

## **IV. Accounting and Auditing Standards**

**T**his chapter describes the accounting and auditing standards that govern the preparation of external financial reports and their audit. It comprises 10 sections as follows:

### Part One: Accounting Standards

- 1 – Introduction – reviews the historical development of the Fiji Islands' accounting standards.
- 2 – Accounting and Auditing Standards Committee (AASC) – outlines the role, composition and activities of the AASC, the accounting and auditing standard-setting body.
- 3 – Accounting Standard Setting Process – describes the accounting standard-setting process.
- 4 – Fiji Accounting Standards (FASs) – describes FASs and their application.
- 5 – Conformity with International Accounting Standards (IAS) – examines differences between FASs and IASs.
- 6 – Public Sector Accounting Standards – describes the standards that govern public sector financial reporting.
- 7 – Taxation Reporting Requirements – reviews the relationship between financial reporting and taxation reporting practices.

### Part Two: Auditing Standards

- 8 – Introduction – describes the development and application of Fiji Standards on Auditing (FSAs).
- 9 – Comparison with International Standards on Auditing (ISA) – examines differences between FSAs and ISAs.
- 10 – Issue Synopsis: Accounting and Auditing Standards – summarizes the issues identified in this chapter.

### **Part One. Accounting Standards**

#### **1. Introduction**

The *FIA Act 1971* provided for the establishment of FIA. Section 6(a) of the Act states that one purpose of the Institute is to “register accountants and to regulate the practice of the profession of accountancy in Fiji.” In

accordance with the Act, the Institute began issuing non-mandatory *Recommendations on Accounting Practice* shortly after its establishment.

The first FAS was issued in 1976—by 1998, there were 28 FASs. While these FASs were primarily based upon IAS; Australian and New Zealand accounting standards were sometimes adapted (where the Institute felt they were more suited to Fiji Islands' conditions).

In January 1999, the Institute's Council agreed (in principle) to adopt IASs and ISAs as the basis for completely new revised sets of Fiji Accounting and Auditing Standards.<sup>56</sup> To this end, a comparative review of IASs and FASs began in November 1999 and was completed in 2001. The review concluded with FASs being reissued. Priority has now shifted to reviewing ISAs for their application in the Fiji Islands.

Financial reports are generally prepared on the basis of FASs. However, the use of FASs is not clearly legally mandated; even recent legislation—such as the *Banking Act 1995* and the *Public Enterprise Act 1996*—does not specify the basis for financial statement preparation.

## **2. Accounting and Auditing Standards Committee (AASC)**

The AASC of the FIA recommends the promulgation of accounting and auditing standards to the Institute's Council. The Council approves and promulgates standards.

AASC membership is not fixed, but typically comprises nine members drawn from accounting firms, the public and private sectors and academia.<sup>57</sup> The Committee's composition has recently altered to reflect the new emphasis on promulgating auditing standards—it is now dominated by practicing auditors. The FIA Council appoints the Committee members.

## **3. Accounting Standard Setting Process<sup>58</sup>**

The AASC is responsible for: (i) deciding which standards are high priority in terms of basic disclosure requirements; (ii) reviewing equivalent standards issued by other accounting bodies; (iii) recommending the promulgation of accounting and auditing standards to the Institute's

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<sup>56</sup> FIA. 2000. *Annual Report 1999*. p. 6.

<sup>57</sup> Pathik, Kushilliya. December 1999. *Extent of Non-compliance with Fiji Accounting Standards: A Survey of Public Companies and Statutory Authorities*. University of the South Pacific: Unpublished Manuscript. p. 52.

<sup>58</sup> *Ibid.* pp. 63-64.

Council; and (iv) ensuring that the accountancy profession complies with FASs. While the AASC’s standard-setting process is less rigorous and regimented than that of other standard-setters, this reflects the environmental reality of a small profession and undeveloped capital markets. Furthermore, this is of minimal concern given the recent adoption of IAS-based accounting standards.

#### 4. Fiji Accounting Standards (FASs)

In 2001, the FIA Council approved the adoption of a new set of FASs. Table 14 lists the effective FASs and identifies their IAS parent (where relevant).

It had been intended that the new FASs would be effective for reporting periods beginning on or after 1 January 2001. However, in the face of events—including printing delays—implementation was deferred until 1 July 2001. Furthermore, although some standards do not come into effect until 1 January 2005, FIA encourages their earlier adoption. The AASC intends to realign FASs with IASs every three years.

**Table 14: Fiji Accounting Standards as at 31 January 2002<sup>59</sup>**

No.	Title	IAS Equivalent	Differential Reporting	Comments	Effective Date
...	Framework for the Preparation and Presentation of Financial Statements	IAS Framework	...	...	1 Jan 2001
1	Presentation of Financial Statements	IAS 1	Yes	...	1 Jan 2001
2	Inventories	IAS 2	...	FAS 2 does not permit the IAS-allowed LIFO treatment.	1 Jan 2001
7	Cash Flow Statements	IAS 7	...	...	1 Jan 2001

<sup>59</sup> Sources:

- FIA. December 2001. Institute Incorporates International Accounting Standards. *The Fiji Accountant*. pp. 15-17.
- FIA. 2002. *Fiji Accounting Standards*. Suva: FIA.

