

November 28, 2018

Michael Puskaric, MBA, CPA, CMA  
Director, Public Sector Accounting  
Public Sector Accounting Board  
277 Wellington Street West  
Toronto, ON M5V 3H2

**Re: Statement of Principles – A Revised Reporting Model for the Canadian Public Sector**

Dear Sir,

Thank you for the opportunity to comment on the above noted document. MNP LLP is one of Canada's largest chartered professional accountancy and business advisory firms, with a significant focus on clients in the public sector. We believe that we are positioned well to provide feedback on this important issue.

We have reviewed the Statement of Principles and have provided our response to the specific questions noted below.

**Question 1: PSAB believes that the proposed reporting model will give it the ability to deal with current or future issues, considers all public sector entities, responds to the feedback received, and captures different aspects of financial performance and financial position, with the underlying theme that financial information presented in financial statements should be understandable.**

**(a) Do you support the proposed reporting model?**

Overall, we support the proposed reporting model and believe these changes improve the understandability of a public sector entity's financial statements. We have provided some recommendations in our responses to the following questions which we believe will further improve the proposed reporting model.

**(b) Does the proposed reporting model improve the information captured in financial statements?**

Yes, the proposed reporting model improves the information captured in financial statements.

**(c) Does the reporting model best reflect the way forward for public sector financial statements?**

Although the proposed reporting model is an improvement over the current reporting model, we have made recommendations in our responses to the following questions which we believe will further improve the proposed reporting model.

**Question 2: Do you agree with the retention of the presentation of financial and non-financial assets?**

We agree with the retention of the presentation of financial and non-financial assets. We believe that financial statement users in the public sector are more concerned with the nature of assets as financial versus non-financial, as opposed to other classifications such as current versus long-term assets. Further, the disclosure requirements under the public sector accounting standards provide information to financial statement users regarding the current versus long-term portion of balances. For example, LONG-TERM DEBT, Section PS 3230 requires the disclosure of the aggregate amount of payments estimated to be required in each of the next five years and thereafter. These requirements permit financial statement users to assess a public sector entity's short-term versus long-term service capacity.

**Question 3: Do you agree with the removal of the net debt indicator from the statement of financial position and presenting it in its own statement, the statement of net debt?**

We agree with the removal of the net debt indicator from the statement of financial position and presenting it in its own statement, the statement of net debt. We believe the majority of financial statement users better understand a net assets or net liabilities presentation on the statement of financial position. However, as the net debt indicator is useful for some financial statement users we agree with its retention on a separate statement.

**Question 4: Do you agree with the revised structure of the statement of financial position (i.e., to show financial assets, followed by non-financial assets, followed by liabilities, to arrive at a net financial position indicator called "net assets" or "net liabilities")?**

We agree with the revised structure of the statement of financial position. We believe the majority of financial statement users better understand a net assets or net liabilities presentation on the statement of financial position. We agree that public sector financial statement users are concerned with the distinction between financial and non-financial assets and are not as concerned with the classification between current versus long-term assets and liabilities. As discussed further in our response to Question #2, current versus long-term information is available within the financial statement note disclosures.

**Question 5: Do you agree with adding a new component of net assets or net liabilities, "accumulated other"?**

We agree with adding a new component of net assets or net liabilities, "accumulated other"; however, we have some concern that, without including specific guidance on how it would be used, there is risk that this category could be misinterpreted, or even misused by entities not wanting to have their annual surplus or deficit impacted by certain transactions. As an example, at the March 3, 2016 PSA Discussion Group meeting, group members were divided on Issue 3 regarding the recognition of endowment contributions as either a liability, a revenue, or directly through accumulated surplus. We believe the Public Sector Accounting Handbook should explicitly restrict the use of the "accumulated other" category to those specific situations permitted by the public sector accounting standards and, as such, public sector entities would not be permitted to include items in "accumulated other" by analogy. Further, the public sector accounting standards will also need to include guidance on whether any of the items presented in the "accumulated other" category recycle into accumulated

surplus at any point. We believe this will maintain comparability by ensuring the consistency of the specific types of transactions or events which are excluded from the surplus or deficit of a period.

**Question 6: Do you agree with adding a new statement of changes in net assets or net liabilities?**

We agree with adding a new statement of changes in net assets or net liabilities. We also agree that, if no remeasurement gains or losses nor accumulated other transactions have occurred, the entity should be permitted to include the reconciliation on the statement of surplus or deficit.

**Question 7: Do you agree with the revised calculation of net debt (financial assets, other than those that are externally restricted and/or not available to settle liabilities; less liabilities, other than those that will not be settled through the use of financial assets) in order to retain the meaning of this indicator?**

We agree with the intention of the revised calculation of net debt to remove externally restricted assets. However, to ensure the net debt figure is not overstated, we believe that any liabilities that will be settled through use of externally restricted financial assets (which have been removed from the calculation) should also be removed from the calculation.

**Question 8: Do you agree with the removal of the statement of change in net debt?**

We agree with the removal of the statement of change in net debt. We believe there is minimal benefit derived from the statement of changes in net debt as the key components that represent the change in net financial assets or net debt are also presented on the statement of surplus or deficit and/or the statement of cash flow.

