

NEWSLETTER NO. 3

PSAB 3150—Accounting For Tangible Capital Assets The New Frontier Of Accountability

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It is rare to find a situation where accountants, managers and engineers agree on the “RIGHT THING TO DO” and be able to work together to make it happen. PSAB 3150—Accounting for Tangible Assets can be seen as the New Frontier of Accountability. Why?

Well, one of the dictionary definitions of “frontier” is as follows:

“Edge of Settlement... the part of a country with expanding settlement that is being opened up by hunters, herders, and other pioneers in advance of full urban settlement”

PSAB 3150 is the new frontier of accountability where an expanding settlement (*municipalities*) is being opened up by hunters (*accountants*), herders (*managers*) and pioneers (*engineers*) to advance our municipal settlements by improving the management of our assets. Although many may not see themselves in these categories, it seems to fit.

Managers develop programs and goals to provide services for citizens that utilize assets on a day-to-day basis and *steer* their staff towards these common goals. Managers prepare operating and capital budgets annually with a view to improve these services. Yet, few municipal managers make recommendations to the public and councils based upon full cost of these programs. That is, the use of assets in the delivery of services.

Accountants are *hunting* for relevant, reliable and timely financial information and data to assist Council and managers make decisions. Historical financial data related to assets is likely the most important financial information for accountants ... and yet, municipalities have not undertaken this very important task. Assets soon become liabilities without understanding of their cost in providing services. Further, citizens cannot appreciate the full cost of providing existing or new services without this information.

Engineers are the *pioneers* and are always searching for new, innovative ways of delivering services to our citizens. This does and must include advising managers on the condition of existing assets, the renewal of those assets with innovative techniques and technologies and recommending acquisition of new assets for improved delivery of services.

So although PSAB Section 3150 is an accounting requirement for municipalities, it is really about *accountability*, which is shared among accountants, managers, engineers and municipal councils. There is no doubt that municipalities own and utilize a significant number of assets with large values in delivering services to citizens and yet, their true cost has not been reflected in the financial statements. Further, the concentration of municipalities on minimizing taxes or

focusing on “visible” operational services has meant that little attention is paid to aging assets and their renewal. This is because the value of those assets have not been appropriately and fully disclosed to councils and the public.

There is no doubt that all municipalities undertake some asset management in the form of the annual capital plan. What is missing is the comprehensive look at all assets, the cost of these assets in providing services and the replacement and/or renewal of all these assets. This is called the *infrastructure deficit*, which has been estimated anywhere from \$60-125 billion and growing rapidly. A further complication is the fact that municipalities now deliver more services than ever before and own a greater proportion of the infrastructure assets than the other two levels of government.

Therefore, the implementation of PSAB 3150 should be seen as the catalyst for the *NEW FRONTIER* and is a huge opportunity for accountants, managers and engineers to work together for a common goal ... managing our assets to deliver better services to our citizens in the short and long term and move towards a plan to address the growing infrastructure deficit.

This is the likely where the key communication efforts that need to be undertaken now, by all municipalities with their councils and citizens. Accounting for assets and managing those assets is nothing new. It has always been done in the private sector and decisions regarding pricing of goods and investments rely on this information. More recently, tangible asset accounting has also been implemented in the federal and provincial governments.

Municipalities in the United States implemented tangible asset accounting almost five years ago.

One thing is clear from the experience in the other levels of government and in the private sector: if the implementation of PSAB 3150 is simply viewed as an accounting exercise, a huge opportunity will be lost to improve transparency, openness and accountability of municipal operations. This is the opportunity to do the right thing and address the accounting requirements with a plan to manage municipal assets over the long term.

ASSET ACCOUNTING VERSUS ASSET MANAGEMENT

PSAB Section 3150 tries to address the outdated accounting approach currently utilized by municipalities and requires that all tangible capital assets be accounted for and amortized on the books of accounts effective January 1, 2009. This is consistent with the move from the current modified accrual basis of accounting toward full accrual accounting for municipalities. Not only will this allow for the full reflection of the costs of using these assets, it will serve to provide for a move toward comparability with other entities. Other PSAB changes include revamping the financial statements to reflect the changes in section PS 3150 and other accrual-based accounting changes.

Although some may argue that the historical basis of tangible asset accounting does not provide meaningful information to users, it is intended to reflect the past transactions that are verifiable and reliable. The depreciation of these assets as an expense reflects the cost to utilize these

assets in the provision of services. So although there is some basis for the argument that the historical information does not provide full information on the cost to replace these assets, it does raise the awareness of the existence of these assets and their cost. One can argue that “it is better than not having any information” and that it is a start to move in the right direction.

So if municipalities simply meet the requirements of PSAB 3150, they will miss the great opportunity to move this undertaking to move towards asset management. Why not do both when it is well known that both are needed to be accountable to the public and provide full information for decision-making?

So here lies the case for Asset Management, which is much more about the future and long-term planning whereby replacement cost, life cycle and condition of assets is much more important than historical cost. Asset management involves much more detailed analysis of assets relying heavily on the expertise and advice of professionals such as engineers (the pioneers). Asset management needs to provide much more detailed information for managers in order to be useful for planning service delivery options.

The question is, “Can you do both at the same time and meet the requirements of PSAB 3150 by January 1, 2009”? The answer is “YES” but you need to start now and you need to properly plan the process and involve all stakeholders as soon as possible. This includes your departments, council, information technology and finance. Consider forming a steering committee and developing a project charter including these stakeholders. This help gain corporate buy-in and cooperation and guide you through the implementation. Partnering with other municipalities and sharing best practices will allow you to learn and assist others. Early and ongoing discussions with your auditors about your approach to implementation, policy decisions and expectations are also critical to success.

At the County of Lanark, we are fortunate in that we started asset management three years ago, prior to PSAB changes being announced. We did this basically because it was the right thing to do. Over the past year, with the knowledge that the PSAB changes were on the horizon, we took an integrated asset accounting/asset management approach. This has not been without its challenges, and we have learned much from this experience. The biggest lesson: Plan the project and start now. Once you have the resources and plan in place, take a small group of assets to start with and learn from that pilot ... and communicate what you have learned and any changes you need to make. As well, to make the project manageable and focused, we separated the project into historical assets and newly acquired assets so we wouldn't get farther behind.

In some ways, being a relatively small municipality is in our favour in that we have much more centralized approach to information technology. Some larger municipalities have the challenge of integrating many asset management systems into large legacy systems.

So the bottomline is, start now, communicate and develop a comprehensive plan involving all stakeholders. PSABs new requirements may not satisfy the needs of all the stakeholders but what a great way to start on the path to the *NEW FRONTIER*.

For more information and resources regarding tangible asset management, go to [PSAB/Asset Management](#), or contact:

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