

# **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.

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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