INSTITUTE OF CHARTERED ACCOUNTANTS OF GUYANA

NEWSLETTER

DECEMBER 2006

Welcome Remarks

This Newsletter is the third such publication for 2006 containing summary information on developments in the areas of accounting, auditing, education and ethics.

From 2007 this publication will also highlight issues arising with the introduction of Value Added Tax in Guyana.

As always, we hope you find the information useful and would welcome suggestions and contributions from members for future publications.

Khalil Alli
Editor

New Accounting Issues

IFRS 8 - Operating Segments

In November the IASB issued IFRS 8, *Operating Segments*, replacing IAS 14, *Segment Reporting*. The introduction of the new standard was part of the IASB's convergence project with the US Financial Accounting Standards Board ('FASB') and the provisions of the new standard are therefore similar to those contained in US GAAP.

The standard is applicable to the financial statements of listed entities and requires that a 'management approach' be adopted to segment reporting. Information would be segmented in a manner similar to that used by the chief operating decision maker to evaluate performance and in deciding on the allocation of resources.

The new standard is applicable for financial periods commencing on or after 01 January 2009.

Fair Value Measurements

In November the IASB published a discussion paper on harmonizing the measurement of fair value where required by standards. The paper is based on a similar publication by the US FASB.

The discussion paper aims to bring consistency to the dispersed guidance in the existing standards on the measurement of fair values. The paper also recommends that there be increased disclosure of the information used to determine fair value and effect of fair value measurement of the entity's profit or loss.

The comment period expires on 02 April 2007.

IFRIC 11 – Group and Treasury Share Transactions

In November IFRIC issued IFRIC 11, *Group and Treasury Share Transactions*, confirming its views on whether:

- the manner in which an entity acquires shares for payment influences the application of IFRS 2;
- a subsidiary needs to apply IFRS 2 for arrangements where its employees are granted rights in the shares of its parent.

IFRIC confirmed that irrespective of whether an entity issues new shares or acquires its shares from the market to settle a transaction, the arrangement would be classified as a share-based payment.

Relative the second issue, IFRIC confirmed that the subsidiary would be required to account for the transaction as equity-settled once the consolidated financial statements adopted such an approach. The increase in equity would be accounted for as additional contribution from the parent.

The interpretation is applicable for financial periods commencing on or after 01 March 2007.

IFRIC 12: Service Concession Arrangements

In November IFRIC issued IFRIC 12, *Service Concession Arrangements*, outlining the application of existing IFRSs to the accounting of obligations undertaken and rights received in service concession arrangements for public services such as roads, airports, energy, water supply and distribution facilities.

The interpretation examines the application of existing standards to areas such as construction contracts, service contract revenue, borrowing costs, financial assets and intangible assets. The interpretation distinguishes a financial asset arising from an unconditional right to receive a financial return from the contract grantor for executing the concession, and an intangible asset arising from the right to charge for the use of the concession.

The interpretation is applicable for financial periods commencing on or after 01 January 2008.

FIN 48: Accounting for Uncertainty in Income Taxes

The US FASB published in July Final Interpretation 48, *Accounting for Uncertainty in Income Taxes*, which requires that entities reporting under US GAAP to disclose any tax exposure in its financial statements. The disclosure will require identification of any tax positions that are 'more-likely-than-not' to be determined against the entity if challenged by the tax authorities. Once such positions are identified, the potential impacts need to be quantified for disclosure in the financial statements. The interpretation is effective from 15 December 2006.

With the increasing convergence between US GAAP and IFRS, it is possible that a similar requirement will find its way into IAS 12.

New Auditing Issues

Clarity Project

The IAASB has issued the first four of the redrafted auditing standards under its Clarity Project. The first four standards are:

- ISA 240 (redrafted): *The Auditor's Responsibility Relating to Fraud in an Audit of Financial Statements;*
- ISA 300 (redrafted): *Planning an Audit of Financial Statements*;
- ISA 315 (redrafted): *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment*; and
- ISA 330 (redrafted): *The Auditor's Responses to Assessed Risks.*

The IAASB also issued amendments to the *Preface to International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services*, which sets out the conventions to be followed in drafting auditing standards and the obligations of auditors to implement the standards.

