

2022-2023 Remaining Annual Improvements: Basis for Conclusions

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BACKGROUND

- BC.01 In June 2018, PSAB adopted an annual improvements process to correct errors in the wording, to clarify the Public Sector Accounting (PSA) Handbook or other guidance, or to correct relatively minor unintended consequences, oversights or conflicts. These amendments are bundled together to reduce the number of individual changes to the standards or other guidance. Major or narrow-scope amendments to the standards or other guidance that change practice are not included in the annual improvements process.
- BC.02 PSAB released the Exposure Draft, "2022-2023 Annual Improvements to Public Sector Accounting Standards," in August 2022. The Exposure Draft proposed categories of amendments to:
- (a) replace the phrase “summary financial statements” with “financial statements” or “financial reports” and add a cross-reference to Chapter 3 of the Conceptual Framework for Financial Reporting in the Public Sector (“Conceptual Framework”) to position financial statements as an important type of financial report;
 - (b) clarify the INTRODUCTION TO PUBLIC SECTOR GUIDELINES and remove outdated guidance related to local governments;
 - (c) update the transitional provisions in PUBLIC PRIVATE PARTNERSHIPS, Section PS 3160, to state explicitly that early adoption is permitted;
 - (d) replace the word “power” with “ability” or “authority”, as appropriate, given the use of the term “power” to reference sovereign or equivalent powers in Chapter 5 of the Conceptual Framework;
 - (e) correct grammatical errors in the decision tree in LOANS RECEIVABLE, Section PS 3050;
 - (f) update PUBLIC SECTOR GUIDELINE (PSG) 8, Purchased Intangibles, to clarify its application to inter-entity transactions;
 - (g) update the designation and numbering of existing appendices in the PSA Handbook to align with categories of guidance used in the International Public Sector Accounting Standards (IPSAS). This is to ensure consistent classification of similar categories of guidance should PSAB adapt IPSAS principles set out in appendices in developing Canadian standards in the future; and
 - (h) replace the word “government” with “public sector entity” or “entity”, as appropriate, in Sections PS1150, PS 2400, PS 3150 and PS 3310.
- BC.03 Respondents generally agreed with the proposals set out in the Exposure Draft. The specific issues addressed in this improvements project, including substantive comments received on the Exposure Draft and any changes made in response to those comments, are set out below.

BC.04 In December 2022, PSAB approved amendments to address the issues in paragraphs BC.02(c) and (f) and, in April 2023, issued the amendments in the PSA Handbook. In December 2022, the Board approved amendments to address the issues in paragraphs BC.02(a), (b), (d), (e) and (h) and, in February 2024, issued the amendments in the PSA Handbook. The Board decided not to replace “government” with “public sector entity” in RESTRICTED ASSETS AND REVENUE, Section PS 3100, at this time, so to consider complexities related to internally restricted entities. In response to feedback, the Board also concluded that changes proposed in BC.02(g) could potentially change practice and so should be addressed in a narrow-scope amendment, rather than in annual improvements. Details of these decisions are provided below.

AMENDMENTS TO REPLACE THE TERM “SUMMARY FINANCIAL STATEMENTS” WITH “FINANCIAL STATEMENTS” OR “FINANCIAL REPORTS”

- BC.05 The term “summary financial statements” was used in several older standards. Although “summary financial statements” has been used extensively in the past, especially before the PSA Handbook was considered generally accepted accounting principles (GAAP), the term most commonly used today is simply “financial statements”. New standards use “financial statements” and do not reference “summary financial statements”. Respondents to the Exposure generally supported making this change throughout the PSA Handbook. So, PSAB agreed to replace references to “summary financial statements” with “financial statements” or “financial reports” to reflect the current wording.
- BC.06 Respondents raised a concern noting the different meaning of the term “summary financial statements” in public sector accounting standards (PSAS) versus assurance standards. PSAB clarified that “summary financial statements” in Canadian Auditing Standard (CAS) 810, *Engagements to Report on Summary Financial Statements*, is used in a different sense than in the PSA Handbook. In the PSA Handbook, the term “summary financial statements” currently means the general purpose consolidated financial statements of a public sector entity. In CAS 810, the term refers to summary financial information that is derived from general purpose consolidated financial statements.
- BC.07 Another concern raised related to changes from use of “government reporting entity” to “reporting entity”. Not all standards that use this term have been updated to refer to “public sector entity” instead of “government”. This could lead to confusion when applying PSAS, as discussed in paragraphs BC.22-BC.25 below.
- BC.08 The change has not been made to superseded FINANCIAL STATEMENT CONCEPTS, Section PS 1000, or superseded FINANCIAL STATEMENT OBJECTIVES, Section PS 1100, as PSAB replaced these standards with the new Conceptual Framework in 2022. Superseded FINANCIAL STATEMENT PRESENTATION, paragraph PS 1201.002, has been updated because the new reporting model was issued in FINANCIAL STATEMENT PRESENTATION, Section PS 1202, in October 2023 but is not effective until fiscal years beginning on or after April 1, 2026. The Board reached this conclusion because Section PS 1201 will be retained in Archived Pronouncements in the PSA Handbook at least until the effective date of the new reporting model has passed.

