

PSAB

What it is & What it does

*Better
information
for decision
making and
accountability
for Canadian
governments*



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The purpose of this document is to explain:

- ★ Who PSAB is
- ★ What we do
- ★ Why we do it
- ★ Who PSAB is accountable to
- ★ Why PSAB was formed
- ★ How PSAB works
- ★ Our vision, goal, outcomes, outputs and inputs
- ★ What PSAB has done
- ★ How to stay up-to-date with PSAB
- ★ How to get in touch with PSAB

Who PSAB is

The Public Sector Accounting Board (PSAB) comprises senior government executives and experts in government financial reporting. Members include: deputy ministers, controllers general, legislative auditors, prominent public accountants with public sector experience, chief financial officers of local governments, analysts, such as bond rating agencies, and accounting professors.

Governments represented on PSAB include the federal, provincial, territorial and local governments.

Members are chosen for their knowledge, experience and judgment. They serve as individuals without remuneration. They voice their personal convictions and views, independent of the policies of the government or organizations with which they are associated.

What we do

PSAB serves the public interest by setting standards and providing guidance for financial and other performance information reported by the public sector.

PSAB does this by:

- establishing independent, conceptually-based standards and other guidance through consultation and communication; and
- contributing to the development of internationally accepted standards.

In meeting its objectives, PSAB agreed to:

- (a) Be committed to serve the public interest.
- (b) Respect and encourage input from all its stakeholders.
- (c) Bring objectivity to the consideration of issues.
- (d) Respect the ability of its stakeholders to exercise professional judgment.
- (e) Be committed to timeliness in response to stakeholder needs.

Why we do it

PSAB's goal is to develop standards and other guidance that enhances confidence in public sector reporting.

Who PSAB is accountable to

PSAB is accountable to the Accounting Standards Oversight Council (AcSOC) to demonstrate that it has fulfilled its mandate effectively, efficiently and economically.

The responsibilities of AcSOC include:

- Appointing individuals for membership on PSAB, including the respective Chairs and, where applicable, Vice-Chairs.
- Providing input to PSAB, primarily in terms of strategic direction and priorities.
- Ensuring PSAB bears in mind that the needs of users of financial information should be met and the most appropriate issues should be addressed in a suitable manner.
- Informing PSAB of the views of the diverse groups represented on AcSOC, as well as the views of other individuals or groups with an interest in accounting standards.

Why PSAB was formed

PSAB was established in 1981, to improve and harmonize public sector accounting in Canada. Its creation followed extensive consultation with governments and auditors and an in-depth study of their financial reporting practices.

The study found wide disparities in government reporting practices. Financial statement presentation varied, the statements were fragmented and did not provide an overview of the government as a whole. Similar transactions and events were being recorded differently and significant information about items such as liabilities and capital assets was missing.

This made it difficult to compare one government's financial performance to another or the financial results of the same government from one period to the next.

The purpose of financial statements is the communication of information. They provide evidence of accountability and report information to help others make judgments concerning government financial operations and management. To meet this need effectively, in a manner that maximizes their usefulness, information in financial statements must possess the basic qualities of relevance, reliability, comparability and understandability. PSAB was formed to issue standards based on these qualitative characteristics.

How PSAB works

PSAB uses a "task force" approach for developing its standards and other guidance. Task force members represent individuals having particular expertise in the topic. They have the responsibility of making recommendations to PSAB for approval. Staff is responsible for ensuring that the task force and PSAB members are provided with the necessary background information and alternatives necessary for approving the final standards and other guidance.

PSAB follows an extensive “due process” to ensure that all views and issues are raised and considered by the task force and the PSAB.

Developing standards and guidance typically follows a five step process:

1. Basic research of the issues
2. Approval of a project proposal
3. A statement of principles
4. A public exposure draft
5. Final Handbook material

Both the statement of principles and the exposure draft are made available on PSAB’s web site (see *How to get in touch with PSAB*). Publicly exposing these documents allows anyone interested opportunity to provide comments and raise issues that, in turn, will be considered by PSAB.

Our vision, goal, outcomes, outputs and inputs

PSAB can Influence	Vision	The public understands and has confidence in public sector reporting		
	Goal	The public sector produces a decision-useful, multi-dimensional accountability report		
	Long term outcomes	Comprehensive, high quality financial statements	Comprehensive, high quality accountability reports	Acceptance through awareness, support, understanding and use
	Intermediate outcomes	Comprehensive, high quality GAAP	Comprehensive, high quality SORPs	Stakeholders understand benefits of GAAP and SORPs
	Immediate outcomes	GAAP are being used as basis of reporting	SORPs are being used as basis of reporting	Stakeholders are aware of and support GAAP and SORPs
PSAB controls	Outputs	GAAP/Guidance Development	SORP/Guidance Development	Communication Activities
	Activities	Research, due process, standard setting and recommended practices, PSAB and task force meetings		Articles, brochures, presentations, Website, courses and PSABulletin
	Inputs	Staff, financial resources, volunteers		

GAAP refers to generally accepted accounting principles
 SORPs are statements of recommended practices

What PSAB has done

Summary financial statements are a central feature of government reporting and serve as a principal means by which a government demonstrates its accountability for the resources and financial affairs entrusted to it by the public.

