



Treasury Board of Canada
Secretariat

Secrétariat du Conseil du Trésor
du Canada

Canada

Upcoming accounting and auditing standards in Government of Canada

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Agenda

- 1 Background on financial reporting in the Government of Canada
- 2 Existing standards
- 3 Accounting and audit standards considerations
- 4 PSAB work plan
- 5 Questions



Background on financial reporting in the Government of Canada

Objectives of Financial Statements



Accounting for the full nature and extent of the activities of the government

- Government entity includes all departments, agencies, Crown corporations, and other entities in the Government Reporting Entity
- Departmental reporting entity comprises the activities for which the deputy head (DH), as the accounting officer, is expected to maintain accounting control



Present information on the government's financial position and changes during the accounting period

- Ability to finance activities and meeting liabilities; and
- Ability to provide services



Allows the government to demonstrate accountability for the resources, obligations and financial affairs for which it is responsible

Users of financial statements



The Public



Legislators



Investors &
Analysts

Mainly Government-level
financial statements.



Departmental
Management

Accounting Standards

Public Sector

Directive on Accounting Standards

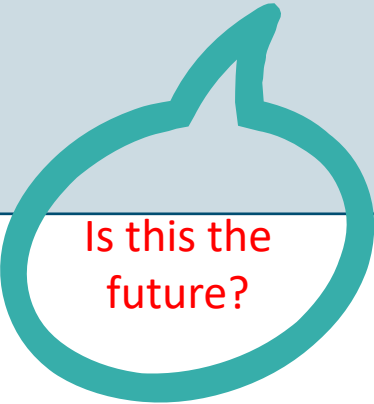
Public Sector Accounting Board (PSAB)

International Public Sector Accounting Standards Board (IPSASB)

Private Sector

CPA Canada

International Accounting Standards Board (IASB)
Establishes International Financial Reporting Standards (IFRS)

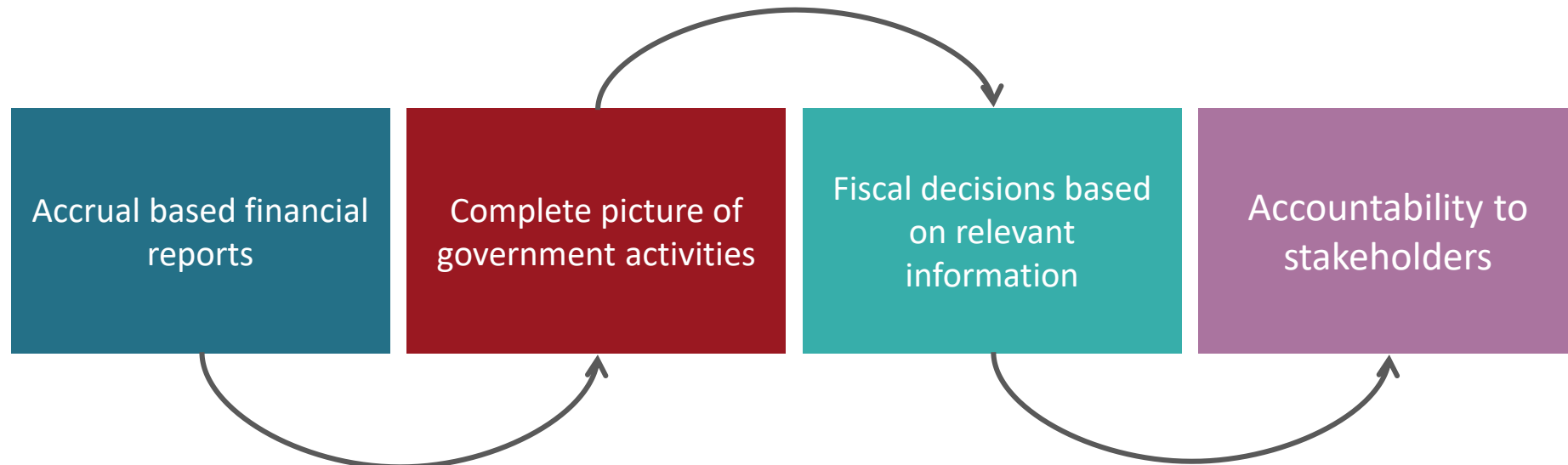


Is this the future?

