

## **SECTION PS 1100 financial statement objectives**

**FOR FUTURE UPDATES TO THIS SECTION, see new CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING IN THE PUBLIC SECTOR**

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### **PURPOSE AND SCOPE**

- .01 This Section identifies and describes objectives of government financial statements that are generally acceptable to the users and preparers of the statements. These objectives provide the basis for determining standards of financial statement reporting and accounting principles that are consistent with one another and appropriate for government. Their goal is to improve government financial statements and enhance their comparability.
- .02 "Financial statements" refers to the summary financial statements published by a government that report on the financial position and changes in financial position of the government reporting entity. Financial statements include the notes and schedules supporting the statements. "Government" refers to the elected and appointed policy-makers and administrators who together perform the executive function and are the preparers of financial statements.
- .03 This Section does not discuss objectives of special purpose financial statements or other financial reports published by government.

### **ROLE OF OBJECTIVES IN STANDARD SETTING**

- .04 A conceptual framework for accounting consists of an interrelated and compatible system of objectives, standards or principles, and practices or procedures, all linked rationally to the needs of users (outlined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000). Since financial statement objectives identify goals and purposes, the qualitative characteristics of financial information, and recognition, measurement, presentation and disclosure standards follow logically from them and provide guidelines for the development of compatible accounting practices.
- .05 The objectives of financial statements define the nature of the information needed to meet the requirements of the users of the statements. Substantial agreement on the objectives by both the users and preparers of the financial statements is requisite to setting appropriate accounting and reporting standards. If standards were set without agreement on objectives, there would be no basis for preferring one standard over another or judging the effectiveness of alternative standards in fulfilling the purposes of the financial statements.

### **GOVERNMENT OPERATIONS**

- .06 Governments are inherently different from businesses. The unique characteristics of government have reporting implications as outlined in Appendix A.
- .07 The objectives of financial reporting for governments and business are not the same. Specifically, the accounting standards for business do not adequately prescribe the recognition, measurement, presentation and disclosure of government financial information that is needed for accountability by governments and useful for decision making by the users of government financial statements.
- .08 The goals of government are not the same as those of business. The primary goal of a business is profit and its resources are employed to that end. Investors put up capital in expectation of a return, and financial statements report the success or failure of the business in providing that return. Results of operations are measured and reported in terms of profit or loss and it is added to or deducted from the owners' investment to measure financial position. Annual and accumulated earnings or losses are key measures of the performance of a business.

- .09 Governments differ from business in both their objectives and financing. In general, governments provide public services and redistribute wealth for a variety of social and economic purposes. The delivery of a service does not, however, normally give rise to revenue, and the payment of taxes does not necessarily entitle a taxpayer to any particular public service or benefit. Because governments are granted the power to tax, their revenues are not substantially dependent upon voluntary contributions nor on the profitable sale of goods and services in the marketplace. Thus, except for commercial-type activities, the relationship between revenues and costs in any given period is not the same for government as it is for business.
- .10 In any given period, a government may finance its operations from tax and other revenues or by borrowing or incurring other liabilities. The financial resources required are forecast and the government's financing plan is set out in the budget. Financial statements report the actual results of government operations and the extent to which revenues raised in the period were or were not sufficient to meet the expenses of that period. Users of the statements look to the operating surplus or deficit for the period, both on its own and in relation to the government's plan, in evaluating the government's fiscal management. Expenses, however, do not necessarily represent the total financial resources required. Governments, for example, also spend, lend and invest in addition to consuming economic resources in each accounting period. It is, therefore, also important to provide information about how a government financed its activities and met its cash requirements.
- .11 Over the years, a government accumulates liabilities that must be settled and assets that provide resources for future operations. Information that reports the extent of the financial obligations that will have to be settled, or the extent of the assets that are available for future operations, is useful because it bears directly on future revenue requirements and on a government's ability to settle its obligations and finance its operations.
- .12 The information needed to promote accountability and to aid understanding and assessments of government operations extends beyond reporting surpluses or deficits. For example, financial statements should provide information that describes the nature and purpose of government spending and the sources of its revenues and financing. They should also provide information that describes a government's non-financial resources that can be used in future operations and the cost of using those resources in service delivery. They should also provide information on investments and on potential obligations that may result from guarantees or indemnities.