Governments are inherently different than businesses. The information needed to aid understanding and assessments of government financial operations and to promote accountability extends beyond reporting surpluses and deficits. Unlike the private sector, governments are not in business to make a profit but to provide goods and services to the public, so measuring surpluses/deficits is not the key indicator of the performance of a government. Additional information that draws on information external to the financial statements adds depth to and enhances understanding of the financial statements.

To this end, PSAB develops generally accepted accounting principles (GAAP) for governments. PSAB also issues guidance in the developing area of performance reporting by issuing Statements of Recommended Practices (SORPs).

GAAP Development

Financial Statement Concepts

The purpose of financial statement concepts is to provide a basis for PSAB when deciding on alternative accounting treatments for emerging issues and for a preparer of financial statements when assessing other authoritative accounting standards if the Public Sector Accounting Handbook is silent on an issue.

The concepts give rigour to the determination of various measures in the financial statements themselves. For example, they provide a clear definition of the determination of net debt/financial assets, net assets and annual results. They do this by referring to the definitions of assets and liabilities and using changes in them to determine revenue and expenses. This ensures a common and consistent approach to recording various transactions and events.

One reporting model for all levels of government

As of January 1, 2009 all levels of government in Canada will be reporting using one reporting model. There are four required financial statements to be presented: a statement financial position; a statement of operations; a statement of changes in net debt; and a statement of cash flows.

The **statement of financial position** highlights four key figures that together describe the financial position of a government:

- (a) The cash resources of the government.
- (b) The net debt position as calculated as the difference between financial assets and liabilities. Net debt represents future revenues required to pay for past transactions.
- (c) The non-financial assets that are normally held for service provision such as tangible capital assets.
- (d) The accumulated surplus/deficit (or in private sector terms retained earnings) as there are no shareholder contributions or distributions.

<i>Statement of financial position</i>		
	20X7	20X6
	\$	\$
Financial Assets	10,912	10,348
Liabilities	<u>18,262</u>	<u>19,171</u>
Net Debt	(7,350)	(8,823)
Non-financial assets	<u>7,360</u>	<u>7,457</u>
Accumulated surplus/(deficit)	<u>10</u>	<u>(1,366)</u>

Each of the three remaining financial statements illustrates changes in each of these key figures presented on the statement of financial position.

The **statement of operations** reports the surplus/deficit from operations during the accounting period. The statement displays the cost of government services provided, the revenues recognized in the period and the difference between them.

<i>Statement of Operations</i>			
	20X7	20X7	20X6
	Budget	Actual	Actual
	\$	\$	\$
Revenues	14,277	16,322	16,854
Expenses	<u>14,249</u>	<u>14,946</u>	<u>14,303</u>
Annual surplus	28	1,376	2,551
Opening accumulated surplus/(deficit)	<u>(1,366)</u>	<u>(1,366)</u>	<u>(3,917)</u>
Closing accumulated surplus/(deficit)	<u>(1,338)</u>	<u>10</u>	<u>(1,366)</u>

The **statement of change in net debt** reports the extent to which spending of the accounting period are offset by revenue raised during the period. This represents changes in your future revenue requirements.

<i>Statement of Change in Net Debt</i>			
	20X7	20X7	20X6
	Budget	Actual	Actual
	\$	\$	\$
Annual surplus	28	1,376	2,551
Acquisition of tangible capital assets	(294)	(294)	(250)
Amortization of tangible capital assets	226	226	230
Other adjustments	-	165	(145)
(Increase)/decrease in net debt	(40)	1,473	2,386
Opening net debt	<u>(8,823)</u>	<u>(8,823)</u>	<u>(11,209)</u>
Closing net debt	<u>(8,863)</u>	<u>(7,350)</u>	<u>(8,823)</u>

The **statement of cash flow** reports changes in cash and cash equivalents resulting from operations and shows how a government financed its activities during the period and met its cash requirements.

<i>Statement of Cash Flow</i>		
	20X7	20X6
	\$	\$
Net cash from operations	1,119	3,146
Cash applied to capital transactions	(248)	(178)
Cash provided by (applied to) investing transactions	129	(258)
Cash applied to financing transactions	<u>(789)</u>	<u>(2,481)</u>
Increase in cash and cash equivalents	211	229
Opening cash and cash equivalents	<u>1,366</u>	<u>1,137</u>
Closing cash and cash equivalents	<u>1,577</u>	<u>1,366</u>

It is noteworthy that both the statement of operations and the statement of change in net debt require budget information to be presented on the same basis as the actual figures are presented.

Reporting entity and consolidation

The financial statements of a government should include the full nature and extent of the financial affairs and resources for which the government is responsible, including those related to its agencies, boards, commissions and enterprises.

PSAB uses the concept of “control” to determine when an organization should be included in the government’s financial statements. Control is defined as having the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss accruing to the government from the other organization’s activities.

PSAB requires that all controlled organizations are included (consolidated) in the financial statements to provide the necessary overview of financial position and results that cannot be provided by individual financial statements of these entities. Government business enterprises are consolidated using modified equity accounting.