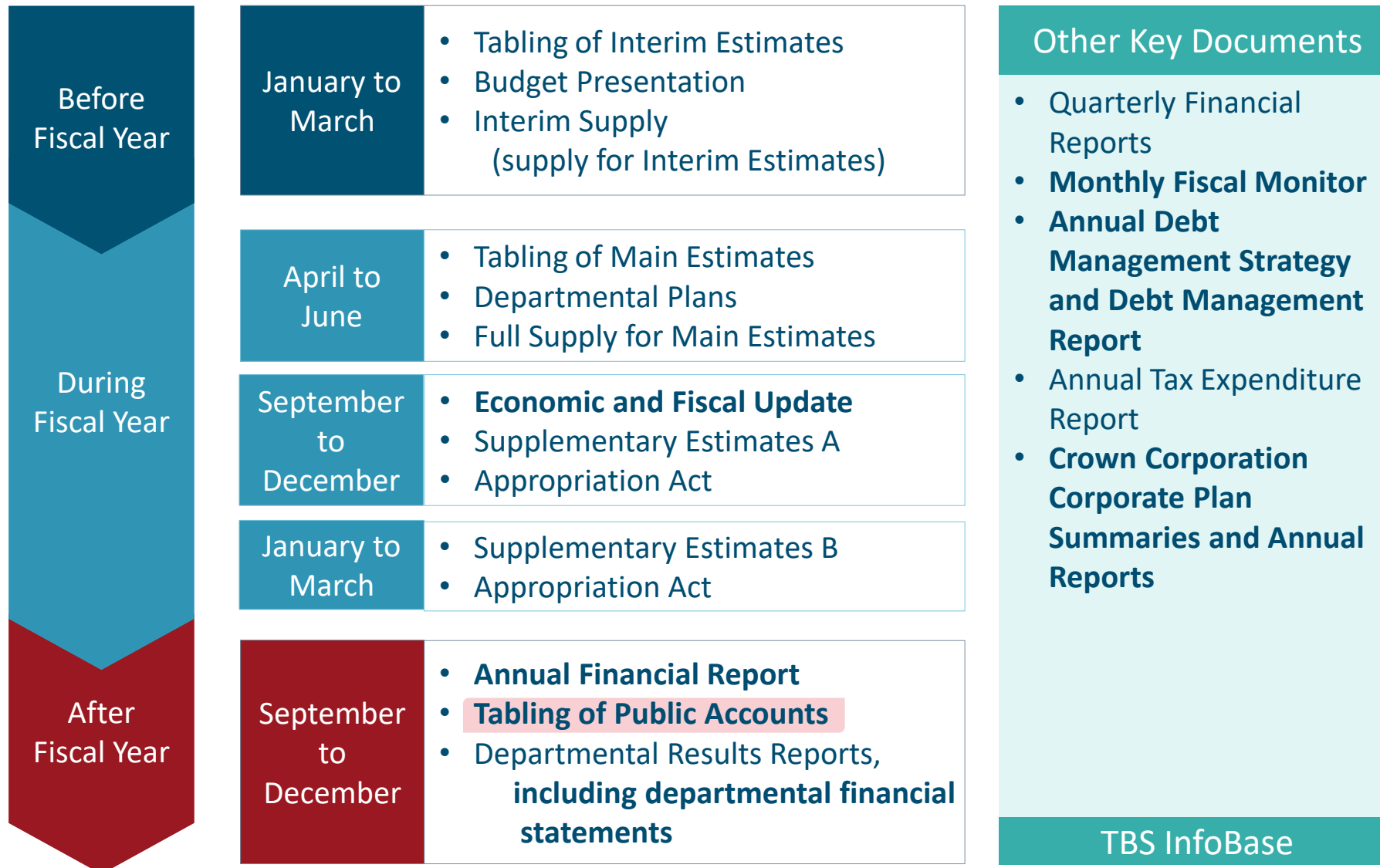
Need for accrual-based information

Considerations

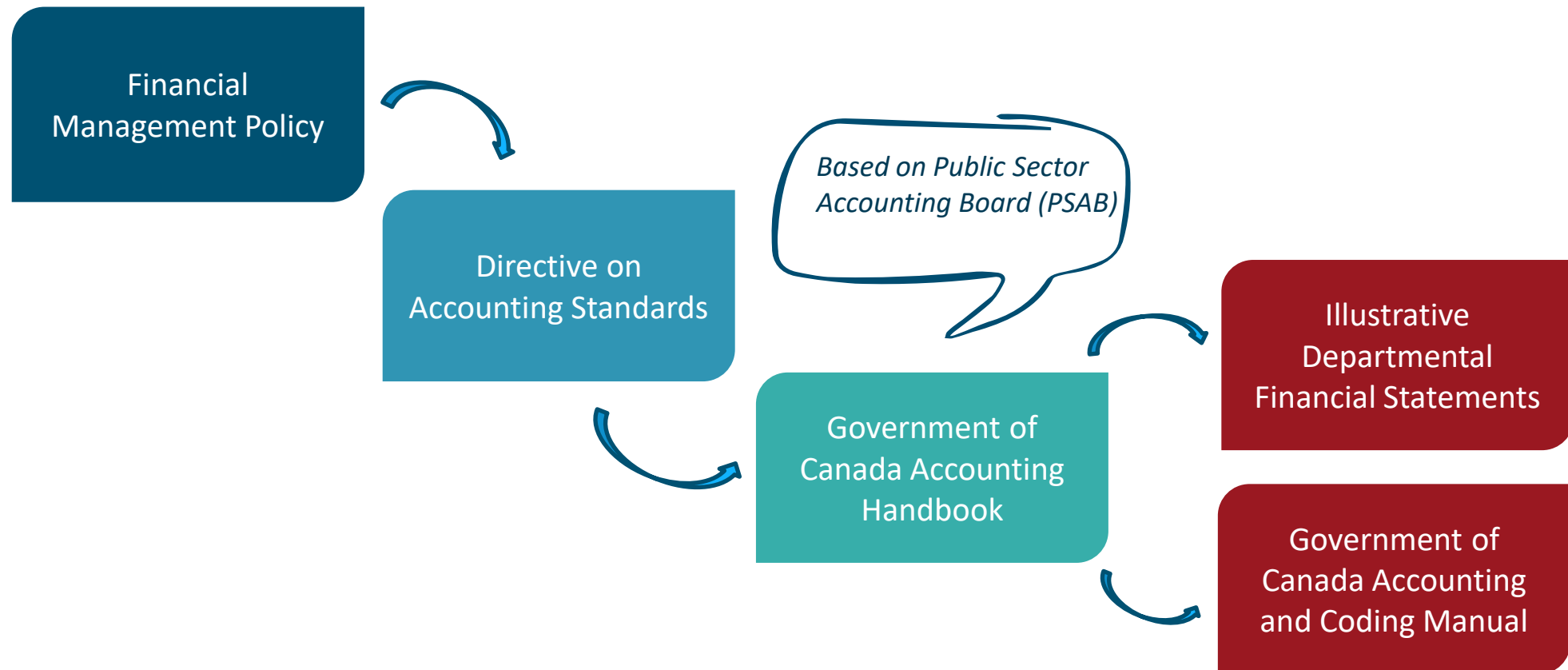
- Qualitative characteristics of information - relevant, reliable, comparable, understandable and clearly presented
- Relevant information has predictive, feedback and accountability value
 - Financial reports and Treasury Board submissions and Memorandums to Cabinet should provide accrual information.



Current Reporting Cycle for Government Expenditures



Government Accounting Standards



Note: Certain Crown Corporations use International Financial Reporting Standards (IFRS)



