys Management Integrated System (G-UMIS)
- Government-Securities Management Integrated System (G-SMIS)

GFMAS will be implemented across 35 accounting offices. The GFMAS Project Management team is adopting the Accelerated System Application Program (ASAP) methodology to manage the implementation activities and deliverables of the project.

The ASAP methodology covers 5 stages namely:

Stage 1: Project Preparation
Stage 2: Business Blueprint
Stage 3: Realization
Stage 4: Final Preparation
Stage 5: Go Live & Support (Rollout)

Stage 1-Project preparation

The core activities of this project include:

- Establish project teams
- Conduct kick-off meeting to confirm the project scope
- Develop Project Charter
- Perform review on all technical requirements of the project

This stage symbolizes the initiation of the GFMAS project and was completed at the end of February 2005 and documents containing project kick off, Project Charter and Project Plan were received from consultant Teliti-Innovation Alliance.

Stage 2-Business Blueprint

The objective of this stage is to obtain a clear precise understanding of the detail functional requirement of different modules to be implemented in GFMAS.

The major activities during this stage are as follows:

- Develop System functional requirements
- Develop System's data conversion and authorization strategy
- Identify training needs
- Determine reporting requirements
- Determine interface requirements
- Initiate change readiness Assessment

This stage was completed on 11 April 2005 with the signing-off of the Business Blueprint by the Accountant General's Department.

Stage 3: Realization

The project teams are focusing on the configuration of the SAP modules using agreed functional requirements. The core activities that are being carried out at this stage include:

- Configure SAP modules/develop customized modules
- Develop forms, reports and interfaces

- Establish profiles for authorization
- Implement data conversion and migration plan
- Setup training environment
- Conduct awareness program
- Develop change infrastructure; conduct change management activities relating to communication and role definition

This stage of the project was completed at the end of December 2005.

Stage 4: Final Preparation

Among the core activities to be carried out at this stage include:

- Develop cut-over and go-live plan
- Develop standard operating procedures
- Develop offline procedures
- Conduct end-user training for users at the pilot site
- Complete the preparation of the production environment
- Conduct communication and acceptance program

This stage of the project was completed at the end of December 2005.

Stage 5: Go Live & Support (Rollout)

The final stage of the project relates to the roll out of the GFMAS application, which is divided into two phases. The pilot phase will involve 3 sites. Upon completion of the pilot roll out by March 2006, GFMAS application will be implemented to the other 32 sites across the nation over a period ending October 2006.

Prof. Andreas Bergmann, Dr. oec.

Country Report Switzerland

(Tokyo Meeting, March 2006, prepared 10 February 2006)

A. Federal Government

In October 2005 the Federal Parliament has passed a new Public Finance Act with 175 yes against 4 no in the lower house and 43 yes and nil in the upper house. This new act includes the adoption of the accrual basis IPSAS for the federal level and requires the federal government to promote harmonization with the states (cantons) and local governments. Because the constitution grants unrestricted autonomy to state and local governments in public financial management issues, the federal government, however, may not coerce state or local governments to adopt IPSAS or any other standard, except for directives in the field of Government Financial Statistics (GFS).

Technically, the implementation of the IPSAS in the federal government and its agencies is well advanced in most respects. The first financial reports under IPSAS will cover the year 2007 (financial and calendar year being equal in Switzerland). Therefore, restatements as well as the budget for 2007 are prepared based on IPSAS. The main obstacles can be found in the scope of consolidation. This has caused a postponement of this part of the conversion project beyond 2007. Where the IPSAS provide no guidance, the federal government will use IAS (e.g. IAS 19 for pension plans for government employees) or national standards following the same principles like the IPSAS (e.g. Standards of the Swiss Banking Authority for the measurement of financial instruments). In the field of tax revenues, the federal government decided to follow the main principles available in the ITC on Non-Exchange-Revenuer and agenda papers from the more recent IPSASB meetings. The difficulties, however, are limited on the federal level, because the federal government only collects VAT and other indirect taxes directly, while income taxes are only collected by state and/or local governments. The largest difficulties are experienced with the withholding tax on financial revenues, such as interest or dividends.

Another major project on the federal level is the implementation of international guidelines in respect of financial statistics (GFSM2001 and ESVG95). As mentioned above, this project has gained momentum because GFS are the only enforceable way of harmonization in the field public sector financial management, that covers all three levels of the Swiss federation. It's limited by the fact, that it provides no guidance for General Purpose Financial Statements (GPFS), although the principles are very similar to IPSAS. Hence, it is expected to bring pressure for reforms which go into the right direction, but additional guidance in the field of financial reporting will be necessary.