### **OBJECTIVES OF GOVERNMENT FINANCIAL STATEMENTS**

- .13 The objectives of government financial statements that follow are based on the information needs of users, taking into account the limitations of financial statements as a reporting medium, the nature of government operations and legislative control.
- Scope of government financial statements**
- .14 Governments carry out policies and deliver services through a variety of entities. Some are organizational and accounting entities (such as departments, special funds and accounts) that are integral to the overall government organization and through which the government directly performs its executive function. Others are separate corporate entities with their own management, which, under legislation, have been delegated financial powers and operational authority.
  - .15 To help users understand and assess the management of the public financial affairs and resources entrusted to governments, financial statements would account for the full nature and extent of the financial affairs and resources which a government controls. Financial statements would account for not only the organizational and accounting entities through which a government directly performs its function, but also the separate funds, agencies and enterprises which a government controls.

**.16 Objective 1**

*Financial statements should provide an accounting of the full nature and extent of the financial affairs and resources which the government controls, including those related to the activities of its agencies and enterprises. [APRIL 2005]*

- .17 The presentation of information in the financial statements may need to vary in order to recognize the different nature and purpose of individual entities and their relationship to the government. However, the information reported in the financial statements, together with that in the notes and schedules integral to those statements, should provide a useful summary accounting of the full nature and extent of the financial activities authorized by the legislature and administered through government departments, special funds, agencies and enterprises.
- .18 Government financial statements are not intended to replace the separate financial statements of individual departments, funds, agencies and enterprises. Those separate statements constitute important accountability reports by their respective managements. However, those statements alone do not provide the public and other users with an understandable overview of the full nature and extent of the financial resources and affairs which the government controls.

**Reporting financial position**

- .19 Financial statement information is used to gain an understanding of, and assess the state of, a government's finances at a point in time. Such information facilitates assessments of the government's financial viability, future tax and revenue requirements, and ability to maintain and expand the level and quality of its services.
  - .20 **Objective 2**
- Financial statements should present information to describe the government's financial position at the end of the accounting period. Such information should be useful in evaluating:*
- (a) *the government's ability to finance its activities and to meet its liabilities and contractual obligations; and*
  - (b) *the government's ability to provide future services. [APRIL 2005]*
- .21 Governments provide public services and redistribute wealth for a variety of social and economic purposes. To meet those objectives, governments need information about the cost of services and the affordability of services. An understanding of the extent of the financial "lien" the government has on its ability to provide future services as a result of past transactions and events is essential information. Governments also need to have an appreciation of the magnitude of the total economic resources they have on hand to deliver services. A government's net financial

resources / net debt position, assessed in combination with the non-financial resources position of the government, provides a measure of the net recognized economic resources available to the government at the financial statement date to provide services in the future.

- .23 **Financial resources** include cash, claims to cash, investments and any other resources of the government that are not for consumption in the normal course of operations and are expected to contribute to net cash inflows (such as inventories for resale). A government's financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the financial resources of a government.
- .24 **Non-financial resources** include all items of a fixed or permanent nature (such as tangible capital property), claims to goods and services (such as prepaid items) and consumable goods (such as inventories of supplies). Non-financial resources also include intangibles, Crown lands and natural resources.
- .25 Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, intangibles, natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, comprise the recognized non-financial resources of a government.
- .26 Because the non-financial resources of government are different in nature from those held by a business, however, the financial position of a government has two dimensions:
  - (a) the net financial resources or net debt of a government; and
  - (b) the recognized non-financial resources of the government, which represent unexpired service potential available to be consumed by the government in the future.
- .27 The term "net debt" is used to describe the first indicator of a government's financial position in this Section. The net assets of a government represent the net economic resources recognizable by the government. The two dimensions of the government's financial position are combined to calculate this second indicator of a government's financial position, called its accumulated surplus or deficit.
- .28 Net debt is measured as the difference between a government's liabilities and financial assets. This difference bears directly on the government's future revenue requirements and on its ability to finance its activities and meet its liabilities and contractual obligations. Net debt provides a measure of the future revenues required to pay for past transactions and events. The extent of a government's net debt and the financial ability of the government to service that debt is an important test of the sustainability of that government. When a government's financial assets exceed its liabilities, this indicator of a government's financial position would be called "net financial assets" and it would provide a measure of the net financial assets on hand that can provide financial resources to finance future operations.
- .29 A government's net debt is an important indicator of a government's financial position, highlighting the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to provide services. Non-financial assets are added to net debt to calculate the other indicator of a government's financial position — its accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of a government's debt position, financial position and future operating requirements.
- .30 The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. If the net realizable value of an asset of a business is greater than the present value of its expected future net cash inflows to the business, it would normally be sold. In contrast, for government, like not-for-profit organizations, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government, unless they are sold and thus converted back into financial assets.
- .31 The tangible capital assets and other non-financial assets of a government form part of its financial position because they provide resources that the government can employ in the future to accomplish its objectives. The government can use these assets to provide services. The services that the government can provide as a result of owning a capital asset are the future benefits embodied by the asset. Including such assets in the government's financial position provides a more complete picture of the economic resources available to and utilized by the government.
- .32 A key distinction between the financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets can normally be used only for service provision. Given that many users are more familiar with the nature of the elements reported in the financial statements of profit-oriented enterprises, it is crucial that the financial statements identify this fundamental characteristic of government non-financial assets.
- .33 In addition, users expect financial statements to disclose the nature and term of assets and liabilities and of potential assets and liabilities. Potential assets and liabilities are represented by contractual rights, contractual obligations, contingent assets and contingent liabilities.