The IAASB intends to complete the revision and redrafting of auditing standards under the Clarity Project by 2008. To achieve this objective the IAASB has identified that of the 32 ISAs in issue:

- 11 require full revision and redrafting in the clarity form; and
- 21 require no revision but redrafting in the clarity form.

To this end the IAASB has exposed a number of revised and/or redrafted standards for comment. These are:

- ISA 260 (revised and redrafted): *Communication with Those Charged with Governance* (comment period closes 15 February 2007);
- ISA 320 (revised and redrafted): *Materiality in Planning and Performing and Audit* (comment period closes 15 February 2007);
- ISA 450 (redrafted): *Evaluation of Misstatements Identified during the Audit* (comment period closes 15 February 2007);
- ISA 720 (redrafted): *The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements* (comment period closes 31 March 2007);
- ISA 610 (redrafted): *The Auditor's Consideration of the Internal Audit Function* (comment period closes 31 March 2007);
- ISA 560 (redrafted): *Subsequent Events* (comment period closes 31 March 2007);
- ISA 230 (redrafted), *Audit Documentation* (comment period closes 31 March 2007);
- ISA 540 (revised and redrafted): *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* (comment period closes 30 April 2007);
- ISA 580 (revised and redrafted): *Written Representations* (comment period closes 30 April 2007).

All redrafted ISAs are to be effective provisionally for the audits of financial statements for periods beginning on or after 15 December 2008.

New Ethics Issue

The International Ethics Standards Board for Accountants (IESBA) is a standard-setting body designated by, and operating independently under the auspices of, IFAC. The IESBA develops and issues in the public interest high-quality ethical standards and other pronouncements for professional accountants to use. The IESBA has issued the Code of Ethics for Professional Accountants along with Interpretations to the Code of Ethics for Professional Accountants which assist with the implementation of the Code. IFAC Member Bodies, including the ICAG are required to comply with the Code of Ethics.

Independence Requirements

In December the IASEB issued an exposure draft containing proposed changes to the Independence provisions in the Code of Ethics.

Significant proposals include:

- Separate independence requirements for audit and review engagements from other assurance engagements;
- Enhanced independence guidance for the audits of public interest entities;
- No financial interest to be held by a member of the audit team in the parent of an audit client;
- 'Cooling-off' period of at least 12 months to be applied to key audit partners moving to employment with audit clients; and
- Expanded restrictions on certain non-assurance services, being provided to audit clients.

The comment period closes 30 April 2007.

Know Your Standard Setters

This quarter we focus on the body responsible for setting ethics standards for the profession.

The IESBA is responsible for ethical standards and guidance for professional accountants. The body currently comprises eighteen members with ten nominated by IFAC Member bodies, three from the public and five from international accounting firms.

All issues must undergo due process so that views of all affected parties are considered. The work of the IESBA is supported by the Consultative Advisory Group which is responsible for consulting with agencies with an interest in international ethics. The current organisations included in the CAG are:

- Auditing Practices Board (UK)
- Basel Committee on Banking Supervision
- CFA Institute
- Eastern Central and Southern African Federation of Accountants
- European Federation of Accountants and Auditors for SMEs
- European Federation of Financial Executives' Institutes
- Fédération des Experts Comptables Européens
- Institute of Internal Auditors
- International Auditing and Assurance Standards Board Consultative Advisory Group
- International Corporate Governance Network
- International Organization of Securities Commissions
- International Organization of Supreme Audit Institutions
- Public Company Accounting Oversight Board (US)
- The World Bank

The work of the IESBA is monitored by the Public Interest Oversight Board

Editorial Information

The information contained within this publication should not be relied upon as professional guidance. No responsibility for any person acting as a result of any material in this publication can be accepted by the Institute or the Editor.

Comments can be sent to the Institute at 216 Almond Street, Queenstown, Georgetown.