

## PUBLIC SECTOR ACCOUNTING BOARD UPDATE

In the January Newsletter, I indicated that we would be involved in a significant way with the PSAB issues in 2006. This E-Bulletin provides additional information on our activities related to the PSAB.

(For an overview of the process that the PSAB follows in approving accounting changes, click here: [Approval process](#)).

### PSAB Activities in 2005:

The following list of what the Board approved in 2005 is taken directly from the [December issue of the PSAB Bulletin](#).

- Project proposal:
  - reviewing the introduction to the CICA public sector accounting handbook
- Six documents for associate comment:
  - Exposure draft of section PS 3150, *Tangible Capital Assets*;
  - Draft guideline, tangible *Capital Assets Of Local Governments*;
  - Statement of principles on the applicability of PS 1000, *Financial Statement Concepts*, to local governments;
  - Statement of principles on the applicability of PS 1200, *Financial Statement Presentation*, to local governments;
  - Exposure draft no. 2 of section PS 3410, *Government Transfers*, and section PS 3100, *Restricted Assets And Revenues*, and.
  - Draft statement of recommended practice, *Framework For Public Performance Reporting*.
- Three documents for public comment:
  - Exposure draft, *Segment Disclosures*.
  - Exposure draft, *Amendments To Ps 1150*, and
  - Financial instruments - draft guideline, *Including Results Of Organizations And Partnerships Applying Fair Value Measurement*.
- One new public-sector guideline:
  - Public-sector guideline PSG-5, *Sale Leaseback Transactions-Expense Based*.

The Public Sector Accounting Board (PSAB) has the [authority](#) to set accounting standards for the public sector. The responsibilities of PSAB are set out in its [Terms of Reference](#).

In addition, the Board has circulated for comment two Statements of Principle entitled:

- *Establishing a Conceptual Framework for Local Governments*, and
- *Establishing a Financial Statement Reporting Model for Local Governments*

### Implications for Local Government:

By far the most important of these for local governments is work being done on section 3150 of the PSA Handbook dealing with accounting for fixed tangible assets. If changes are made to section 3150, municipalities will be required to:

- Prepare an inventory of all capital assets
- Determine their depreciated value, which will require information on original costs and age of the asset

All of this will require a great deal of time and resources. Many municipalities will be seeking consulting resources at the same time. This level of demand could result in hire consulting fees, resources can even be obtained. Reporting depreciation on your statement of financial operations will also raise issues with regard to the current statutory requirements to have a balanced budget.

### **MFOA Response to Changes in Section 3150:**

On January 12, 2006, Mr. Ken Nix, Chair of MFOA, wrote to the Board to convey a number of concerns about the implementation of section 3150 dealing with fixed tangible assets. Our letter expressed concerns that reporting on tangible capital assets will:

- Be expensive
- Have limited value in making financial decisions
- Not assist in quantifying the infrastructure gap
- Precede the adoption of the Conceptual Framework and Reporting Model
- Create problems for balanced budget legislation, and
- Allow too little time for implementation if the January 1, 2008 implementation date is selected.

[Click here to view the full letter.](#)

### **What We Are Doing:**

#### *Joint MFOA-AMCTO Committee*

MFOA and the AMCTO have developed a joint committee to address the full range of PSAB issues. This committee has already [provided commentary](#) to the PSAB on fixed tangible capital assets, as well as [governmental transfers](#).

The committee is currently examining the two Statements of Principle referred to above and will provide comment to PSAB later this month.

In addition, the committee will be providing important input to the province as it considers changes to the *Municipal Act* required by PSAB changes. The committee will also assist the province with regard to changes in the Financial Information Return that may be required. A work plan is being prepared, in consultation with the province, on these two activities.

#### *Provincial-Municipal Committee on Asset Management*

A joint provincial-municipal committee is being struck to help coordinate and share information with regard to municipal asset management, financial accounting, reporting and regulatory initiatives currently underway. As you are aware, a number of overlapping initiatives are already underway or will be coming forward in the near future. These include, but are not limited to:

- Reporting of fixed tangible capital assets under PSAB
- asset-management provisions contained in the [Sustainable Water And Sewage System Act, 2001](#)
- Initiatives arising from the report of the Water Strategy Expert Panel, and.
- Potential initiatives from the Ministry of public infrastructure renewal, with regard to asset-management (see [ReNew Ontario, 2005-2010: Strategic Highlights](#))

MFOA welcomes the opportunity to participate on this joint committee that brings together the various parties, who will be undertaking work on issues related to financial reporting and Asset-management.