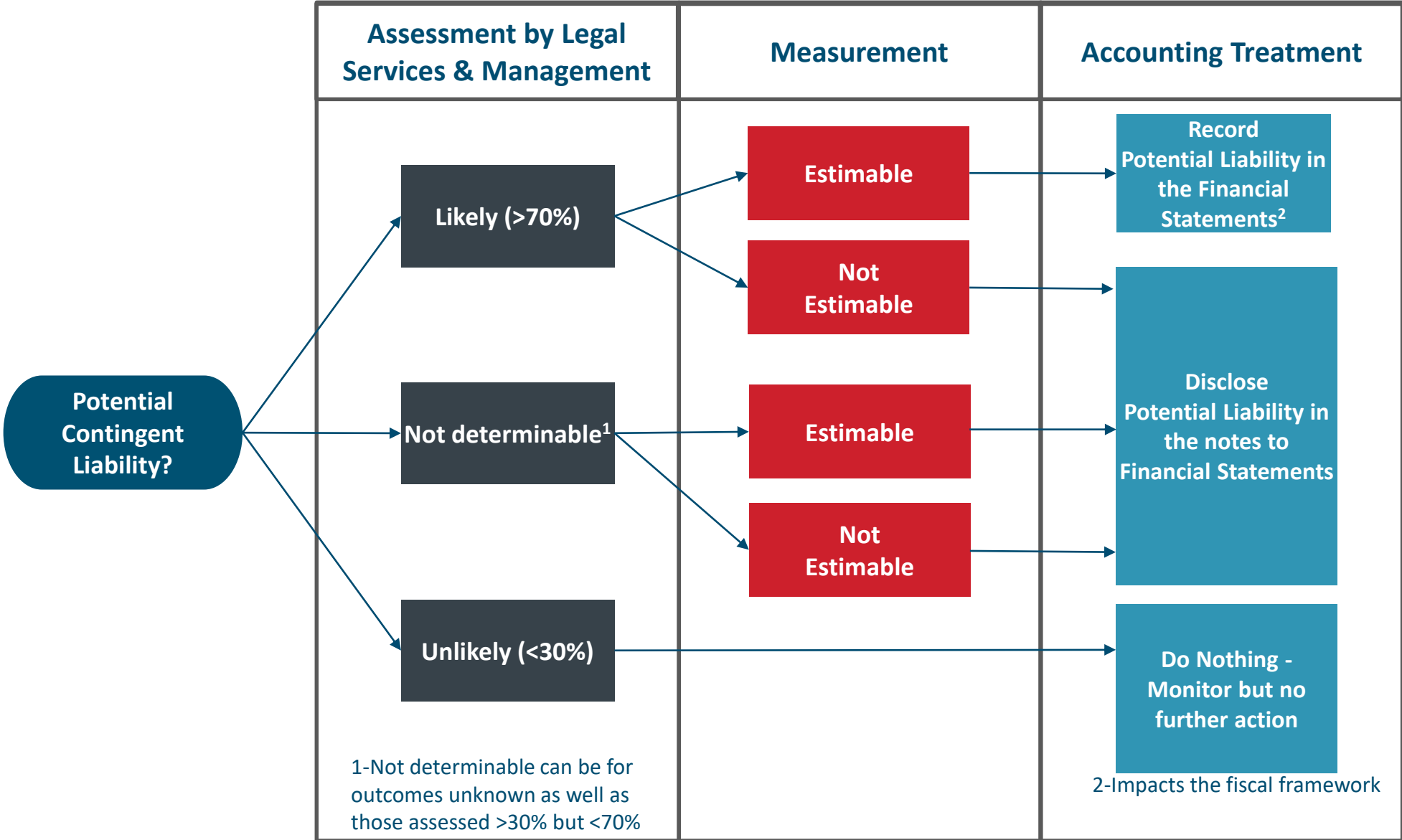
Accounting and audit standards considerations

Definition*

- Contingent liabilities are possible obligations that may result in the future sacrifice of economic benefits arising from existing conditions or situations involving uncertainty.
- That uncertainty will ultimately be resolved when one or more future events not wholly within the government's control occurs or fails to occur.
- Resolution of the uncertainty will confirm the existence of a liability.

* Source: Canadian Public Sector Accounting Standards

Contingent Liabilities - Assessment and Recognition



The big question: **what is capitalized?**

No PSAS guidance.

Three models of
cloud computing

Software as a Service (SaaS)
Platform as a Service (PaaS)
Infrastructure as a Service (IaaS)

Multiple-element
contract

Purchase of one-time software licence or development, and
service delivery

Service contract

Purchase of software services; annual licence for
maintenance

Cloud computing – what to capitalize

Activity	Capital	Expense
Feasibility study, business case, selection of alternative		X
Design, software configuration, development	X	
Enhancements to software service functionality	X	
Evaluation of existing hardware and software for compatibility		X
Enhancement of existing software that will be used under cloud arrangement	X	
Testing functionality of software service		X
Business process re-engineering		X
Report development	X	
Employee training		X
Data conversion		X
One-time licence for use of software	X	
Annual licence for use, maintenance, routine upgrades		X

Capital Assets: Whole Asset vs Component Approach

Two methods of defining capital assets:

Whole asset: an assembly of connected parts, all of which are capitalized and amortized as one asset.

Component: different parts of a larger asset are individually capitalized and amortized.

Example: a building could be divided into substructure, superstructure, HVAC, roofing, etc.

- PSAS and GCAH allow for both methods; must be used for an entire asset class.
- PSPC is transitioning its portfolio of buildings to the component approach.
- Consultation with Office of the Comptroller General is required for a change in approach.

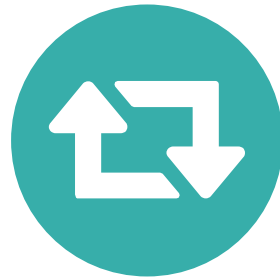
Upcoming Public Sector Accounting Standards

Effective date	Topic
April 1, 2018	Restructurings, Section PS 3430
April 1, 2021	Financial instruments suite of standards: <ul style="list-style-type: none">• F/S Presentation PS 1201• Foreign Currency Translation PS 2601• Financial Instruments PS 3450• Portfolio Investments PS 3041
April 1, 2021	Asset Retirement Obligations, Section PS 3280
April 1, 2022	Revenue, Section PS 3400



Objective

Provides guidance on accounting for and reporting assets and liabilities transferred in restructuring transactions by both transferors and recipients.



Scope

A restructuring transaction may take place between:

- related entities under common control, e.g. between departments;
- or
- unrelated parties, e.g. between the federal and provincial governments.



Impact

Assets and liabilities transferred in restructurings between departments or with Crown corporations are:

- measured at the carrying amount
- net impact is recognized in annual surplus/deficit.



Transition

- Effective April 1, 2018
- Prospective application

Financial Instruments Suite of Standards

PS 3450 Financial Instruments

Objective

- Provides guidance on recognition, measurement, presentation and disclosure of financial instruments.

Key feature

- Introduction of fair value measurement for a number of financial instruments including derivatives.

Major impacts on departments

- Derivatives and embedded derivatives
- Effective interest method for long-term loans & receivables
- Additional disclosures related to credit risk.
- Effective date: April 1, 2021

Financial Instruments Suite of Standards (cont'd)

PS 1201 Financial Statement Presentation

- Replaces PS 1200
- Introduces new Statement of Remeasurement Gains and Losses for reporting unrealized fair value gains/losses.