B. State (Canton) Governments

On the state level there is common project led by the Conference of the State Ministers of Finance and there are various projects in different states.

While the common project is aiming for an improvement of Harmonized Accounting Model (HAM), which is currently an accrual accounting system focussing on the chart of accounts. While it is clear that this improvement project is referring to the IPSASs, it is controversial to which extent differences to the international standards, but also differences between the states, are acceptable. About half of the cantons would like to follow the IPSASs closely, developing HAM to an outline of an accounting manual for Swiss public sector entities, the other half would rather keep it on the currently achieved level of a chart of accounts.

In the mean time, three cantons have decided to implement the IPSASs without waiting for the reform of the HAM. The State of Zurich, the largest state of the federation, will produce the first financial statements under IPSAS in the year 2007, like the federal government, although the issue has been more controversial in the state parliament than on the federal level. The State of Geneva is aiming for the year 2008, while the third state has not yet decided on the inception date. Other states, including the State of Berne, the second largest state, follow more cautiously implementing IPSAS on a step by step basis. The largest city, the City of Zurich, is likely to initiate a project implementing IPSAS by 2009 or 2010. It's obvious that larger entities are more progressively moving towards a full implementation of IPSAS, while smaller ones are more cautious.

The conversion projects in the States of Zurich and Geneva are on track, but facing the same difficulties like the one on federal level. Most importantly, identifying controlled entities proves to be difficult. It proves to be very difficult, if not impossible, to establish the power conditions of IPSAS 6 in the Swiss jurisdiction. The Swiss jurisdiction is strongly focussing on the limitation of power, either by limiting the influence by limiting the right to assign key personnel or by requiring unanimous decisions. Unlike the federal government, both states are still trying to provide a consolidated view from the first year. However, the scope of consolidation will be rather small, at least from an outside perspective comparing the financial statements before and after the implementation of IPSAS. But it should not be forgotten, that government agencies, unlike in other jurisdictions, have always been consolidated, because they are not autonomous, but a part of the government or ministries. The difficulties are arising with more peripheral entities such as Universities, Foundations or Government Business Enterprises.

The other difficult issue is accounting for tax revenues. The Swiss tax system is rather particular, because all income taxes are collected on state and local level. The solution developed in the State of Zurich is following the ITC on Non-Exchange Revenue and more recent agenda papers. Because the State of Zurich tax act was amended in respect of tax collection in 1999, the number of years available to produce reliable estimates is very small at this moment. The implementation of new accounting principles will therefore be postponed to inception date of a relevant IPSAS.

C. **Private Sector Accounting Standards**

The Swiss standard setter FER, a private foundation, has issued a conceptual framework. This after 26 standards had been issued over the last 20 years – a pattern very similar to the one which is now considered by the IPSASB. The standards, know as Swiss GAAP FER, are only used in the private sector. The Swiss Stock Exchange (SWX) requires listed corporations to adopt Swiss GAAP FER, except for the largest corporations, which are required to adopt IFRS. Swiss GAAP FER is also used by larger unlisted companies (i.e. family owned businesses), although they are currently not required to do so. However, the use of Swiss GAAP FER is limited, because many private sector entities in the open Swiss economy are opting rather for the internationally better known IFRS, instead. Therefore the conceptual framework tries to open Swiss GAAP FER towards smaller companies, by offering them the option of a partial adoption of the standards.

IFAC COUNTRY REPORT: UNITED KINGDOM

A. ACCOUNTING STANDARDS BOARD DEVELOPMENTS

1. New Accounting Standards

Standards Issued/ amended

Since October 2005 the UK Accounting Standards Board has issued/ amended three Financial Reporting Standards as follows:

- FRS 23 (IAS 21) 'The Effects of Changes in Foreign Exchange Rates'
- FRS 26 'Financial Instruments Measurement'
- FRS 29 'Financial Instruments: Disclosures'

These all reflect IFRS convergence.

FRS 23 has been amended to reflect corrections made to IAS 21 as exposed under the IASB's Draft Technical Correction Policy, but made under established IASB powers.

FRS 26 has been amended to reflect in full in FRS 26 the following amendments to IAS 39:

- transition and initial recognition of financial assets and financial liabilities;
- cash flow hedge accounting of forecast intragroup transactions;
- the fair value option; and
- financial guarantee contracts and credit insurance.

FRS 29 has the effect of implementing IFRS 7 "Financial Instruments: Disclosures"

Operating and Financial Review: mandatory guidance withdrawn

UK Country Reports in 2005 noted the development of mandatory guidance on narrative reporting, reflecting statutory requirements in the UK Companies Act. Responding to suggestions that these requirements were too onerous, the UK government has repealed the relevant statute, leaving only a duty to provide an enhanced Directors Report.