SORP Development

Although the financial statement indicators are critical to understanding the financial position and results of a government, additional information is needed to supplement and add further depth to those indicators. Other information, such as narrative explanations and financial and non-financial performance indicators are necessary for understanding a government’s annual performance. Focusing on annual results alone can be misleading when assessing accountability and for decision making.

To that end, PSAB develops SORPs whose objective is to improve users’ understanding of financial statement information and government performance.

Communications

Communications are vital to PSAB. Members and staff take every opportunity to meet with interested individuals, groups and organizations to discuss and explain PSAB’s goals, projects and activities.

PSAB constantly strives to encourage and help governments and auditors to comply with its standards. It is important to keep preparers, auditors, legislators and other interested parties informed of PSAB’s activities and pronouncements. Dialogue promotes consensus and support. Equally, it ensures that PSAB continues to respond to the needs of those it serves.

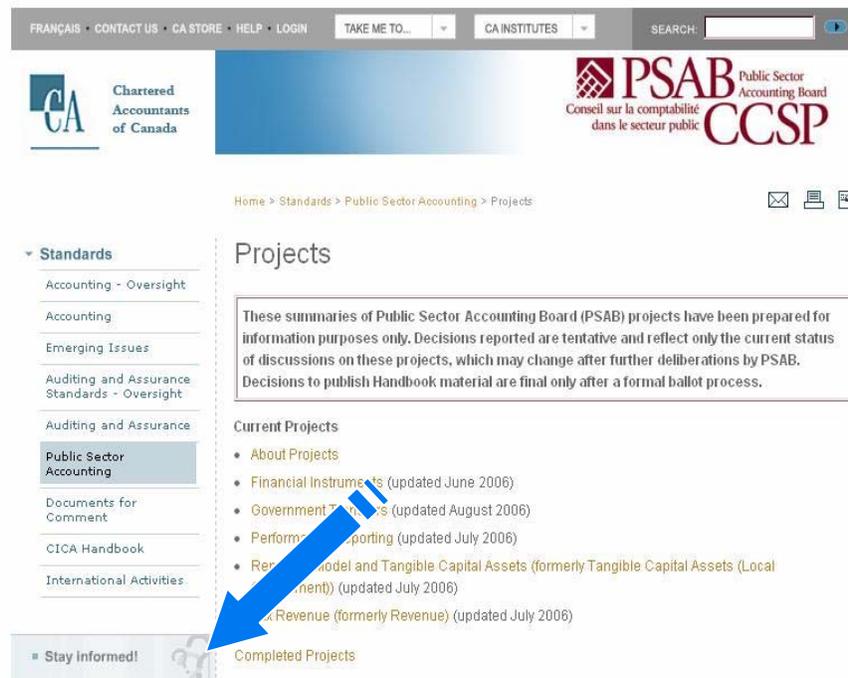
Through communications and due process, PSAB tries to garner widespread support for sound accounting practices that meet the needs, objectives and accountability requirements of governments and other public sector bodies.

How to stay up-to-date with PSAB

Establishing standards for the public sector is an evolutionary process building on research, widespread experimentation, experience and consensus. As this process evolves, standards will be developed to respond to changing information needs.

PSAB's website provides a simple, effective way of staying current with the projects being considered, decision summaries of PSAB's meetings and various other documents provided for your information.

To reach the web site, simply go to www.psab-ccsp.ca and follow three simple steps. Supply your e-mail address and preference for public sector accounting, and you will stay informed.



The screenshot shows the PSAB website interface. At the top, there is a navigation bar with links for 'FRANÇAIS', 'CONTACT US', 'CA STORE', 'HELP', and 'LOGIN'. A search box is also present. The main header features the Chartered Accountants of Canada logo on the left and the PSAB/CCSP logo on the right. Below the header, a breadcrumb trail reads 'Home > Standards > Public Sector Accounting > Projects'. A left sidebar contains a 'Standards' menu with options like 'Accounting - Oversight', 'Accounting', 'Emerging Issues', 'Auditing and Assurance Standards - Oversight', 'Auditing and Assurance', 'Public Sector Accounting' (highlighted), 'Documents for Comment', 'CICA Handbook', and 'International Activities'. The main content area is titled 'Projects' and contains a disclaimer: 'These summaries of Public Sector Accounting Board (PSAB) projects have been prepared for information purposes only. Decisions reported are tentative and reflect only the current status of discussions on these projects, which may change after further deliberations by PSAB. Decisions to publish Handbook material are final only after a formal ballot process.' Below this is a 'Current Projects' list with items such as 'About Projects', 'Financial Instruments (updated June 2006)', 'Government Transactions (updated August 2006)', 'Performance Reporting (updated July 2006)', 'Real Estate Model and Tangible Capital Assets (formerly Tangible Capital Assets (Local Government)) (updated July 2006)', and 'Tax Revenue (formerly Revenue) (updated July 2006)'. At the bottom of the page, there is a 'Stay informed!' button with a plus sign, which is highlighted by a blue arrow.

How to get in touch with PSAB

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