

Amendments to the Introduction — Basis for Conclusions

Foreword

CPA Canada Public Sector Accounting Handbook Revisions Release No. 41, issued in December 2014, contained amendments to The Introduction to Public Sector Accounting Standards.

The primary objective of a Basis for Conclusions document is to set out how the Public Sector Accounting Board (PSAB) reached its conclusions. As well, it sets out significant matters arising from comments received in response to the proposals exposed and indicates how PSAB has dealt with the issues raised.

These documents are intended to assist financial statement users, preparers, auditors and other parties interested in public sector financial reporting in understanding the rationale followed by PSAB when developing or removing a standard.

This document has been prepared by staff of PSAB. This document does not form part of the CPA Canada Public Sector Accounting Handbook nor is it part of public sector generally accepted accounting principles. Basis for Conclusions documents also do not include any guidance on the application of the relevant Section or Guidance.

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BACKGROUND

- 1 The CPA Canada Public Sector Accounting (PSA) Handbook was originally developed to address the financial reporting needs of governments in Canada. The terminology used in many of the standards still indicates that they are applicable to governments preparing their summary financial statements.
- 2 Many government organizations now follow the PSA Handbook. Despite the terminology used with respect to applicability, most standards are equally applicable to government organizations following the PSA Handbook.
- 3 The main objective of this project was to clarify that the standards in the PSA Handbook are equally applicable to government organizations that follow the PSA Handbook as they are for governments.
- 4 With that objective in mind, an Exposure Draft was issued for comment in February 2013. The comment period ended May 3, 2013. The Public Sector Accounting Board (PSAB) proposed introducing the terms "government component" and "public sector entity". Public sector entity was proposed as a generic descriptor to be used throughout the PSA Handbook replacing "government". Although raising specific issues, respondents were generally supportive of the

proposed amendments. To address these specific issues, a Re-exposure Draft was issued for comment in February 2014 with a comment period that ended April 30, 2014.

GOVERNMENT COMPONENTS

Reasons for separating government components

- 5 After considering a number of alternative approaches, reviewing what other standard setters have done and significant deliberation, PSAB agreed to exclude those parts of government that are integral to its operations from the definition of a government organization. It did this by introducing to the definition of a government organization the characteristic of being able to contract in its own name and sue and be sued. This is meant to capture the greater autonomy and independence of operation of a government organization relative to a government component.
- 6 Departments, ministries and funds are not government organizations because they are not separate entities with the power to contract in their own name and that can sue and be sued. Given the existing approach in the PSA Handbook, these entities could have been potentially excluded from the government reporting entity as they are no longer considered government organizations. From this perspective, PSAB decided to include a definition for the types of entities that are not government organizations using the term "government component".
- 7 The definitions of a government not-for-profit organization and other government organization were similarly amended to include the requirement to contract in its own name and sue and be sued.

GOVERNMENT PARTNERSHIPS

Which government partnerships and government business partnerships are public sector entities?

- 8 In the past, government partnerships were included in the scope of the public sector in the Introduction to Public Sector Accounting Standards without direction regarding the basis of accounting to be followed by them. The basis of accounting to be followed at the partnership level was at the discretion of the partners.
- 9 PSAB considered which government partnerships, including government business partnerships are public sector entities. Organizations controlled by a public sector entity are considered public sector entities. PSAB concluded government partnerships, including government business partnerships, under the shared control of two or more public sector entities are also public sector entities. For purposes of the PSA Handbook, public sector entities also include governments and government components.

The basis of accounting for government partnerships and government business partnerships