AMENDMENTS TO CLARIFY THE INTRODUCTION TO ACCOUNTING GUIDELINES AND REMOVE OUTDATED GUIDANCE RELATED TO LOCAL GOVERNMENTS

- BC.09 PSAB has removed guidance related to local governments that is no longer used in practice and has updated the INTRODUCTION TO ACCOUNTING GUIDELINES to reflect current processes. Respondents to the Exposure Draft supported these changes.
- BC.10 Superseded INTRODUCTION TO ACCOUNTING GUIDELINES, paragraphs .04 and .06, including the heading immediately above paragraph .06, were outdated and needed revision to reflect current wording and processes.
- BC.11 Additionally, several paragraphs and one Guideline related to local governments were no longer used in practice and so were removed from the PSA Handbook. They include:
- LEASED TANGIBLE CAPITAL ASSETS, paragraph PSG-2.31;
 - FUNDS AND RESERVES, paragraph PSG-4.12 and the heading immediately above it;
 - SALE-LEASEBACK TRANSACTIONS, paragraph PSG-5.56; and
 - TANGIBLE CAPITAL ASSETS OF LOCAL GOVERNMENTS, PSG-7.

They related to when local governments transitioned to recognizing tangible capital assets and adopting related reporting model changes (i.e., fiscal years beginning on or after January 1, 2009).

- BC.12 Similarly, some guidance in PSAS specific to local governments was no longer used in practice and was removed. They include:
- TANGIBLE CAPITAL ASSETS, paragraphs PS 3150.43-.48 and the heading immediately above them; and
 - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.26.

AMENDMENTS TO REPLACE SOME REFERENCES OF “POWER” WITH “ABILITY” OR “AUTHORITY”

- BC.13 In developing the Conceptual Framework, PSAB noted a discrepancy in how the word “power” was used throughout the PSA Handbook. The Conceptual Framework uses “power” in relation to the sovereign powers and rights governments have been granted that they either invoke themselves or delegate for invocation by others (see footnote 16 of paragraph 5.18 of the Conceptual Framework on sovereign or equivalent powers). However, the INTRODUCTION TO THE

PUBLIC SECTOR ACCOUNTING HANDBOOK and many standards use the word “power” to mean the ability to do something (i.e., a more general understanding of the word “power”).

- BC.14 To clarify existing pronouncements and ensure more consistent use of the word “power”, PSAB has made several amendments to limit use of the term, primarily in reference to unique powers and rights of government, and occasionally in relation to electricity. When referring to the general sense of the word “power” in the PSA Handbook, the Board concluded the word “ability” or “authority” should be used instead. Respondents to the Exposure Draft supported these changes, which were implemented.
- BC.15 However, no changes were made to the use of the word “power” in the phrase “power to control” in GOVERNMENT REPORTING ENTITY, Section PS 1300, or in the phrase “power to contract” in definitions of different types of public sector entities in the Introduction and various standards. Instead, PSAB has included footnote 16 of paragraph 5.18 of the Conceptual Framework to distinguish how the word “power” is used in Section PS 1300 from the sovereign or equivalent powers dealt with in Chapter 5 of the Conceptual Framework. The Board agreed that no similar footnote in Section PS 1300 was needed because the phrase “power to control” has been well understood and applied in the Section for a long time. Similarly, the Board concluded that the use of the word “power” in the phrase “power to contract” was well understood and applied in the definitions of different types of public sector entities and no change was required. The Board’s intent was that the control discussion in Chapter 5 would build on, and be more broadly applicable than, the guidance in Section PS 1300, but that no change in substance was intended regarding the application of Section PS 1300.

AMENDMENTS TO CORRECT GRAMMATICAL ERRORS IN THE DECISION TREE IN LOANS RECEIVABLE, SECTION PS 3050

- BC.16 PSAB made amendments to correct several grammatical errors in the decision tree in the Appendix to Section PS 3050. Exposure Draft respondents supported these corrections.

AMENDMENTS TO ALIGN EXISTING APPENDICES IN THE PSA HANDBOOK WITH CATEGORIES OF GUIDANCE ESTABLISHED BY IPSAS

- BC.17 Currently, the PSA Handbook includes additional guidance (e.g., decision trees, illustrative examples, etc.) in appendices to individual standards. With its new International Strategy decision, PSAB proposes amendments to its appendices to align the titles and paragraphs in each PSA Handbook appendix with the categories of guidance used within IPSAS. This primarily relates to specifically outlining whether an appendix comprises application guidance integral to the standard or illustrative examples that are merely illustrative and not integral to the standard. The Exposure Draft noted that these changes were editorial only and were not intended to change how these appendices are interpreted or used. Clarifications of the status of such appendices were also proposed for inclusion in Section PS 1150. The Exposure Draft proposed to designate appendices as application guidance (AG) or illustrative examples (IE), with appropriate renumbering of the paragraphs therein as AG or IE.