#### **Reporting changes in financial position**

- .34 Users look to government financial statements to provide a meaningful summary of the sources, allocation and consumption of the resources administered by the government in the period. They also need to understand the extent to which the expenses of the accounting period were met by the revenues recognized in the period.
- .35 This information is useful in gaining an understanding of and assessing a government's resource requirements, the purposes for which resources were used and applied and the nature and extent of its revenue-raising activities. The statements also inform users about the extent to which resources will be required from future revenues to pay for programs and activities of the period, the cost of resources consumed in delivering goods and services in the period and how the government financed its activities in the period.

#### **.36 Objective 3**

*Financial statements should present information to describe the changes in a government's financial position in the accounting period. Such information should be useful in evaluating:*

- (a) *the sources, allocation and consumption of the government's recognized economic resources in the accounting period;*
- (b) *how the activities of the accounting period have affected the net debt of the government; and*
- (c) *how the government financed its activities in the accounting period and how it met its cash requirements.* [APRIL 2005]

**Reporting government operations**

- .37 Financial statements should show how and where a government gets its revenues to provide information that is useful in: analyzing the impact of a government's revenue-raising activities on the economy; gaining an understanding of a government's finances by showing its revenue sources and their relative contributions; and evaluating the revenue-producing capacity of its investments.
  - .38 Financial statements should report the nature and purpose of a government's expenses in the period to show the allocation and consumption of resources. To account for all expenses by nature and purpose, a government could provide a variety of information. For example, financial statements could show expenses by function or major program to display the resources consumed by each type of government activity; by object of expense to disclose the nature of the resources consumed by a government; and by department or ministry to reflect its responsibility for costs.
  - .39 Expenses represent the cost of resources consumed in delivering government goods and services in the period. When used in conjunction with output and outcome information, cost information provides a basis for assessing the performance of government programs and activities and the government's use of the resources entrusted to it. By showing all government expenses by nature and purpose, the financial statements disclose the resources consumed by each type of government activity.
  - .40 Businesses exist to generate profits. Governments exist to provide services to their constituents. Accordingly, net income as measured by a business is not an appropriate measure of a government's service output. Outputs and outcomes of government programs are best measured using both financial and non-financial performance information. Such evaluations would include consideration of the cost / benefit of each program.
  - .41 Still, it is important to account for the extent to which revenues raised in the period were sufficient to meet the expenses of that period. This difference measures the net change in a government's liabilities and assets in the accounting period and is important in explaining the change in the government's financial position in the period.
  - .42 Government revenues are recognized when the transactions or events giving rise to the revenues occur, and expenses are recognized when incurred; thus, revenues and expenses are reflected in the financial statements in accordance with the timing of the effect of the related transaction or event on the economic resources of the government.
  - .43 One dimension of the relationship that exists between government revenues and expenses is the link between the revenue-raising capacity of the government and the estimated cost of government services in any one period that is assessed when governments budget. Government budgeting is an iterative process whereby a government considers both its revenue-raising capacity for the period in looking at what expenses it can budget for, as well as estimating the expenses that should be incurred in the period, and the revenues that would need to be raised to cover those costs, as well as any other needs, such as debt retirement.
  - .44 Another dimension of the relationship between revenues and expenses is that the net difference between them is a measure of the extent to which the net economic resources of the government have been maintained after the activities of the period have been taken into account. Regardless of whether the revenues were specifically raised to fund the costs they are netted against, this information is important because the extent of a government's net economic resources provides an indication of its ability to provide services in the future.
  - .45 Investors and creditors of profit-oriented enterprises are interested, for the purpose of making resource allocation decisions, in predicting the ability of the entity to earn income and generate cash flows in the future to meet its obligations and to generate a return on investment. The public, elected officials and other users of government financial statements are interested, for making resource allocation and other decisions, as well as for assessing government accountability, in the government's cost of service and how that cost was funded, and in predicting the ability of the government to meet its obligations and achieve its service delivery objectives.
  - .46 The financial statements summarize cost of service information at a functional level. The more detailed service costs that underlie this summary provide the government with the management information to meet objectives such as cost control, cost recovery, alternative service delivery, results-based management and performance measurement.
  - .47 Measuring the cost of services is relevant to taxpayers because this accounting provides information for evaluating government services. Measuring the cost of services, however, deals only with the cost side of a cost / benefit analysis and does not address the non-financial aspects of the effectiveness of services. Nevertheless, judgments as to the value of the service and the government's effectiveness in meeting program objectives cannot be made without cost data as a starting point.
- Reporting the change in net debt**
- .48 In any given period, a government finances its expenditures by raising revenues, applying existing financial resources or incurring liabilities. Unlike expenses, which are the cost of goods and services consumed in the accounting period, **expenditures** are the cost of goods and services acquired by the government in the period. Expenditures include transfer payments due where no value is received directly in return.
  - .49 The information presented in a statement of change in net debt provides important accountability regarding the extent to which the expenditures of the government in the accounting period have been met by revenues recognized in the period.
  - .50 The statement of change in net debt needs to report the significant items that explain the difference between the surplus or deficit of the government for the accounting period as reported on the statement of operations and the change in net debt in the period. The statement can provide information useful for explaining why a government can have a surplus from operations, but still have an increase in its net debt. In this way, the financial statements articulate and display the relationship between the change in recognized net economic resources and the change in net debt in the accounting period.