In consequence, the UK Accounting Standards Board withdrew Reporting Standard 1 'Operating and Financial Review' in January 2006. It has been replaced by best practice guidance in a Reporting Statement.

The reaction to the withdrawal of these requirements was mixed, and the UK government is currently consulting on the compass of mandatory reporting.

CIPFA has continued its project which considers how comparable narrative reporting requirements might be applied across the whole of the UK public sector and other public benefit sectors. A discussion paper was published in January 2006. CIPFA will be holding a Round Table event on 31 March. Depending on the feedback from this and other consultation, we hope to produce a follow-up paper in mid 2006.

2. Possible UK Exposure Draft amending FRS 20 (IFRS 2) 'Share-based Payment'

The UK ASB has implemented IFRS 2 as a UK standard, FRS 20 (IFRS 2) 'Share-based Payment'. It will shortly be considering whether to issue an exposure draft proposing an amendment to the UK standard, reflecting an IASB exposure draft released on 2 February 2006, proposing amendment to IFRS2.

The effect of these proposals would be that where employees cancel their rights to options (for example, in a savings-based share option scheme where an employee decides not to continue saving through the whole period, but remains in the employment of the group issuing the options) the unamortised value of the options granted would be charged immediately to profit or loss.

Similar issues were addressed by the International Financial Reporting Interpretations Committee (IFRIC) in its draft Interpretation D11, issued in December 2004; the Urgent Issues Task Force (UITF) issued a parallel draft Abstract in Information Sheet No. 73. However, in the light of responses received, the IFRIC decided not to issue a final interpretation but to refer the issue to the IASB.

3. UKASB Exposure Draft "Statement of Principles: Proposed Interpretation for Public Benefit Entities"

Consultation on this exposure draft has been completed and the UK Accounting Standards Board is reviewing responses.

4. UKASB Discussion Paper on 'Heritage Assets'

The UK exposure draft was released in January 2006. CIPFA and the UKASB are holding a Round Table event on 6 March 2006 to promote discussion and inform the UK consultation.

5. UKASB Policy Statement on future strategy – follow-up

On 19 January 2006, the UK Accounting Standards Board held a Round Table event, to discuss the future role of the UKASB in the specific contexts of:

- UK/ IFRS convergence; and
- Communication issues arising from the rapid pace of IFRS development

A variety of views were expressed at the meeting, and subsequent UKASB consideration of those views has been inconclusive.

However, it is clear that the UK will no longer be pursuing "phased" convergence with IFRS. Eventual convergence is more likely to follow a "big bang" approach, except inasmuch as amendments are made to UK GAAP to reflect IFRS developments which are improvements and can be readily applied to UK GAAP.

It is not clear what the extent of convergence will be for the "middle tier" of entities who are not currently compelled to follow IFRS, but which are too large to be covered by the UK Financial Reporting Standard for Smaller Entities. It may be that this will follow the IASB SME project, or it may be developed as a UK specific cut-down IFRS.

B. AUDITING PRACTICES BOARD DEVELOPMENTS

1 Proposed Revised ISAs (UK & Ireland)

ISA (UK and Ireland) 720 addressing 'other information' in documents containing audited financial statements.

This ISA was drafted primarily to address new statutory responsibilities for the Operating and Financial Review (OFR). Subsequent to the withdrawal of the requirement for an OFR, section B of the ED relating to the OFR has been withdrawn. The remaining standard includes some useful guidance on Directors Reports.

Deferred: ISA (UK and Ireland) 700 'The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements'

After considering responses to the UK consultation, the UK Auditing Practices Board deferred revision until progress has been made in resolving a number of issues, including

- Forthcoming changes to the UK Companies Act that impact the responsibilities of auditors and directors, expected to be finalised in autumn 2006 at the earliest.
- Revision of the European 8th Directive on Company Law, which addresses audit requirements; it is not known whether the form and wording of the auditor's report required by the revised ISA 700 will be approved for adoption in the EU.
- Standards on Modifications to the Auditor's Report, which under the IAASB's Clarity Project timetable will not be finalised until June 2007**.**

2 APB Practice Notes

Practice Note 10 (Revised): 'Audit of Financial Statements of Public Sector Bodies in the United Kingdom' (January 2006)

The revision of Practice Note 10 primarily provides guidance for auditors on their audit procedures following the replacement of the UK Statements on Auditing Standards with ISAs (UK & Ireland). It also takes account of a small number of legal and regulatory developments affecting public sector bodies in the United Kingdom since the current Practice Note 10 (Revised) was issued in April 2001.

