

In Brief

A plain and simple overview of how the proposals for a revised conceptual framework and reporting model consider the needs of Indigenous governments.

The proposals consider the needs of all public sector entities, including those of Indigenous governments, and the users of their financial statements.

Objective:

In the last few years, the list of entities applying public sector accounting standards (PSAS) has grown significantly. In the past, those applying PSAS included senior and local governments. Since at least 2009 PSAS have been applied by most Indigenous governments.

To ensure that the proposals put forward as part of the [Concepts Underlying Financial Performance project](#) are inclusive of the needs of this community of stakeholders, PSAB wants to consult with Indigenous governments and the users of their financial statements. Their users are the community members that Indigenous governments serve and that hold them accountable.

The project stage:

PSAB approved for public comment the following:

- a Statement of Concepts, "[A Revised Conceptual Framework for the Canadian Public Sector](#)"; and
- a Statement of Principles, "[A Revised Reporting Model for the Canadian Public Sector](#)".

Next steps:

The feedback PSAB receives on the Statement of Concepts and Statement of Principles will guide it in developing an exposure draft for a revised conceptual framework and financial statement presentation standard.

Comment deadline:

The Statement of Concepts and Statement of Principles are open for public comment until November 28, 2018.

How to respond:

Submit your comments electronically via an online response form for the [Statement of Concepts](#) and [Statement of Principles](#) or via Word document to info@psabcanada.ca. All comments will be posted publicly on www.frascanada.ca unless confidentiality is specifically requested.

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What we heard and how PSAB has responded

PSAB has heard the following feedback from Indigenous governments and the users of their financial statements:

- The users of the financial statements of Indigenous governments include:
 - community members;
 - other governments;
 - First Nations institutions; and
 - capital providers.
- There is no specific reference to Indigenous governments in the CPA Canada Public Sector Accounting (PSA) Handbook.
- The existing conceptual framework prohibits Indigenous governments from recognizing the purchase of valuable intangible assets on the statement of financial position.

PSAB responded to this feedback by:

- making specific reference to the users of Indigenous governments, specifically the members of the Indigenous community, in the proposed conceptual framework;
- making specific reference to Indigenous governments in the proposed conceptual framework;
- removing the prohibition of recognizing intangibles from the proposed conceptual framework and allowing such decisions to be dealt with at the standards level; and
- including an illustrative financial statement package for an Indigenous government in the proposals for a revised reporting model.

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Considering the users of Indigenous governments

The members of an Indigenous community are recognized as the primary users of the financial statements of an Indigenous government.

The proposed conceptual framework recognizes the public and its elected or appointed representatives as the primary users of financial statements.

PSAB recognizes that Indigenous community members are “the public” of an Indigenous government. This acknowledgement is included in the Statement of Concepts for a revised conceptual framework – to recognize the accountability relationship Indigenous governments have with their members.

We learned that Indigenous governments also have an accountability relationship with other governments and capital providers. PSAB is of the view that complete, transparent information provided for accountability purposes will contribute to, and inform, decision making by the primary and other users (such as other governments and capital providers). This thought is expressed in the Statement of Concepts for a revised conceptual framework.

The intent of these statements in the proposals is to respect the fact that Indigenous governments have members and other users for which financial reports are prepared.

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Inclusion of Indigenous governments

Specific reference to all types of governments, including Indigenous governments, is proposed in the revised conceptual framework and reporting model.

Although the PSA Handbook is intended to apply to all levels of government, there is no explicit reference to Indigenous governments.

The original intent was that governing bodies of Indigenous communities that self-identify as governments could use the PSA Handbook.

However, this intent was not clear. As a result, PSAB has done the following:

- Specific reference is made to Indigenous governments in the proposed conceptual framework.
- In its Statement of Principles, which serves as the basis for the development of a revised financial statement presentation standard, PSAB included an illustrative financial statement package that is specific to Indigenous governments.

The above proposals are designed to acknowledge and be inclusive of governments (and other public sector entities) of all kinds who apply the financial reporting standards in the PSA Handbook.

PSAB is also proposing to revise the definition of government to ensure it is inclusive of Indigenous governments.

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Removing the recognition prohibition of intangibles from the proposed conceptual framework

This proposal paves the way for the possibility of the future recognition of intangibles as assets on the statement of financial position.