.51 For example, many significant items that explain the nature of the difference in the two measures result from the effects of the capitalization of non-financial assets. Some items are taken into account in calculating the (expense-based) operating surplus or deficit for the accounting period, but are excluded from the calculation of the (expenditure-based) change in net debt for the period. For example, the cost of consuming tangible capital assets (amortization) is reflected in an expense-based operating surplus or deficit for the period, while the cost of acquiring non-financial assets in the period is reflected in the change in net debt.

.52 A statement of change in net debt summarizes several key "change in position" messages:

- (a) the extent to which the costs of services provided in the period have been met by the revenues recognized in the period (the operating surplus or deficit for the period);
- (b) the extent of the capital expenditures in the period;
- (c) the extent to which the expenditures of the period have been met by the revenues recognized in the period (the change in net debt in the period);
- (d) on a summary basis, the extent to which the planned amount for each of the above noted items, and any other explanatory items, has been achieved in the period; and
- (e) the net remeasurement gains and losses in the accounting period.

#### **Reporting cash flow**

.53 In any given period, a government finances its activities and meets its obligations by revenue raising, by external borrowing and by using existing cash balances. Financial statements should show how a government financed its activities and met its cash requirements.

.54 The amount of cash flows arising from operating activities is a key measure of the extent to which the operations of the government have generated sufficient cash flows to maintain the programs and services of the government, invest in new capital assets, repay loans, and make new investments without recourse to external sources of financing. Cash flows from operating activities are primarily derived from the principal revenue-raising activities of the government. Therefore, they generally result from the transactions and other events that enter into the determination of the results of the accounting period.

.55 Some transactions, such as the sale of a capital asset, may give rise to an accounting gain or loss, which is included in the determination of results for the accounting period. The cash flows relating to such transactions are, however, cash flows from capital activities.

.56 Unlike the cash flow statement of a business, a government cash flow statement reports cash flow related to capital acquisitions as being used in or from capital activities because unlike the capital assets of a business, there are no future cash inflows associated with many government assets, only future service potential. So, there is no "return on investment" associated with these capital "investments" as there is for a business. Investing is a term that can only be applied to government financial assets because of the nature of government non-financial assets.