PS 2601 Foreign Currency Translation

- Replaces PS 2600
- Major change relates to presentation - unrealized foreign exchange gains and losses in Statement of Remeasurement Gains and Losses;
- Realized foreign exchange gains and losses in the Statement of Operations

PS 3041 Portfolio Investments

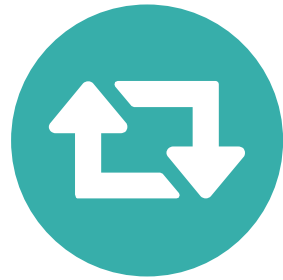
- Replaces PS 3040
- Recognition and measurement principles now in PS 3450

PS 3280 Asset Retirement Obligations (AROs)



Objective

- Recognition, measurement, presentation and disclosure of AROs



Scope

- Legal obligations associated with the retirement of long-lived tangible capital assets currently, or no longer, in productive use



Impact

- Identify and assess.
- Examples include
 - Asbestos in buildings
 - Leases with return to original condition clause
 - Nuclear facilities or equipment



Transition

- Effective April 1, 2021
- Retroactive, modified retroactive or prospective application

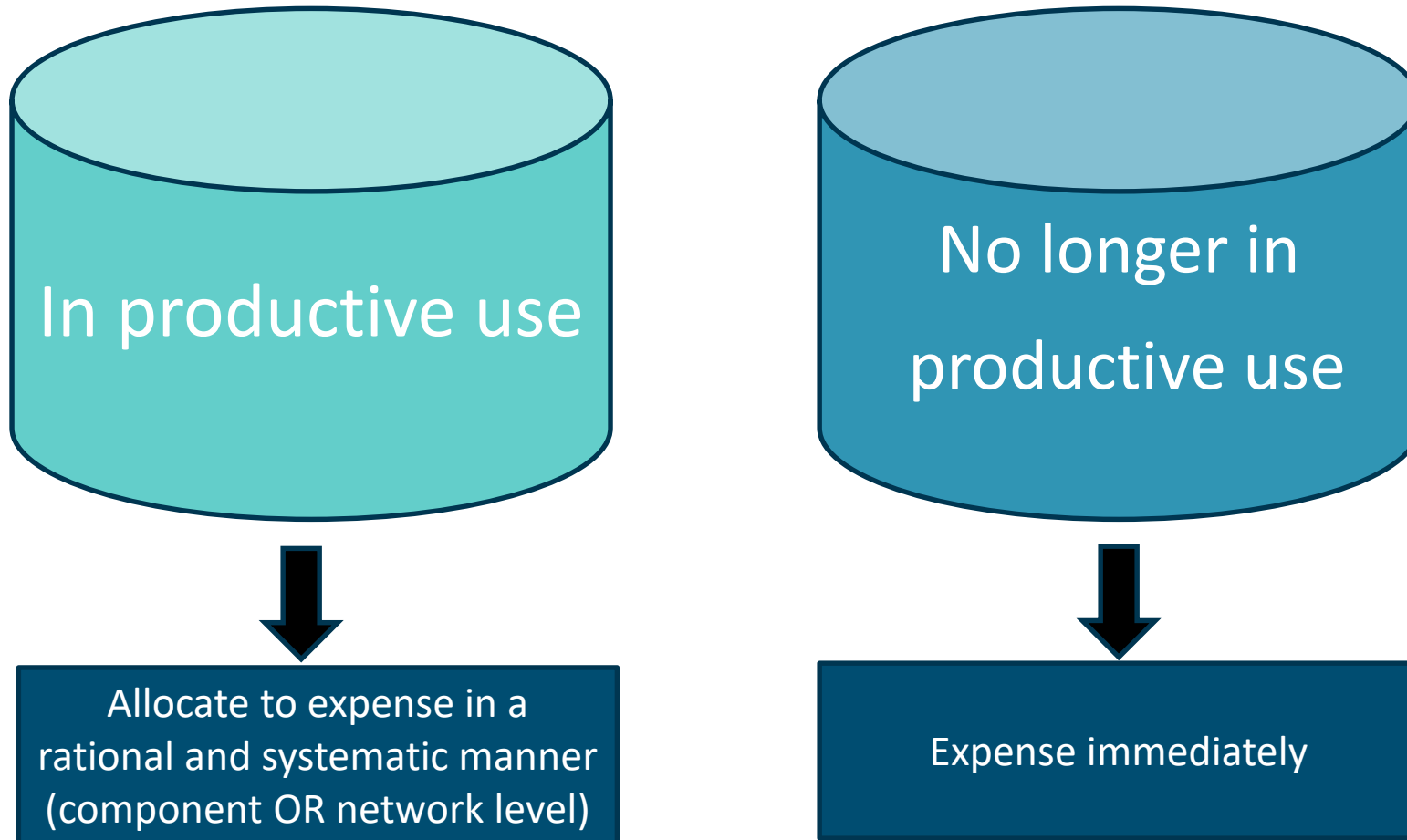
PS 3280 Asset Retirement Obligations (cont'd)

1. Legal obligation
 - Agreements, contracts, legislation, promissory estoppel
2. Past transaction or event
 - Acquisition, construction, development of a TCA; or
 - Normal use of a TCA

Normal use = predictable, likely to occur, unavoidable
Normal use \neq improper use, accidents, unexpected

PS 3280 Asset Retirement Obligations (cont'd)

Recognition and allocation of asset retirement costs



PS 3280 Asset Retirement Obligations (cont'd)

Measurement

- Best estimate of the amount required to retire a tangible capital asset
- A present value technique is often the best available method. No prescriptive guidance on appropriate measurement techniques and discount rate
- Subsequent measurement:

Adjust the Tangible Capital Asset	Expense
<ul style="list-style-type: none">• Timing• Amount• Discount rate	<ul style="list-style-type: none">• Passage of time (accretion)• If related asset is retired

PS 3280 Asset Retirement Obligations (cont'd)

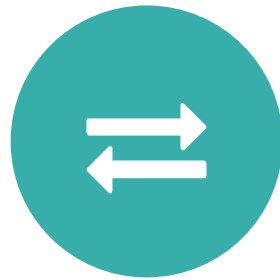
Determining which standard should be applied

Section PS 3280	Section PS 3260
Cause for the retirement or remediation obligation	
<ul style="list-style-type: none"> • Acquisition, construction, development, normal use. • Not necessarily associated with contamination. 	<ul style="list-style-type: none"> • Unexpected event, improper use. • Contamination needs to exist.
Type of obligation	
<ul style="list-style-type: none"> • Legal obligation related to tangible capital asset of the entity. 	<ul style="list-style-type: none"> • Legal, constructive, and equitable obligations (direct responsibility and assumed).
Extent of contamination	
<ul style="list-style-type: none"> • Does not need to exceed the environmental standard. 	<ul style="list-style-type: none"> • Must exceed the environmental standard.



Objective

- Revenue recognition from sources other than tax revenue and government transfers.