### *Education and Training*

If the Public Sector Accounting Board requires municipalities to report on tangible fixed assets, we would anticipate being actively involved in providing education and training on PSAB initiatives. We hope to establish partnerships with a number of organizations active in this area, including:

- The Canadian Institute of Chartered Accountants
- The OMBI Treasurers Group and treasurers in municipalities that are currently pilot projects for OMBI's fixed asset reporting initiative
- the provincial controller's office, which has already adopted fixed asset accounting
- members of the audit profession

At the moment, we do not have any training initiatives planned. However, we do expect to begin discussions with the above groups to explore opportunities to partner to bring our members the information they will need if we are required to report on fixed assets.

### **What You Can Do:**

- Subscribe to the free PSAB Bulletin to stay informed (click [here](#) to subscribe). It is usually issued 3 or 4 times each year;
- Check the [MFOA website](#) for updates under Policy/PSAB;
- Make your Council aware of what is coming. Most municipalities will need added resources to comply with PSAB requirements, either in the form of new full time staff or in consulting resources. Either way, you might wish to start planning now for costs to be incurred for training, education, and staffing both initially and on-going;
- Keep your eyes open for training and education opportunities, and
- Contact us with any concerns or issues you might want us to raise on behalf of the sector.

# **MFOA**

MUNICIPAL FINANCE  
OFFICERS' ASSOCIATION  
OF ONTARIO

January 12, 2006

Mr. Tim Beauchamp  
Senior Manager  
The Canadian Institute of Chartered Accountants  
277 Wellington Street West  
Toronto ON M5V 3H2

Dear Mr. Beauchamp:

**Re: PSAB Taskforce Tangible Capital Assets, Section PS 3150 and new Guideline**

Although the deadline for providing comments on the Associates Exposure Draft has now come and gone, the Board of Directors of the Municipal Finance Officers' Association has reviewed the issues raised in the Exposure Draft and has entrusted me with communicating our concerns, principally: the cost to implement, the value for decision-making purposes, the unrealistic expectation that financial accounting will somehow quantify the infrastructure gap, the statutory requirements for balanced budgets, and the expectation that any implementation timeline will be prolonged to allow for standardization, regulation and education to get in front of the process.

**Cost To Implement**

Recognizing capital assets will be a costly initiative for municipalities, and the requisite costs will be in direct competition with other initiatives which clearly add value to municipal taxpayers. Given that the Ontario Municipal Benchmarking Initiative is only now beginning its pilots to review the issues involved in setting up capital assets, it is evident that there are not proper supports in place at this time to ensure that monies spent recording these assets will not have to be re-doubled in the near future as the original set up is deconstructed and reconstructed.

**Value For Decision-Making Purposes**

We are not aware of any municipality which has adjusted its budget and decision-making process to account for recent public sector accounting standards, nor for those limited capital assets that certain municipalities record. If the intention of recording these capital assets is to influence decision-making, financial accounting may not be the best means to do so, but will certainly not be of value unless there is a clear connection between audited financial statements and budgetary and other management tools.

*"your municipal finance authority"*

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### **Quantifying The Infrastructure Gap**

It has been posited that setting up capital assets will document and provide the means to address the infrastructure gap. We cannot fathom how recognition of capital assets at historical cost and amortization over the life of the assets will provide this data. A better reflection of the infrastructure gap would be provided by management reporting regarding the condition of the network assets and a needs assessment. Such a document, while informative, would likely be unaudited.

### **Conceptual Framework and Reporting Model**

The Statements of Principle regarding the conceptual framework and reporting models provide the beginning of the groundwork required to enable municipal professionals to comprehend and adopt capital asset accounting. These fundamental building blocks however, must be in place before this is adopted, not after, and not concurrently with capital assets. We will be reporting separately on these matters at a later time.

### **Statutory Requirements**

Given that there is an Ontario Municipal Act requirement that any surplus or deficit be applied to the subsequent year's tax levy, is there an expectation that this will be amended to account for the distortions that this reporting (especially regarding capital grants received) will produce?

### **Implementation Timeframe**

It is critical that a major change such as this be accompanied by supports that enable all local governments to adapt to a radically new system of budgeting, performance measurement and reporting. Without such supports, "meaningless" values will be reported on audited financial statements, while unaudited values comparing actuals to amounts budgeted (the same way as we've always budgeted) will be the "true" measurement of results. In addition, without sufficient standardization of processes and policies, it is possible that some municipalities may need to go through the expensive set up process more than once.

We trust that these issues will be addressed by the task force and are available should a broader, municipal consultation be planned.

Sincerely,



K. R. (Ken) Nix, CMA  
Chair MFOA