**Question 9: Do you agree with the proposal to add a requirement to disclose actual tangible capital expenditures compared with those budgeted to the disclosure requirements in TANGIBLE CAPITAL ASSETS, Section PS 3150?**

With the removal of the statement of change in net debt, we agree with the proposal to add a requirement to disclose actual tangible capital expenditures compared with those budgeted to the disclosure requirements in TANGIBLE CAPITAL ASSETS, Section PS 3150; if an entity is presenting its budget.

Please see our comments to Question #9 in our response letter to the *Statement of Concepts – A Revised Conceptual Framework for the Canadian Public Sector*, regarding the requirement to present budget information in public sector financial statements.

**Question 10: When the scope of the budget is not the same as the scope of the financial statements (i.e., not all controlled entities are included in the budget), do you agree that a note would be required on the face of the statement of surplus or deficit explaining why the actual-to-budget comparison could not be done?**

If a budget is presented that is not the same scope as the financial statements, we believe a reference to note disclosure should suffice. A note on the face of the statement of surplus or deficit explaining why the actual-to-budget comparison could not be done deviates from the normal presentation format of financial statements wherein the statements are a summary of numerical information and further long-form explanation is included, with appropriate reference, in the notes to the financial

statements. We believe a long-form explanatory paragraph on the face of the financial statements could overwhelm the statement and take away from the usefulness of the information being presented.

**Question 11: Do you agree with the situations in which an amended budget would be permitted?**

If a budget is presented, we agree that it is best practice to present the original budget. However, there could be a multitude of situations in which an amended budget is appropriate, other than just an election, such as additional/amended funding for a new or existing project/program which is outside the entity's control. In such instances, the funder would expect a budget to be prepared and presented that reflects the new/amended funding. It would be difficult to provide prescriptive guidance on the various situations in which an amended budget is/is not appropriate. Therefore, we believe the guidance should simply permit an amended budget to be presented. If an amended budget is to be presented, it should be the most recent amended budget and note disclosure should be presented with sufficient information about the amount(s) amended and the reasons therefore to maintain the objective of financial accountability. A budget represents a tool that those charged with governance utilize to make fiscal decisions. If those charged with governance have made an amendment to the budget and thus amended the parameters of their decision making, such an amended budget could be seen to best reflect the financial accountability of the actual results to the formal decision-making process.

**Question 12: Do you agree with the new principle that financial statements should disclose information about the risks and uncertainties that could affect the entity's financial position or changes in financial position?**

We agree with the new principle that financial statements should disclose information about the risks and uncertainties that could affect the entity's financial position or changes in financial position. We believe that where risks and uncertainties could have a material impact on the entity, this disclosure will be beneficial to financial statement users. We note that currently this disclosure is required at a standards level for many topics (e.g., contaminated sites, landfills, asset retirement obligations, contingent assets and liabilities, contractual rights and obligations, and financial instrument risks), therefore, we agree with formalizing an overarching principle at the reporting model level.

**Question 13: Do you agree with the principles that are proposed to be retained and/or amended in the revised financial statement presentation standard (see paragraph .119 in the section "Mapping the Principles in Section PS 1201")?**

We agree with the principles that are proposed to be retained and/or amended in the revised financial statement presentation standard.

**Question 14: Does the reporting model sufficiently reflect the characteristics of public sector entities?**

We believe that the reporting model sufficiently reflects the characteristics of public sector entities.

**Question 15: Are there additional matters requiring PSAB's consideration in finalizing a new public sector financial statement reporting model?**

We have reviewed the changes to the statement of cash flow and are concerned about the proposed change to present net cash before financing transactions. While we understand the intent is to show if an entity requires financing to cover its day-to-day operations, we feel that including cash used to acquire capital assets prior to financing could mislead some users. Raising funds through debentures and other debt financing for the purpose of acquiring capital assets is a normal process for public sector entities and can be considered a fiscally responsible decision. As the acquisition of capital assets also does not form part of the day-to-day operations, we do not believe this added subtotal line meets the intended purpose. Further, per PS 1201.124-125, when capital assets are acquired by assuming directly the related liabilities, the increase in assets and increase in liabilities is excluded from the statement of cash flows. All else being equal, the proposed net cash before financing transactions will present a substantially different picture depending on whether a public sector entity independently raises financing to acquire capital assets versus acquiring assets by way of direct vendor financing or capital lease obligation. Ultimately, we recommend retaining the existing presentation format for the statement of cash flows to maintain the best understandability. Each of the four components of cash flows (operating, investing, capital and financing) is an equally important measure to financial statement users, therefore, we believe the most useful presentation is to provide the cash flows from of each of the four components, with one final total of cash flows for the period.

We would be pleased to offer our assistance to the PSAB in further exploring issues raised in our response or in finding alternative solutions to meet financial statement users' needs.

MNP LLP is one of Canada's largest chartered professional accountancy and business advisory firms. Our clients include small to mid-size owner-managed business in agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, Indigenous communities and businesses, medical and legal professionals, not-for-profit organizations, municipalities and government entities. In addition, our client base includes a sizeable contingent of publicly traded companies.

Yours truly,

**MNP LLP**

*Jody MacKenzie*

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