Many Indigenous governments purchase intangibles, such as forest and/or fishing permits and licences as part of their long-term economic development strategy.

The existing conceptual framework in the PSA Handbook prohibits the recognition of intangibles as assets.

The value of these permits or licences can be significant and material – both culturally and economically – to financial statement users. Many Indigenous governments have argued that recognizing these purchases of intangibles as expenses in the statement of operations – rather than as assets in the statement of financial position – is misleading and reduces the accountability value of the financial statements.

PSAB concluded that the recognition prohibition of intangible assets is not conceptually based. As a result, the Board is proposing that such recognition prohibitions be removed from the conceptual framework. Recognition prohibitions are hard to change if they are part of the conceptual framework. By definition, the framework is intended to be long term.

In advance of looking at the accounting for intangibles in its technical agenda, PSAB is proposing to relocate the prohibition of recognizing intangibles, and other recognition prohibitions from the conceptual framework to the standards, where they will be easier to remove when PSAB is able to address the topics. This is a key first step. Until an intangible asset standard is developed, the recognition of intangibles would continue to be prohibited.

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What would the proposed reporting model look like for an Indigenous Government?

Statement of Financial Position

As at March 31 (\$ thousands)

	Actual 20X3	Actual 20X2
ASSETS		
Financial assets		
Cash and cash equivalents	7,650	8,275
Accounts receivable	1,396	1,419
Advances to related Indigenous entities	95	144
Portfolio investments	12	4
Investment in government business enterprises	2,115	2,264
	<u>11,268</u>	<u>12,106</u>
Non-financial assets		
Tangible capital assets	41,258	40,581
Prepaid expenses	17	16
	<u>41,275</u>	<u>40,597</u>
TOTAL ASSETS	<u>52,543</u>	<u>52,703</u>
LIABILITIES		
Accounts payable and accrued liabilities	1,158	896
Debt	21,028	20,399
Unearned Revenue	2,044	5,841
	<u>24,230</u>	<u>27,136</u>
Net assets (net liabilities)	<u>28,313</u>	<u>25,567</u>
Net assets (net liabilities) consist of:		
Accumulated surplus	28,302	25,562
Accumulated remeasurement gains and losses	11	5
Accumulated other	-	-
	<u>28,313</u>	<u>25,567</u>

PSAB is proposing to restructure the statement of financial position as follows:

- The net debt or net financial assets indicator has been moved to its own statement.
- All assets appear first, followed by liabilities, to get to the net assets or net liabilities position.

The result: a look that is familiar to many stakeholders and hopefully better understood by all stakeholders.

PSAB retained the classification of assets as financial and non-financial. The Board believes that, since all public sector entities hold significant non-financial assets, this classification is important.

If an Indigenous government wants to present assets and liabilities as current and non-current, PSAB advises to present this in the notes or a schedule to the financial statements.

The Board feels that attempting to show this breakdown – in addition to the financial and non-financial asset presentation on the statement – would make the statement visually complex.

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Statement of Surplus or Deficit

For the year ended March 31 (\$ thousands)

	Budget 20X3	Actual 20X3	Actual 20X2
Revenues			
Government transfers	5,608	11,245	7,109
Property taxes	2,564	2,845	2,953
Net income from government business enterprises	–	1,280	159
Net investment income	80	73	84
Rentals and leases	835	1,422	1,482
Gaming revenue distribution	225	211	226
Gain on disposal of tangible capital assets	–	69	8
Miscellaneous revenue	416	605	622
	<u>9,728</u>	<u>17,750</u>	<u>12,643</u>
Expenses (by function)			
Administration	658	705	732
Economic development and lands	599	602	682
Public works	1,270	5,789	2,610
Housing	558	1,839	1,675
General government	2,359	2,478	2,472
Health	1,303	1,223	1,301
Education	1,354	1,695	1,621
Social development	421	477	386
Community	103	202	243
	<u>8,625</u>	<u>15,010</u>	<u>11,722</u>
Surplus	<u>1,103</u>	<u>2,740</u>	<u>921</u>

The proposed statement of surplus or deficit is equivalent to the existing statement of operations.