Consultations

Recent and ongoing consultations include

- Practice Note 16 (Revised) 'Bank Reports for Audit Purposes'
- Practice Note (Revised): "The Audit of Insurers in the United Kingdom"

3 Bulletins

2005/3 Guidance for Auditors on First-time Application of IFRSs in the United Kingdom and the Republic of Ireland (Nov 2005)

This bulletin provides auditors with guidance on issues that may arise when entities undertake the transitions for UK/ ROI GAAP to International Financial Reporting Standards.

2005/4: Auditor's Reports on Financial Statements in Great Britain and Northern Ireland (Nov 2005)

This bulletin provides illustrative examples of auditor's reports for audits of financial statements of UK companies, reflecting the adoption of ISAs (UK & Ireland). Scope reduced to cover only GB and NI.

The online version notes that, subsequent to publication, a slightly different form of words for "EU franked IFRS" has been recommended in EU jurisdictions.

2006/1 Auditor's Reports on Financial Statements in the Republic of Ireland (January 2006)

Exposed as Draft Bulletin 2005/04. Scope covers ROI.

2006/2 "Illustrative Auditor's Reports on Public Sector Financial Statements in the United Kingdom"

This was published in tandem with the revised Practice Note 10 and provides illustrative auditor's reports on public sector financial statements which supersede those included in the previous PN 10.

4 UK approach to IAASB Clarity Project

The IAASB Clarity project will involve considerable redrafting and changes to ISAs, probably involving shortened consultation times where redrafting is purely 'clarification'.

In November 2005, the UKAPB issued a Consultation Paper setting out its proposed approach to the exposure drafts issued by IAASB in connection with the Clarity Project.

The UKAPB proposed that it should not issue exposure drafts of corresponding 'clarified' ISAs (UK and Ireland) at this stage; instead the formal exposure of such standards should take place after the ISAs have been finalised by IAASB and should take account of the European Commission's forthcoming process for the adoption of ISAs in the EU.

The UKAPB will, however, respond to the IAASB on its exposure drafts and intends to gather views of interested parties in the UK and Ireland.

C. LOCAL GOVERNMENT

Local Authority Statement of Recommended Practice (SORP) 2006 Consultation and Financial Instruments Discussion Paper

CIPFA/LASAAC joint committee completed these consultations on 2 February 2006 and has begun to review responses.

The main changes proposed are

- removal of the capital financing charge (notional interest)
- changes to the single entity statement of accounts to make it more UK GAAP compliant and easier to understand.
- similar changes to the Housing Revenue Account
- parallel changes to Group Accounts to put them on a common format to the single entity statement of accounts
- a new UK GAAP compliant Revaluation Reserve and consequential changes
- changes resulting from accounting standards developments
- changes resulting from legislative developments

The Financial Instruments discussion paper sets out changes likely to arise from new accounting standards for financial instruments. Implementation of the UK standards is being deferred, but will probably be brought into the 2007 SORP.

D REGISTERED SOCIAL LANDLORDS

No significant developments to report

E CHARITIES SECTOR

No significant developments to report (other than Heritage Assets).

F FINANCIAL REPORTING COUNCIL

No significant developments to report (other than those covered under other headings).

G EUROPEAN UNION DEVELOPMENTS (AUDIT)

Revision of the EU 8th Company Law Directive on statutory audit

The new 8th Company Law Directive on statutory audit aims at reinforcing and harmonising the statutory audit function throughout the EU.

It sets out principles for public supervision in all Member States. It also introduces a requirement for external quality assurance and clarifies the duties of statutory auditors. Sound and harmonised principles of independence applicable to all statutory auditors through the EU have been defined.

The Directive also requires listed companies to set up an audit committee (or similar body). It also foresees the use of international standards on auditing for all statutory audits conducted in the EU. Adoption of these standards will be subject to strict conditions such as their quality and whether they are conducive to the European public good.

European Group of Auditors' Oversight Bodies created

On 14 December 2005 the European Commission announced that it has set up a ‘European Group of Auditors' Oversight Bodies’ (EGAOB). The Group will ensure effective coordination of new public oversight systems of statutory auditors and audit firms within the European Union. It may also provide technical input to the preparation of possible measures of the Commission implementing the 8th Company Law Directive, such as endorsement of the International Standards on Auditing or assessment of third countries' public oversight systems. The EGAOB will be composed of high-level representatives from the entities responsible for public oversight of statutory auditors and audit firms in member states or, in their absence, of representatives from the competent national ministries.

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