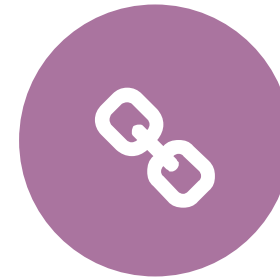
Exchange transactions

- Performance obligations:
- Revenue recognized as performance obligations are satisfied



Unilateral revenue

- No performance obligations:
- Revenue recognized when public sector entity has authority to claim or retain an inflow of economic resources as a result of a past event



Transition

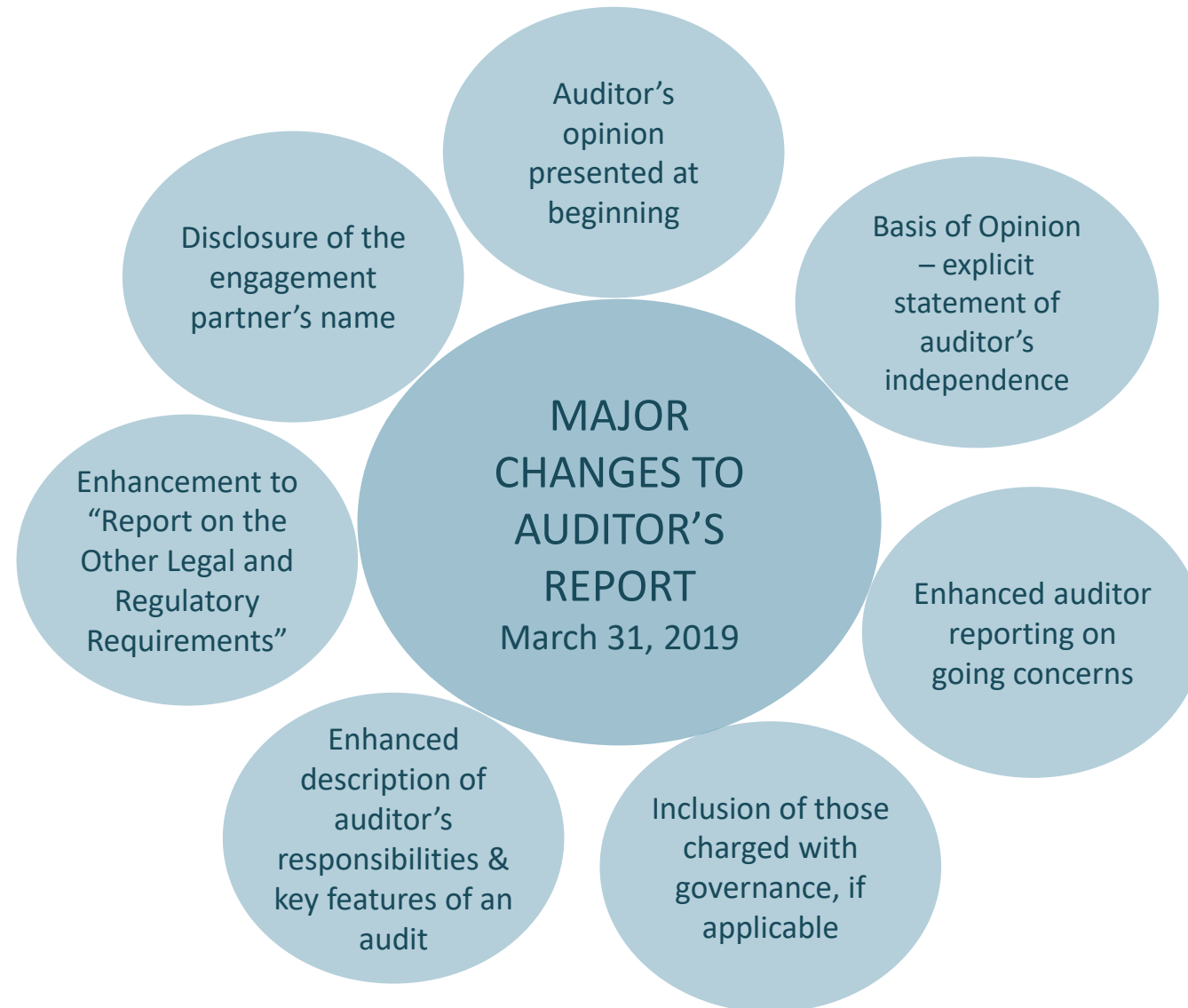
- Effective April 1, 2022
- Choice of retroactive or prospective application.



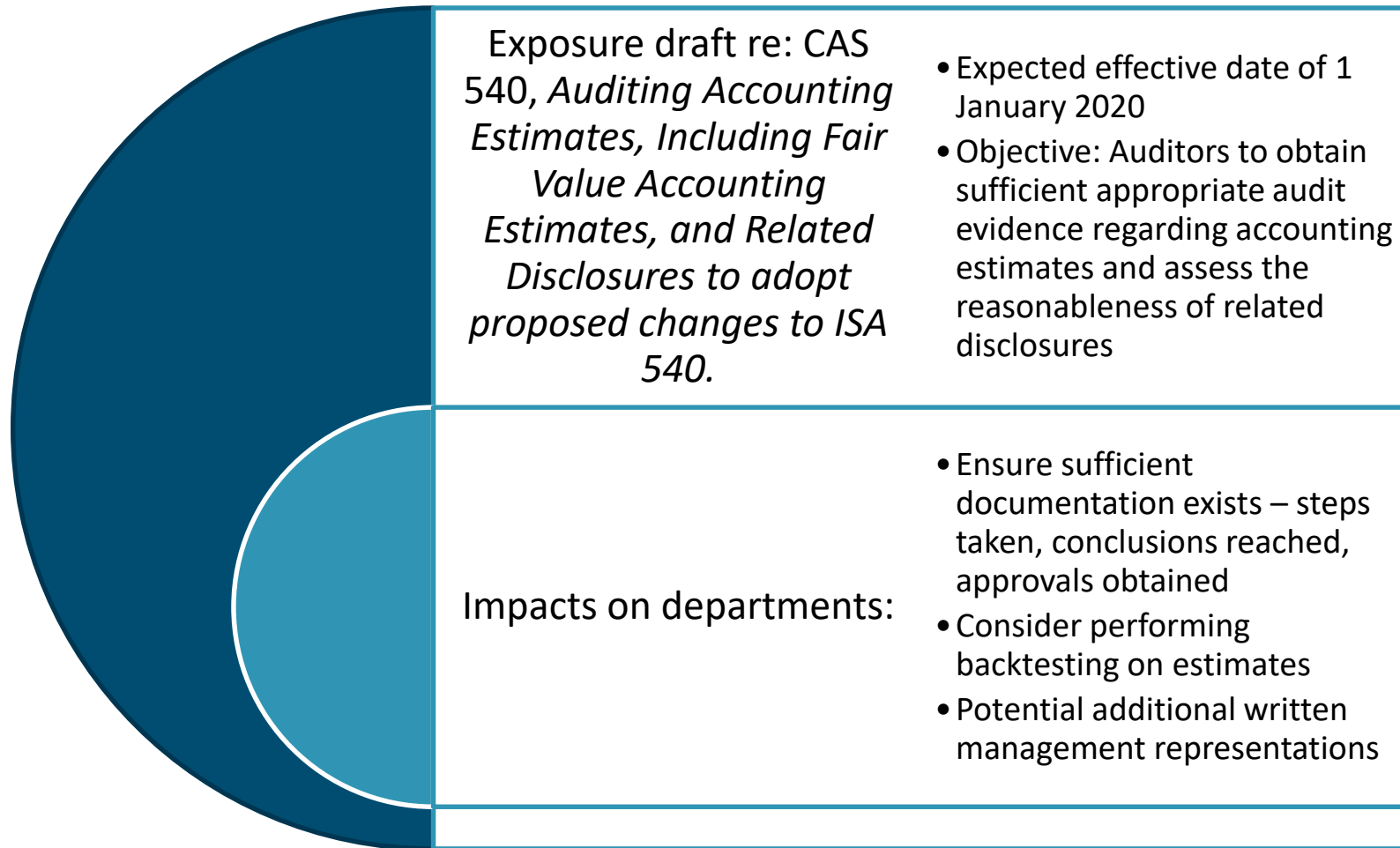
Departments will need to review their individual revenue streams to determine:

- Whether a performance obligation exists
- When the performance obligation is satisfied

Canadian Auditing Standards - New Auditor's Report



Canadian Auditing Standards – Upcoming changes



PSAB work plan



PSAB Work Plan

Project	Document issued	Status
Annual Improvements 2018-19	ED	Issued for comment
Financial instruments - amendments	ED	Issued for comment
Public Private Partnerships	SOP	ED to be issued Q1, 2019
Employment Benefits	ITC	Comments deliberation
Conceptual framework and reporting model	SOP	Comments deliberation
International Strategy	CP	CP#2 development
Not-for-profit	CP	Consultation

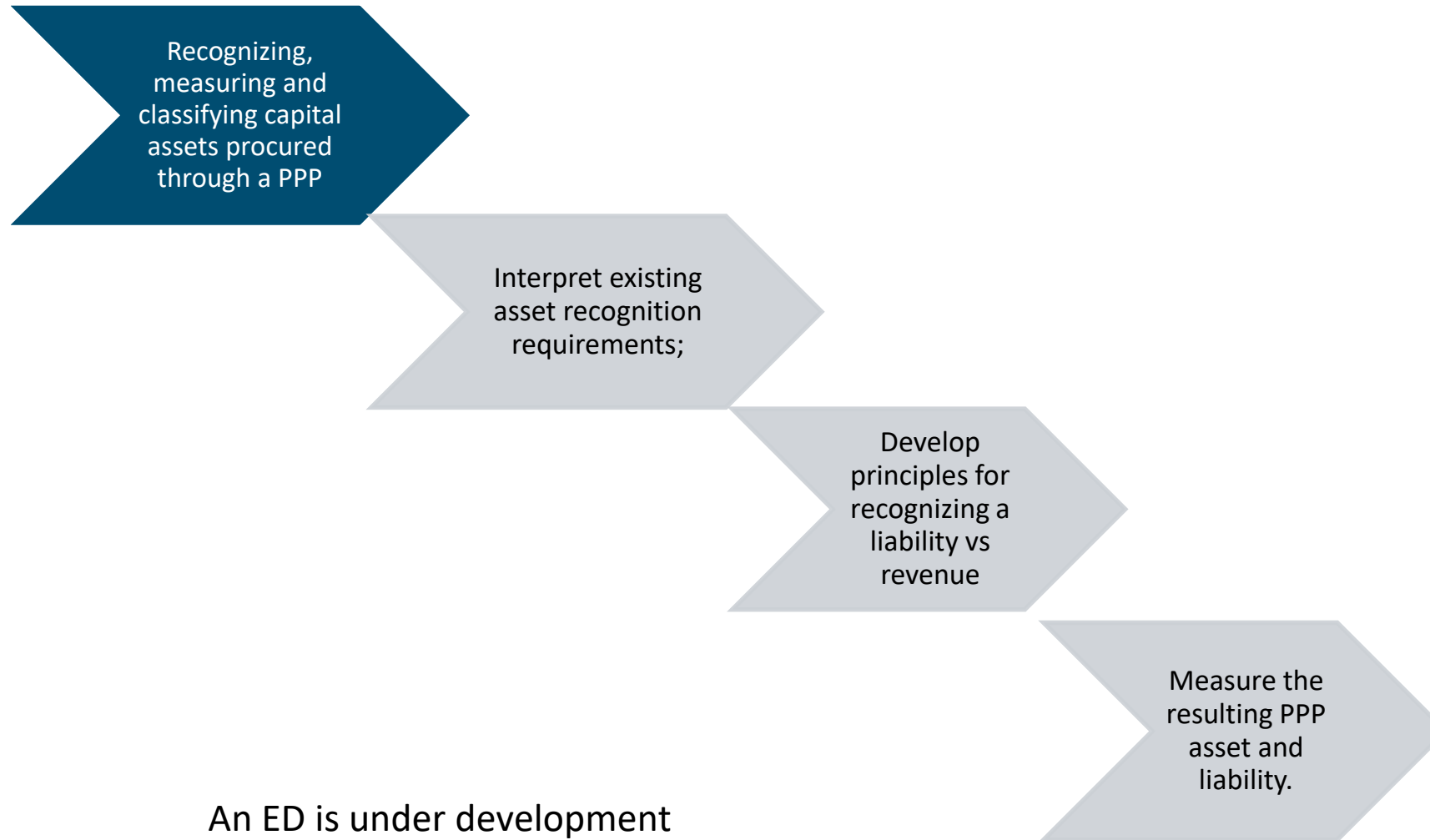
ED: Exposure Draft

ITC: Invitation to Comment

SOP: Statement of Principles

CP: Consultation Paper

Public Private Partnerships (PPP)



Employment benefits

This project aims to review the guidance in the PSA handbook for employment benefits.

- Three ITCs have been issued:
 - deferral provisions
 - discount rates
 - non-traditional plans
- PSAB will be deliberating feedback from stakeholders in 2019.
- The intent is to replace current sections PS 3250 *Retirement Benefits* and PS 3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits* with one revised section.

