

Speaking Notes for Nola Buhr

Thank you for the invitation to appear before the Standing Committee on Public Accounts.

It is very important to the Public Sector Accounting Board or PSAC as we refer to it, that we are able to share views with and listen to the issues of our stakeholders.

I would like to provide you with some background information first on who we are, how we are structured and how we operate before offering comment on the issue at hand

PSAB is an independent standard setter operating in the public's interest. It is independent from preparers, auditors and other stakeholders. This is important to ensure that no one stakeholder group influences or biases the standards.

Sometimes it is difficult finding a solution that is acceptable to all stakeholders. And sometimes individual stakeholders take us to task.

PSAB comprises members from all across Canada, has representation from all level of government, preparers, auditors and ministers of finance, academe, accounting practitioners and users of government financial statements. There are 12 members of the Board serving on a volunteer basis.

PSAC also uses a task force for developing standards and we have currently over 35 volunteers chosen for their particular expertise. For example we have had engineers and actuaries help us with standards.

We report to a Board called the Accounting Standards Oversight Council or AcSOC who ensure we keep the public's interest in mind.

AcSOC comprises about 25 individuals with various interests. For example, AcSOC includes members from government, business, not-for-profit organizations, accounting practitioners, legislative auditors, regulators from securities commissions etc.

We follow an extensive due process which includes publishing for public comment our proposed principles and guidance seeking views. We go through this process at least twice to ensure that we have heard of all the issues and from all of stakeholders. It generally takes about 18 – 24 months to complete a project.

PSAB is not like the Accounting Standards Board of Canada. Governments are not required by law to follow our standards. Building consensus views is a major part of our process. However, while we seek views and opinions, it is ultimately the Board's decision whether to issue a final standard.

This approach has served us well in the past as evidenced from the level of acceptance we have among all levels of government.

I would like to point out for your information that Canada is one of the world leaders when it comes to accounting and financial reporting. The international standards setters have always held Canada in high regard.

That progress is a result of the, I believe, of the quality of our standards and the desire of governments to improve the financial information that is made available for decision making and for demonstrating accountability.

That is not to say we have come to the end of a road, only that the progress being made is noteworthy.

The role of accounting and financial reporting is an important consideration. As I noted earlier, our focus is the public's interest. The public comprises many different stakeholders such as the taxpayer, but can also include investors, creditors and even employees. These are the people that provide the resources to governments and they have a vested interest in the government's performance. To that end, a government's financial statements are intended to be general purpose financial statements that serve to the extent possible the needs of a variety of different users.

But they cannot be expected to fulfill all of the users' needs. Some of those needs can only be served by special purpose reports. For example, performance reports, compliance reports and budgets.

Financial statements are principal means of communicating summary financial information. The complex nature of government, its myriad of objectives and its public accountability cannot be met solely by financial statements. Other information and reporting is needed beyond financial statements.

One thing PSAB strives for is comparability. Comparability from the perspective of, given the same fact set, the standards should result in the same accounting. Comparability also includes reporting transactions and events that are different.

The very same capital asset, for example, can be accounted for differently depending on its use. For example truck driving around Ottawa may have a different useful life than one being driven over the tundra.

This is true for contractual arrangements as well. The individual terms and conditions set out in contracts can play an important role in determining how it is accounted for. Consider an operating versus a capital lease.

Our goal is to ensure that when a government has an asset, it gets reported. Likewise, when it has a liability it gets reported and so on. To that end we have very stringent definitions of what assets and liabilities are.

So it becomes paramount for PSAB to ensure that we understand whether the transactions we are addressing meet these tests. If we include something as a liability, for example, that really is not, then we have affected the reported financial position of the government.

Accounting for government transfers is one our most controversial issues. I am sure you appreciate that PSAC has been very busy over the last four or five years seeking views and opinions and trying to reach a level of consensus on the issue.

This relates solely to how to account for these items. Are they assets from the givers point of view, are they liabilities from the recipients of point.

In making that determination, one needs to review and analyze the terms and conditions of these contracts. For example, an unconditional grant is likely to be an expense of the giver and revenue of the provider.

It gets more complicated when dealing with eligibility criteria and stipulations. We think of eligibility criteria as something the potential recipient must do before getting the money. Think of share cost agreement, for example. The recipient must incur an eligible expense to qualify.

Stipulations on the other hand, are those things the recipient must do after they have resources. For example, the federal government flows funding to a province with the understanding that the money must be used for health care.

The question becomes, when does a stipulation result in a liability and when does it not? Let me give you an example. A general stipulation that requires to funds to be spent on health care is non-specific. It could be used for salaries, equipment and so on and still meet the stipulation. It is very difficult to determine whether the recipient complied with the original intentions.

On the other hand, if the agreements calls for the acquisition of a new MRI unit, that is more specific and the recipient may have a liability until the MRI is acquired and it can be easily determined whether it has been acquired or not.

What I am trying to demonstrate is that the terms and stipulations contained in an individual contract can ultimately decide how to assess compliance with the intent of the giver of the funding.

This is the fundamental issue that PSAB is wrestling with. Which terms and stipulations would give rise to a liability of the recipient and which give rise to revenue of the recipient. In other words, which key differences between a conditional and unconditional transfer give rise to a liability. The line between them can become blurry.

Clearly a transfer without stipulations is revenue as the recipient can choose to do whatever they want with the funding – it is a gift. However, if the stipulations are specific, until the recipient meets those terms, it may have a liability until it fulfills those stipulations.

Not an easy question to answer. But we want to get it right.

On a final point, accounting is focused on measuring on financial position and annual results. While financial statements can demonstrate accountability in a number of ways, they cannot demonstrate whether there was value for the money received, whether the recipient used the resources effectively and efficiently, or whether they complied with the specific contractual arrangements. These are issues may be better addressed in other reports or through other mechanisms.

That concludes my opening remarks. Both Tim and I are happy to take any questions that you might have.