#### **Legislative control and government financial accountability**

.57 Legislative control over finances is essential to responsible government. While it is the sole prerogative of the government to propose plans for spending and financing of government activities, all costs, spending, revenue raising, investing and borrowing must be sanctioned by legislation. Legislation may provide direct authority to government to provide services at specified costs, to spend, to raise revenue, to invest and to borrow, or it may delegate powers that provide similar authority to government agencies or enterprises.

.58 Because it provides financial authority and powers, the legislature or council has the right and responsibility to hold the government accountable for the management of financial affairs and the use of resources. Legislators and councillors seek assurance that financing and operations were carried out in accordance with the authorities and powers granted. They, along with investors and the public, are also interested in assessing the government's performance in the management of financial affairs. Government financial statements should provide information that is useful in providing such assurance and in making such assessments.

.59 Users need information that helps them assess the government's results in the management of its resources and financial affairs. Financial information that makes it possible to identify variances, to compute trends and to analyze operations is useful in fulfilling this need. A comparison of the actual results with those originally forecast by the fiscal plan (the budget and main estimates of expenses or expenditures) and with those of prior periods is necessary to identify significant variances. To facilitate meaningful comparisons, planned and prior period results need to be reported on a basis and for a scope consistent with that used to report the actual results of the current period. In addition, financial statements must provide information necessary to establish trends in spending, revenues, investing and borrowing, cost of operations and in key relationships such as debt or debt-servicing costs to revenue.

.60 Users look to financial statement information as a principal means of determining whether the public resources entrusted to the government were administered in accordance with legislative authorities. For example, legislative authorities for spending usually specify the purpose of the spending and set some limits either in amount or by way of other conditions. Financial statements must provide information at an appropriate level of aggregation to show that activities were within the limits established by the appropriate legislative authorities. For example, the financial statements of a government should provide information to highlight when its revenue, expense, expenditure, borrowing and investing activities were not carried out within the amounts authorized by the legislature. Such summary information would be capable of being supported by supplementary information reported by government on a more detailed basis.

.61 **Objective 4**

*Financial statements should demonstrate the accountability of a government for the resources, obligations and financial affairs for which it is responsible by providing information useful in:*

- (a) *evaluating the financial results of the government's management of its resources, obligations and financial affairs in the accounting period; and*

(b) assessing whether resources were administered by the government in accordance with the limits established by the appropriate legislative authorities. [APRIL 2005]

- .62 The financial statements provide a measure of a government's performance in the achievement of its objectives. The financial statements also show the cumulative effect of past budgetary decisions on the financial position and results of government operations. Important accountability information about the budget decisions of the current period is provided when financial statements include a comparison of the government's actual and planned financial results of its management of its resources, obligations and financial affairs in the period.
- .63 Unlike the continuity and relatively focused direction provided by a company's board of directors, the organizational objectives of a government tend to be very broad, are continuously redefined in each budget, and are often completely revamped whenever there is a change of government. The budget plays a dominant role in portraying public policy. It establishes estimates of revenues and expenses / expenditures. The budget includes financing requirements for both operating and capital spending. It is used to set tax rates and determine borrowing requirements. A government's budget is a critical element in the accountability cycle and the standard against which subsequent performance is judged. Governments are thus held publicly accountable for the choices they have made, for their programs, the cost of services, and the financial position of their jurisdiction.
- .64 Two comparisons of actual and budgeted results, on the statement of operations and the statement of change in net debt respectively, provide the key accountability information integral to evaluating the government's performance in achieving its operational and spending plans:
  - (a) a comparison of the actual and planned financial results of the government's management of its recognized economic resources, obligations and financial affairs; and
  - (b) a more focused comparison of the government's actual and planned financial results in the management of its financial resources, obligations and financial affairs.
- .65 The incremental accountability provided by including budget figures on the statement of change in net debt can be attributed to the provision of information about actual and budgeted spending on non-financial assets, to the display of the actual and budgeted extent to which expenditures of the period were met by revenues recognized in the period, and to the inclusion of actual and budgeted opening and closing net debt numbers.
- .66 If a government's budget or appropriations are prepared on a different basis or for a different scope than its financial statements, the government needs to provide a link with the financial statements so that the legislature or council understands how the government's results for the period compare to the results it planned and the amounts authorized to accomplish those plans. In either circumstance, or when neither the budgeted scope nor basis is consistent with that used for reporting actual results, the financial statements will need to provide a reconciliation of the planned information included in the financial statements with that originally budgeted.