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Statement of Changes in Net Assets (Net Liabilities)

For the year ended March 31 (\$ thousands)

	Actual 20X3	Actual 20X2
Accumulated surplus		
Surplus for the period	2,740	921
Opening balance	25,562	24,641
Closing balance	28,302	25,562
Accumulated remeasurement gains and losses		
Unrealized gains (losses) attributable to:		
Portfolio investments	5	3
Financial instruments designated to the fair value category	–	–
Amounts reclassified to surplus		
Net realized losses on portfolio Investments	1	2
Other comprehensive income of government business enterprises/partnership	–	–
Net change in accumulated remeasurement gains and losses	6	5
Opening balance	5	–
Closing balance	11	5
Accumulated other		
Other revenue and expense recognized directly in net assets	–	–
Other revenue and expense reclassified to surplus	–	–
Net change in accumulated other	–	–
Opening balance	–	–
Closing balance	–	–
Total net assets (net liabilities)	28,313	25,567

The proposed statement of changes in net assets or net liabilities is a new statement. It shows the reconciliation between the opening and closing balance of each component of net assets or net liabilities.

The reconciliation of the accumulated surplus or deficit component can be done on the statement of surplus or deficit if an Indigenous government does not recognize any transactions in:

- the accumulated remeasurement gains and losses component; or
- the accumulated other component.

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Statement of Cash Flow

For the year ended March 31 (\$ thousands)

	Actual 20X3	Actual 20X2
Cash and cash equivalents at beginning of period	8,275	8,338
Operating transactions		
Surplus	2,740	921
Non-cash revenue and expense items included in surplus (Note X)	2,299	2,111
Items included in surplus that relate to capital, investing or financing activities (Note Y)	<u>(3,655)</u>	<u>(1,133)</u>
Cash provided by operating transactions	<u>1,384</u>	<u>1,899</u>
Capital transactions		
Capital transfers received	190	150
Proceeds on sale of tangible capital assets	69	462
Cash used to acquire tangible capital assets	<u>(3,039)</u>	<u>(2,516)</u>
Cash applied to capital transactions	<u>(2,780)</u>	<u>(1,904)</u>
Investing transactions		
Portfolio investments purchased	(4)	0
Other	<u>146</u>	<u>0</u>
Cash provided by investing transactions	<u>142</u>	<u>0</u>
Net cash applied to operating, capital and investing activities	<u>(1,254)</u>	<u>(5)</u>
Net cash before financing transactions	<u>7,021</u>	<u>8,333</u>
Financing transactions		
Advances of debt	2,273	2,304
Debt repayment	<u>(1,644)</u>	<u>(2,362)</u>
Cash provided by (applied to) financing transactions	<u>629</u>	<u>(58)</u>
Cash and cash equivalents at end of period	<u><u>7,650</u></u>	<u><u>8,275</u></u>

The main amendment proposed to the statement of cash flow is to isolate financing transactions.

The intent of this proposal is to show whether all of the other activities combined resulted in the need for cash to be raised through financing activities or not – an indication of the Indigenous government's sustainability.

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Statement of Net Debt

As at March 31 (\$ thousands)

	Actual 20X3	Actual 20X2	
Financial assets	11,268	12,106	The proposed statement of net debt or net financial assets is a new statement. It presents the revised calculation of net debt or net financial assets.
Less financial assets that are externally restricted and/or not available to settle liabilities	<u>—</u> 11,268	<u>—</u> 12,106	The intent of the proposal is to make the net debt or net financial asset indicator more meaningful for all users.
Liabilities	24,230	27,136	It is proposed that the existing statement of changes in net debt be eliminated from the financial statement package.
Less liabilities that will not be settled through the use of financial assets	<u>—</u> 24,230	<u>—</u> 27,136	
Net debt	<u><u>(12,962)</u></u>	<u><u>(15,030)</u></u>	

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Next steps – we want your feedback!

Consideration of financial reporting issues facing Indigenous governments are important to the development of the conceptual framework and reporting model.

We need your feedback to ensure our proposals are inclusive of the needs of Indigenous governments and their users.

During the comment period, PSAB staff are available to discuss the proposals with you.

Comment on the proposals

The deadline for comments is November 28, 2018.

Submit your comments electronically via an online response form for the [Statement of Concepts](#) and [Statement of Principles](#) or via Word document to info@psabcanada.ca. All comments will be posted publicly on www.frascanada.ca unless confidentiality is specifically requested.

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Go to www.frascanada.ca/psabbigprojects2018 for other supporting materials, including additional In Brief documents, podcasts and summary comparisons.

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