- 10 PSAB considered the implications of requiring all non-business partnerships with only public sector entity partners to follow the PSA Handbook. While recognizing the PSA Handbook is generally applicable for such partnerships, PSAB concluded that the choice between the PSA Handbook and the standards for publicly accountable enterprises in Part I of the CPA Canada Handbook – Accounting was appropriate. These partnerships still need to be reflected in the public sector partners' financial statements in accordance with the PSA Handbook. These partnerships may have recently transitioned to International Financial Reporting Standards (IFRSs) and directing these partnerships to the PSA Handbook would have required a further transition. Offering a choice is consistent with the direction provided to other government organizations.
- 11 The direction being provided to non-business government partnerships with only public sector entity partners is consistent with the direction provided to other government organizations. However, other government organizations are provided with factors to consider in assessing users' needs in paragraph .20 of the Introduction. PSAB considered it appropriate for non-business government partnerships to similarly consider such factors to ensure the assessment process is consistent.
- 12 A subset of government partnerships is government business partnerships. These partnerships are commercial in nature. Part I of the CPA Canada Handbook – Accounting is an accounting standard for publicly accountable enterprises. PSAB concluded that government business partnerships with only public sector entity partners should follow those standards when they issue general purpose financial statements. These partnerships would be included in two or more of the partners' financial statements on a proportionate modified equity basis. Proposing that they follow Part I of the CPA Canada Handbook – Accounting is consistent with the direction provided to government business enterprises.
- 13 PSAB concluded the accounting standards to be followed by government partnerships and government business partnerships with private sector partners should continue to be determined by the partners. Financial statement user needs for these partnerships may vary. It will be the responsibility of the partners to consider the most appropriate accounting standards to be used by these government partnerships and government business partnerships. Use of the PSA Handbook by these partnerships, while not prohibited, is not required.

Clarification of certain definitions

- 14 The objective of defining a government partnership and government business partnership is to capture those entities that a public sector entity (government or government organization) has shared control over.
- 15 The definitions of a government partnerships and government business partnership were brought into the Introduction and amended to reflect the ability of a government organization to be a partner in a government partnership. By definition, a government component cannot contract in its own name and a government partnership is a contractual arrangement.

Therefore, it is not expected that a government component would enter into a government partnership and government components are not reflected in the definition of a government partnership.

- 16 Two government organizations under the control of the same government reporting entity may enter into a government partnership. Each of the government organizations should reflect its interest in the partnership in its financial statements. The definition for a government partnership states: "A government partnership ... is a contractual arrangement between the government or a government organization and a party or parties outside of the reporting entity ..." The definition captures a government partnership between two government organizations under the same government reporting entity as the reporting entity in this example is either of the government organizations, not the government reporting entity.

OTHER ISSUES

General purpose and special purpose financial statements

- 17 The objective of paragraphs .12 and .13 of the Introduction is to contrast general purpose and special purpose financial statements and to explicitly indicate the PSA Handbook is to be followed by certain public sector entities when they issue general purpose financial statements.
- 18 A similar description of general purpose and special purpose financial statements is included in the CPA Canada Handbook – Assurance. The PSA Handbook is a financial reporting framework designed to meet the common financial information needs of a wide range of users. The CPA Canada Handbook – Assurance also discusses when there may be circumstances where a special purpose framework is based on a financial reporting framework established by a recognized standard setter, but does not comply with all the requirements of that framework. These financial statements are to be considered special purpose financial statements. Preparers and auditors of public sector entities are reminded to consider whether the financial statements prepared by public sector entities are general purpose or special purpose when the statements are not prepared in compliance with all of the requirements in the PSA Handbook. The broad distribution of special purpose financial statements does not make these financial statements general purpose.
- 19 PSAB also confirmed it is not their role to address the preparation of special purpose financial statements. PSAB noted it was beneficial to explicitly indicate the PSA Handbook is not designed for the preparation of special purpose financial statements.

Removal of the reference to school boards

- 20 The reference to "school boards" was removed from the scope of the public sector in the Introduction. By removing the school board references, all organizations controlled by governments, including school boards, will be provided the same direction regarding their basis of accounting.

Removal of the reference to the types of government

- 21 The reference to the types of governments to which the PSA Handbook applies was removed from the scope of the public sector in the Introduction. Retaining the reference to "federal, provincial, territorial and local governments" could have potentially limited which structures are considered governments. Leaving these references in may mean other entities, such as First Nations, could be excluded from the PSA Handbook.

Changes to the structure of the Introduction

- 22 The structure of the Introduction was improved. All of the entity-type definitions are provided in one section. Similarly, the basis of accounting direction is presented in a separate section. The change in format is intended to assist users of the PSA Handbook in their understanding of how different standards apply in the public sector.