Table 14: Fiji Accounting Standards as at 31 January 2002 *(continued)*

No.	Title	IAS Equivalent	Differential Reporting	Comments	Effective Date
8	Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies	IAS 8	...	...	1 Jan 2001
10	Events After the Balance Sheet Date	IAS 10	...	...	1 Jan 2001
11	Construction Contracts	IAS 11	...	...	...
12	Accounting for Income Taxes	...	Yes	IAS 12 (Income Taxes) has not been adopted—the existing FAS 12 remains in force.	Not applicable
14	Segment Reporting	IAS 14	Yes	...	1 Jan 2001
15	Information Reflecting the Effects of Changing Prices	IAS 15	...	...	1 Jan 2005
16	Property, Plant and Equipment	IAS 16	...	...	1 Jan 2001
17	Leases	IAS 17	Yes	...	1 Jan 2001
18	Revenue	IAS 18	...	...	1 Jan 2001
19	Employee Benefits	IAS 19	...	...	1 Jan 2005
20	Accounting for Government Grants and Disclosure of Government Assistance	IAS 20	...	...	1 Jan 2001
21	The Effects of Changes in Foreign Exchange Rates	IAS 21	...	FAS 21 includes an additional provision that allows deferral where currency-risk hedging is not available.	1 Jan 2001
22	Business Combinations	IAS 22	...	...	1 Jan 2001

Table 14: Fiji Accounting Standards as at 31 January 2002 (continued)

No.	Title	IAS Equivalent	Differential Reporting	Comments	Effective Date
23	Borrowing Costs	IAS 23	...	...	1 Jan 2001
24	Related Party Disclosures	IAS 24	Yes	...	1 Jan 2001
26	Accounting and Reporting by Retirement Benefit Plans	IAS 26	...	...	1 Jan 2005
27	Consolidated Financial Statements and Accounting for Investments in Subsidiaries	IAS 27	...	...	1 Jan 2001
28	Accounting for Investments in Associates	IAS 28	...	...	1 Jan 2001
29	Financial Reporting in Hyperinflationary Economies	IAS 29	...	...	1 Jan 2005
30	Additional Disclosures by Financial Institutions	...	...	The current FAS 30 remains applicable.	Not applicable
31	Financial Reporting of Interests In Joint Ventures	IAS 31	...	...	1 Jan 2005
32	Financial Instruments: Disclosures and Presentation	IAS 32	...	...	1 Jan 2005
33	Earnings Per Share	IAS 33	Yes	...	1 Jan 2001
34	Interim Financial Reporting	IAS 34	...	...	1 Jan 2001
35	Discontinuing Operations	IAS 35	...	...	1 Jan 2005
36	Impairment of Assets	IAS 36	...	...	1 Jan 2005
37	Provisions, Contingent Liabilities and Contingent Assets	IAS 37	...	...	1 Jan 2005
38	Intangible Assets	IAS 38	...	...	1 Jan 2005

Table 14: Fiji Accounting Standards as at 31 January 2002 (continued)

No.	Title	IAS Equivalent	Differential Reporting	Comments	Effective Date
39	Financial Instruments: Recognition and Measurement	IAS 39	...	...	1 Jan 2005
101	Materiality	...	...		Not applicable
103	Accounting for Value Added Tax (VAT)	...	...	There is no IAS for VAT.	Not applicable

Three issues deserve attention in relation to the new FASs and other DMCs should be encouraged to examine the Fiji Islands' approach. First, the IASB holds exclusive copyright over IASs. In this respect, the FIA has negotiated a license for their usage. Second, FASs include a section that clearly identifies differences from the IAS text (see Box 1).

#### Box 1: FAS 2 Inventories: Differences from the Text of IASs

Para.	
2	The final three words of the International Standard have been amended to reflect Fiji circumstances.
5	The words "International Accounting Standard" in the last line of the International Standard have been omitted.
23	The wording of the International Standard has been amended to read: "The cost of inventories, using the last-in first-out (LIFO) formula is not permitted under this standard."
...	Paragraph 36 of the International Standard is also omitted as it is concerned with the use of the LIFO formula, and the subsequent paragraphs renumbered.

Third, the IASB has been working on developing a differential financial reporting regime since 1998 (see Appendix 7). In the Fiji Islands, the more complex FASs only apply to larger and publicly accountable organizations (see Box 2).