## APPENDIX A

### UNIQUE CHARACTERISTICS OF GOVERNMENT

#	Unique characteristics	Explanation	Reporting implications
1	<b>Government's goal is to provide services and redistribute resources, not make a profit.</b>	Government accountability is primarily for the level, quality and cost of services provided. Some governments redistribute resources through grants, concessionary loans and other transfers, in accordance with government objectives. In fact, most resource redistribution involves service provision by one level of government or another, except for welfare and other monetary assistance programs.	<b>Net cost of services</b> and affordability of services should be reported.
2	<b>Most government tangible capital assets are different in nature than those held by a business.</b>	The ability of a government to afford existing services and meet the need for new services is also key information.	The <b>net economic resources (net assets)</b> available to use in providing future services should be reported.
3	<b>Government capital spending may not focus on maximizing financial return because government objectives are broader.</b>	Most government tangible capital assets represent service capability, rather than future cash inflows to the government. They, and other non-financial assets, therefore represent the portion of the government's financial position that is unexpired service potential. The distinction between financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets are normally used only for service provision, unless they are sold and thus converted back into financial assets.	<b>Financial assets and non-financial assets</b> should be reported separately on the statement of financial position.
4	<b>The principal source of revenue for governments is taxation.</b>	A business is interested in what acquired capital will produce — the end product and the related net cash inflows. For government, the end product might not always be financial. Sometimes it is the process of building the capital that achieves a government objective (for example, providing employment or regional development).	<b>Capital spending and its effect on net debt</b> must be highlighted in the financial statements.
			Ability to tax = ability to spend. So <b>net debt</b> needs to be reported because it represents the

		investment. The bulk of government revenues do not arise from the direct sale of goods and services.	government's future revenue requirements based on past transactions and events (such as spending) to be met from future taxes and is an indication, therefore, of the affordability of additional spending.
5	<b>Senior governments hold assets acquired in right of the Crown.</b>	For many governments, the value and use of these items far outweigh the value and use of recognized assets. A business does not have access to these types of assets unless they are paid for.	Practical issues regarding the measurement and valuation of these assets prevent their financial statement recognition; however, disclosure of the existence of these assets is key to understanding the government's total economic resources.
6	<b>Governments operate in a non-competitive environment. 1a</b>	No competitive market for most government outputs means that there is no independent indication of their value. And many of the services provided by government are unlikely to be provided by anyone else, such as welfare and defence. The benefits of government services cannot be measured solely by a bottom line that shows net revenues or expenses.	<b>Net cost of services</b> and affordability of services are the financial measures required, but these are not enough to show the efficiency and effectiveness of government services.
7	<b>A government's budget portrays public policy, establishes estimates of revenue, expense, expenditure and financing requirements and is an important part of the government accountability cycle.</b>	The budget includes financing requirements for operating and capital spending. It sets tax rates and decides borrowing requirements. A comparison of actual-to-budget amounts demonstrates public accountability for government finances.	<b>Actual-to-budget comparisons</b> should be provided in the financial statements.
8	<b>Some governments have debt capacities unparalleled by most other organizations in Canada.</b>	Some governments' only limits on their borrowing are the ability of their tax base to bear the debt burden and the financial community's assessment of that ability. Businesses are normally reined in sooner than governments. The federal government can control the money supply and has access to international agreements that no other organizations have recourse to. Both factors are taken into account in any assessment of its ability to service its debt load. High debt levels affect the flexibility of all levels of government in providing programs and services, especially in times of economic downturns.	<b>Debt and net debt</b> are crucial to highlight in government financial statements.
9	<b>Governments are held to a higher standard of accountability than a business or a not-for-profit organization.</b>	A broader public accountability must be demonstrated in government financial statements because the nature of a democratically elected government requires a degree of transparency in financial reporting that most private sector reports do not offer. The level of understanding of government finances held by most financial statement users demands this greater transparency. Governments are accountable to taxpayers on many levels, in contrast to the more limited accountability a company has for return on investment to a limited group of investors.	The nature of taxpayers as contributors to government finances requires that they be given simple yet robust information about what has been done with their money — that is, complete information about the government's financial position and results is needed and each financial statement should convey clear, key messages about government finances.

## Footnotes

- 1a. Some government business enterprises (as defined in GOVERNMENT REPORTING ENTITY, Section PS 1300) operate in competitive environments. For the purposes of their own financial statements, government business enterprises follow the standards in the CPA Canada Handbook – Accounting for profit-oriented enterprises.

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