Proposed Conceptual Framework

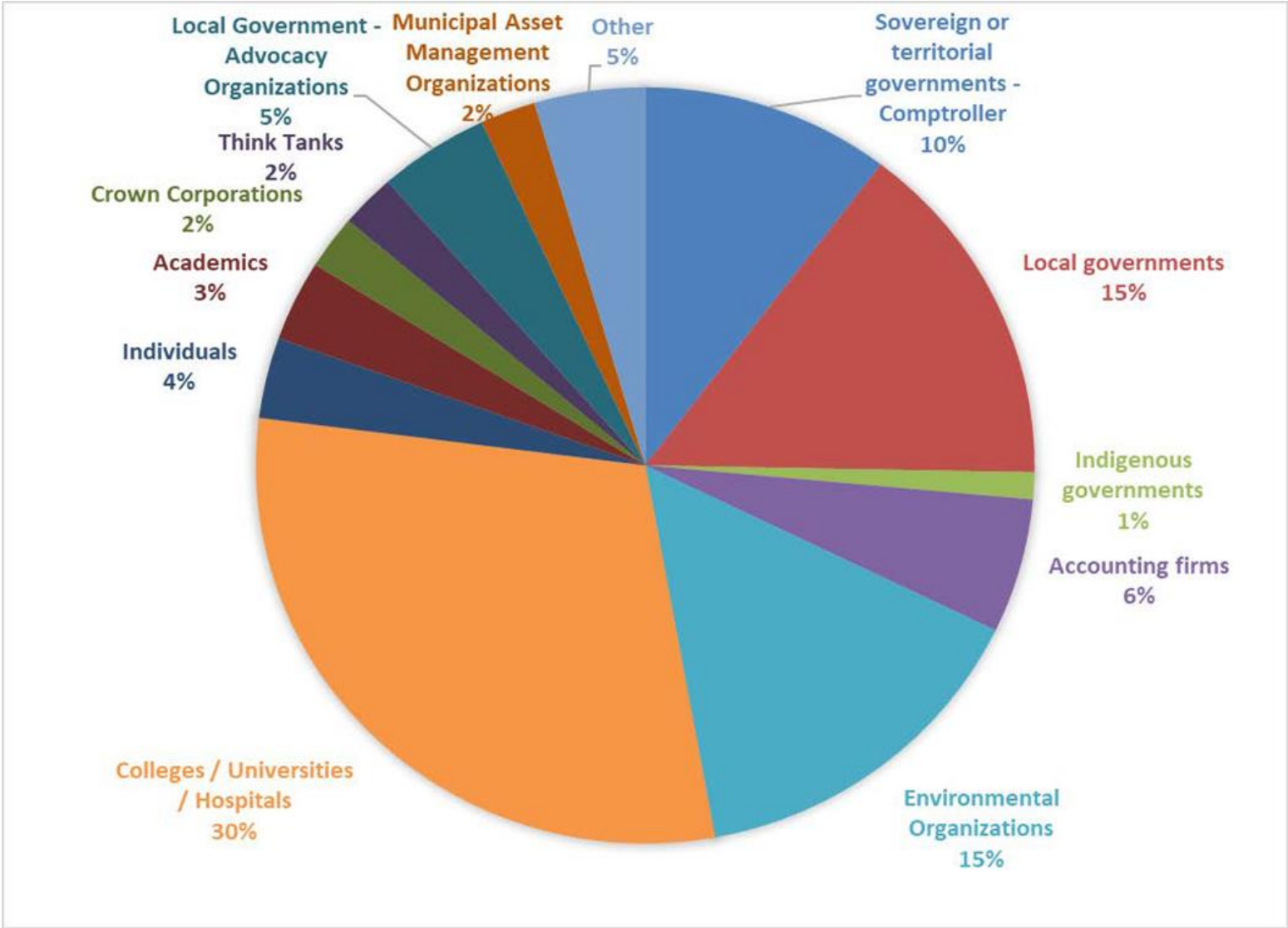
Existing
Conceptual
Framework

- Section PS 1000, *Financial Statement Concepts*
- Section PS 1100, *Financial Statement Objectives*

Proposed
Conceptual
Framework

- Chapter 1: Introduction to the Conceptual Framework
- Chapter 2: Characteristics of Public Sector Entities
- Chapter 3: Financial Reporting Objective
- Chapter 4: Role of Financial Statements
- Chapter 5: Financial Statement Foundations
- Chapter 6: Financial Statement Objectives
- Chapter 7: Qualitative Characteristics and Related Considerations
- Chapter 8: Elements of Financial Statements
- Chapter 9: Recognition and Measurement
- Chapter 10: Presentation Concepts

Responses to Conceptual Framework Consultation



Proposed Reporting Model

Highlights of the revised reporting model

- Elements: Assets, Liabilities, Revenue, Expenses
- Keep historical cost as the primary measurement attribute unless deemed to better serve the accountability objective
- Removal of recognition prohibitions (i.e. intangibles) from the conceptual framework
- Provide PSAB with the tools to deal with future issues and standards