**Box 2: FAS 14 Segment Reporting: Differential Reporting<sup>60</sup>**

Application of the FAS is mandatory for all reporting entities that are publicly accountable and for reporting entities that are large. An entity is considered publicly accountable if it has any debt or equity instruments on public issue or has the coercive power to tax, rate or levy to obtain public funds. An entity is considered to be large if it meets any two of the following criteria:

- Its revenue for the accounting period exceeds F\$2.5 million.
- Its total assets as at balance date exceed F\$1.5 million.
- It employs more than 20 people.
- The application of this standard is also encouraged for all other reporting entities.

**5. Conformity with International Accounting Standards (IAS)**

Because of AASC's decision to make FASs IAS-compliant, there are few material differences. In particular, the new FASs mirror IASs in terms of section and paragraph numbering. This enables users to make direct FAS-IAS comparisons and to readily use IAS reference materials. However, the following differences are identified:

*IASs not adopted* (yet) by the Fiji Islands':

IAS 40 *Investment Property*.

IAS 41 *Agriculture*.

*Alterations to IASs:*

IAS 2 *Inventories*. The use of the LIFO method for inventory valuation is not permitted by FAS 2.

IAS 12 *Income Taxes*. This standard has not been adopted. Instead, the existing FAS 12, which uses tax-effect accounting, remains in force.

IAS 21 *Effects of Changes in Foreign Exchange Rates*. FAS 21 includes an additional provision that allows deferral where currency-risk hedging is not available.

IAS 30 The current FAS 30—*Additional Disclosures by Financial Institutions*—continues in force.

*Additional Country-specific national standards* that have been developed:

FAS 101 *Materiality*.

FAS 103 *Accounting for Value Added Tax*.

<sup>60</sup> FIA. 2002. *Fiji Accounting Standards: FAS 14 Segment Reporting*. Suva: FIA.

## 6. Public Sector Accounting Standards

Statutory authorities and public enterprises are implicitly required to prepare accrual-based financial statements in accordance with FASs. Ministries and departments prepare cash-based accounting reports. While the Government *Finance Instructions* and *Regulations* govern the preparation of these reports, these instructions are not accounting standards and are not internationally comparable.

A recent study investigated preferences as to who should set accounting standards for, and monitor their application in, the public sector. Amongst other things, the study concluded that there is substantial stakeholder support for the introduction of public sector accounting standards within the Fiji Islands.<sup>61</sup>

## 7. Taxation Reporting Requirements

Taxation laws and regulations govern the preparation of tax information—there are no direct linkages to accounting standards. However, in the interests of efficiency, some statement preparers do use mandated taxation depreciation rates to prepare financial statements.

# Part Two. Auditing Standards

## 8. Introduction

Fiji Standards on Auditing (FSAs) are developed by the AASC and promulgated by FIA's Council (see pages 55-57). With the release of the revised FASs, priority has now shifted to reviewing ISAs and International Auditing Practice Statements (IAPSs) for their application in the Fiji Islands. By January 2002, the AASC had reviewed 26 of the existing ISAs and IAPSs (see Appendix 8).

The AASC intended to complete the review exercise by March 2002. The recommended revised Fiji Standards on Auditing (FSAs) and Fiji Auditing Practice Statements (FAPSs) will then be presented to Council for consideration. The exercise should be completed by December 2002 after which the AASC intends to realign FSAs and FAPSs with ISAs and IAPSs every three years.

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<sup>61</sup> Vatuloka, Eroni and Greg. E. Shailer. 2000. Preferences for the Regulation and Monitoring of Fijian Government Accounting. *Asian Accounting Review*. Vol(8). No. 2.

## **9. Comparison with International Standards on Auditing (ISA)**

The International Auditing and Assurance Standards Board (IAASB), under IFAC auspices, works to improve the uniformity of auditing practices by issuing pronouncements on auditing issues and promoting their acceptance. Its key pronouncements are ISAs and IAPSS.

Although the process is only partially completed, the FIA's effort to harmonize FSAs with ISAs means that there are unlikely to be significant differences with ISAs.

## **10. Issue Synopsis: Accounting and Auditing Standards**

Chapter VIII – *Issues and Recommendations* – identifies and describes constraints, and proposes corrective actions. These include the following issues regarding Fiji Islands' accounting and auditing standards:

- Other DMCs should be encouraged to follow the Fiji Islands' lead in:
  - Licensing IASs from IASB.
  - Including a section in each FAS that explicitly identifies differences between the FAS and the equivalent IAS.
  - Developing a differential financial reporting regime. Smaller organizations (that are not publicly accountable) do not have to comply with the more complex FASs. The IASB should be formally notified of the Fiji Islands' approach (given its differential reporting project).
- Financial statement preparers, rather than financial statement users, dominate AASC's membership.
- FASs and FSAs do not have direct legal backing. This allows financial statement preparers significant latitude when selecting accounting policies.
- There are no formal mechanisms to monitor compliance with FASs and FSAs.