- BC.18 Respondents generally agreed with the proposed amendments to align existing appendices in the PSA Handbook with categories of guidance established by IPSAS, noting:

- This would align with previous decisions PSAB has already made and will make comparisons between IPSAS and PSAS standards clearer.
- The titles and paragraphs in each PSA Handbook appendix would align with the categories of guidance used in IPSAS. This will ensure consistent classification of similar categories of guidance if PSAB adapts IPSAS guidance set out in appendices in developing Canadian standards in the future.
- The change will provide interested and affected parties insight on which PSAS appendices contain additional application guidance that are integral to the standard.

- BC.19 However, a few respondents noted that clarity is required regarding the status of appendices within GAAP. PSAB was asked to clarify the status of appendices in Section PS 1150 if a distinction is being made between integral and illustrative guidance in the Exposure Draft proposals.

- BC.20 PSAB agreed with the respondents’ request for clarity regarding the status of different types of appendices within GAAP. The Board concluded that among appendices existing at December 2022, three would likely be designated as integral to a standard and application guidance:

- (a) Appendix A to Section PS 3400 (already designated as integral and application guidance);
- (b) Appendix B to Section PS 3410 (requires designation as integral to the standard and application guidance); and
- (c) Appendix A to Section PS 3450 (already designated as integral and application guidance).

Paragraph PS 1150.03(d) describes three primary sources of GAAP in descending level of authority:

- (i) standards in Sections PS 1202-PS 3510;
- (ii) Public Sector Guidelines; and
- (iii) appendices and illustrative material of those pronouncements described in (i)-(ii) above.

PSAB agreed that designating these three appendices as level (i) could possibly change practice. So, such designation would not meet the definition of an annual improvement. Paragraph PS 1150.16 only recognizes illustrative material in appendices, designating them as illustrative and so a level (iii). Paragraph PS 1150.16 does not address the status of

application guidance provided in the appendices; without specific mention, it could be interpreted that all appendices are illustrative only. When issuing Section PS 1202, the Board concluded that the application guidance in Appendix A was integral to the standard and explicitly designated it as a level (i). Consistent with the decision for Appendix A to Section PS 1202, in the future, the Board will clarify the status of the three appendices listed above within GAAP through a narrow-scope amendment.

AMENDMENTS TO INCREMENTALLY CHANGE PSA HANDBOOK WORDING FROM “GOVERNMENT” TO “PUBLIC SECTOR ENTITY” AS APPROPRIATE

- BC.21 In 2010, with interested and affected parties’ support, PSAB explicitly expanded the applicability of PSAS beyond governments to government components and government organizations in the INTRODUCTION TO PUBLIC SECTOR ACCOUNTING STANDARDS (now the INTRODUCTION TO THE PUBLIC SECTOR ACCOUNTING HANDBOOK). Standards issued from 2011 onwards reflect this decision and use the term “public sector entity”, instead of “government”. Standards issued before 2011 are periodically reviewed for annual improvements and the wording updated on an incremental basis for standards in which the update is straightforward.
- BC.22 As part of its annual improvements process, PSAB has committed to incrementally change wording in the PSA Handbook to reflect fully the PSA Handbook’s applicability to all public sector entities (unless directed to another framework in the Introduction). So, wording changes have been made to many of the standards otherwise amended through the 2022-2023 annual improvements process.
- BC.23 Some standards for which such updates are complex require time for PSAB to consider how to make the changes and ensure no unintended consequences. These include standards involving consolidation or transactions by the legislature or council. As a result, the Board has prioritized updating more straightforward standards and will update more complex standards later.
- BC.24 Section PS 3100 was proposed as one of the standards for which wording would be updated from “government” to “public sector entity” in the 2022-23 annual improvements cycle. As a result of comments received to the Exposure Draft and a review of the amended text, PSAB concluded that there are complexities in updating the text in Section PS 3100 relating to internally restricted entities. Thus, the Board decided not to update the wording in Section PS 3100 at this time.

EFFECTIVE DATE

- BC.25 PSAB issued certain of the proposed 2022-23 annual improvement amendments in the April 2023 PSA Handbook update. These amendments were effective for years beginning on or after April 1, 2023. The 2022-23 annual improvements that were not issued in the April 2023 PSA Handbook release were issued in the February 2024 PSA Handbook release. The effective date for these is February 1, 2024. The Board intends that the amendments be applied retrospectively given that annual improvements are not expected to affect practice, and many are editorial in nature.

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