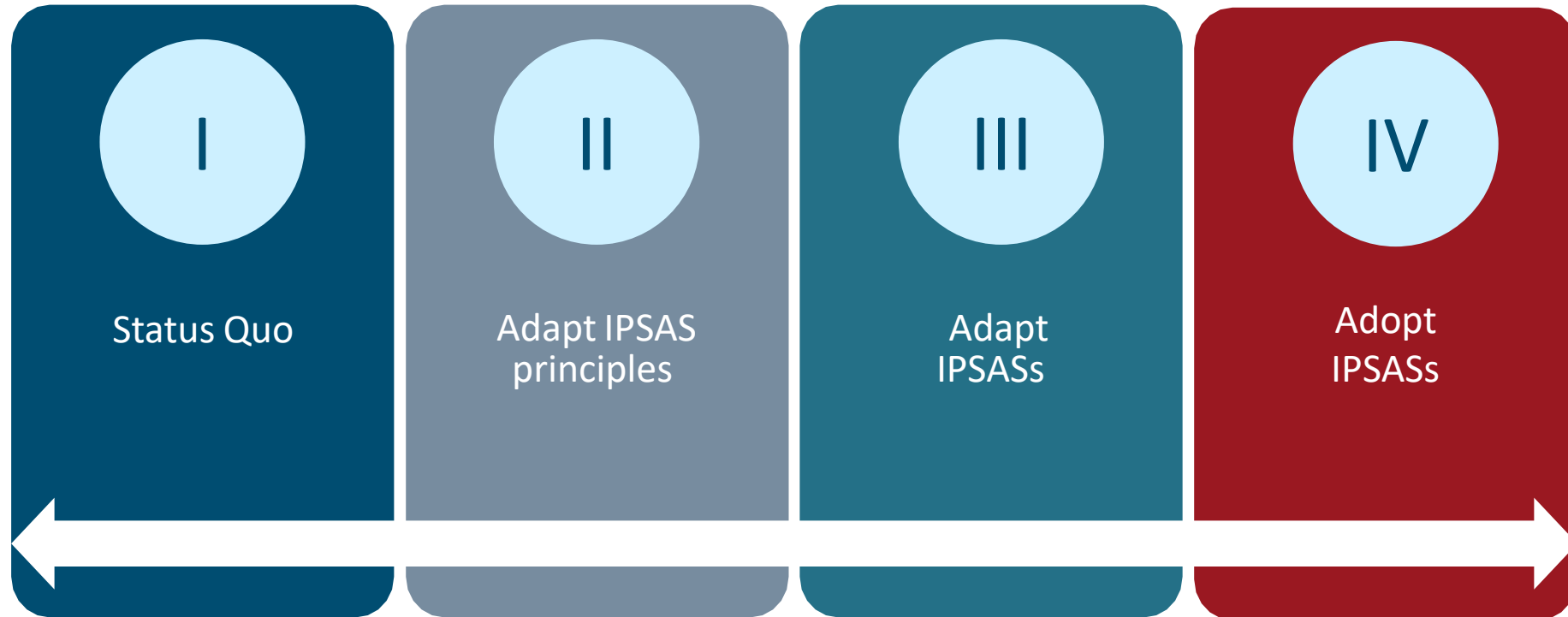


Considerations in developing PSAB's international strategy are:

- International Public Sector Accounting Standards (IPSASs) have matured:
- Momentum in adoption of IPSAS or IFRS by international governments;
- Canada wants to maintain a leadership position in influencing international standards
- Improve time to market for standards
- Synergies with private sector standards (IFRS Standards) applied by publicly accountable entities in Canada

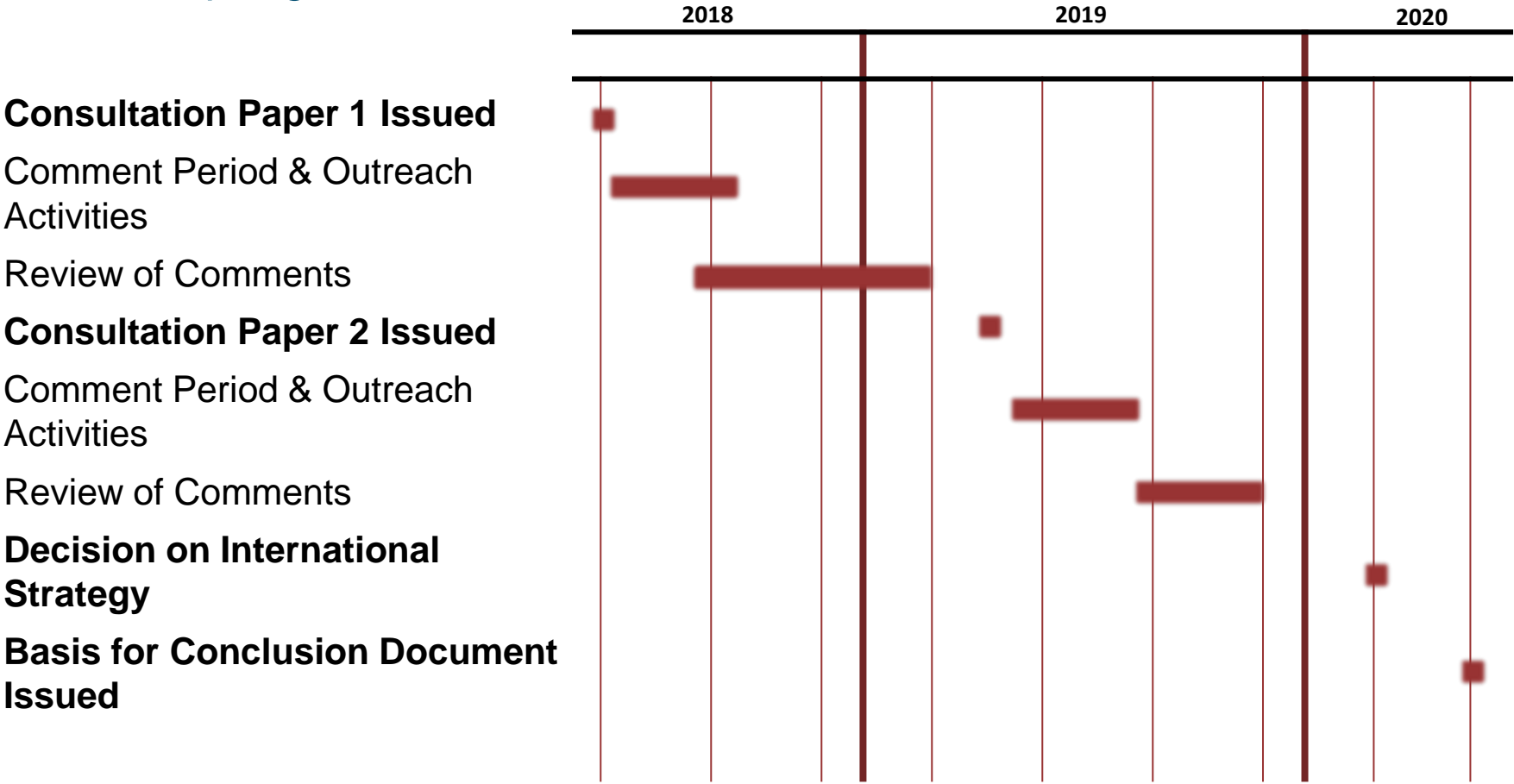


International Strategy – Options



International Strategy – Timeline

PSAB is currently in the process of drafting the second consultation paper to be released in Spring 2019.



Useful Links

PSAB projects page

frascanada.ca/standards-for-public-sector-entities/projects/active/item56215.aspx

GC Directive on Accounting Standards

tbs-sct.gc.ca/pol/doc-eng.aspx?id=32499

Receiver General Manual

gcintranet.tpsgc-pwgsc.gc.ca/rg/manuels-manuals/index-eng.html

OCG GCPedia Webpage

gcpedia.gc.ca/wiki/External_financial_reporting_community/Public_Accounts_of_Canada

