# Public Sector Accounting Discussion Group

## Report on the Public Meeting

## January 15, 2015

*The Public Sector Accounting (PSA) Discussion Group is a discussion forum only. The Group's purpose is to support the Public Sector Accounting Board (PSAB) by enabling discussion in a public venue of issues arising from the application of the CPA Canada Public Sector Accounting Handbook (PSA Handbook). The Group comprises members with various backgrounds who participate as individuals in the discussion. Any views expressed in the public meeting do not necessarily represent the views of the organization to which a member belongs or the views of PSAB. The discussions of the Group do not constitute official pronouncements or authoritative guidance.*

*This document has been prepared by the staff of PSAB and is based on discussions during the Group's meeting.*

*Comments made in relation to the application of the PSA Handbook do not purport to be conclusions about acceptable or unacceptable application of the PSA Handbook. Only PSAB can make such a determination.*

### Items Presented and Discussed


Section PS 1201: Presentation of Budget Information

Section PS 3250: "Shared-Risk" Retirement Benefit Arrangements

The Value of Statements of Recommended Practice

Standard Setting in the Public Interest

# ITEMS PRESENTED AND DISCUSSED

## Section PS 1201: Presentation of Budget Information

The Introduction to Public Sector Accounting Standards indicates that PSAB issues standards and guidance with respect to matters of accounting in the public sector to serve the public interest. Questions have been raised related to the presentation of budget ("planned") information as required by *Financial Statement Presentation*, paragraphs PS 1201.130-.133, incorporating the requirement to serve the public interest.

### *Issue 1 – Interpreting the requirement "originally planned"*

At its January 2014 meeting, the Group discussed the term "originally planned" and instances when it would be appropriate to present a revised budget. At that time, some Group members indicated that it would be appropriate to use a revised budget after an election when a new budget is passed. At the January 2015 meeting, clarification was sought regarding the following specific scenarios:

*Scenario 1* – If a budget was presented and approved before an election and a "new" budget was presented and approved after the election is it appropriate to present the "new" budget on the financial statements?

*Scenario 2* – Would it be appropriate to present the amended budget for a controlled government entity when the controlling government changed as the result of an election and it requested a revised budget for the government entity?

*Scenario 3* – Would a municipal or school board election also permit use of a revised budget?

*Scenario 4* – If the controlling government changes the service responsibilities of the controlled government entity, would it be appropriate to present a revised budget on the financial statements?

*Scenario 5* – Would it make a difference if the budget process was completely restarted, as opposed to an amended budget that is essentially a revised forecast?

*Scenario 6* – Some municipalities prepare a "provisional" budget in January for interim levy purposes. It is reviewed and approved by Council but perhaps with not the same level of diligence as the full budget. They prepare the full budget in May for final property tax levy purposes. This one follows the full budget process and is also approved. Can they use the second approved budget as their original budget? The municipalities indicate that it was their intent and the one that they should be held accountable against.

#### *The Group's Discussion*

The presenter explained the desire for a follow-up discussion to understand the view that accountability to the public is enhanced when figures used for a comparison with budget are based on a post-election rather than a pre-election budget. A province may have two budgets when an election is held during the financial reporting year. A municipality, school board or other public sector entity may need to revise their original budget or prepare a second budget for a variety of reasons, including those outlined in the submission. The discussion focused on the best ways to ensure accountability is supported through the budget comparison.

*Scenario 1*

The discussion revealed a variety of circumstances are possible. Several Group members stressed that in a scenario as straightforward as the one presented, the post-election budget supports accountability as it is the plan of the current government who have the mandate to govern.

Other Group members suggested the pre-election budget responds to the requirement to present the original plan. Circumstances were cited that may affect the approach. The election may have been held late in the year. The functional ministries of individual ministers may have been redefined or combined.

When circumstances are out of the ordinary, Group members cited the need for enhanced disclosures. Depending on the circumstances, detailed explanations and a supporting reconciliation may be required. In other cases, a descriptive header on the budget column may be sufficient. There is a need to apply professional judgment to ensure the budget figures presented are both useful and support accountability through the lens of the public interest.

*Scenario 2*

The views of Group Members were mixed on whether amended budget figures should be presented by a controlled government entity when changes are made in a post-election period. Once again, the possibility of differing circumstances was cited. A new government may fundamentally reorganize the mandate and responsibilities of the entities it controls. More often, policy changes introduced by a new government are limited to changes in funding.

In the view of some Group members, amending budget figures due to requests of a government in a post-election period is consistent with the entity's accountability to the government. Other Group members stressed accountability in relation to the original plan, particularly when changes were limited to changes in the funding the government provides.

*Scenario 3*

One Group member expressed the view that a municipality adopting a new budget following a municipal election may restate its budget figures as municipalities are not controlled by another level of government. However, when a school board is controlled by a province, an election at the level of the school board would not affect the budget figures the school board presents.

*Scenario 4*

In this instance, there has been no election. Group members agreed budget figures presented are those originally planned. The controlled entity uses supporting disclosures to explain variances, including variances attributable to changes in service responsibilities.

*Scenario 5*

In this instance, as the budget process is completely restarted, accountability would be served by using the second (most recent) budget. In reaching this view, Group members noted they would only consider a budget process as completely restarted if new approvals are obtained at each stage of the budget process.

*Scenario 6*

The presenter explained this scenario summarizes the circumstances of budget preparation for municipalities in at least one province. As setting property taxes is a core objective, Group members expressed the view that accountability is enhanced when the budget comparison is based on the budget that sets the property tax rate.

## Issue 2 – How should paragraphs PS 1201.132-.133 be interpreted?

Paragraphs PS 1201.130-.131 require a comparison of results with the original plan.

Paragraph PS 1201.132 addresses situations when the scope of financial activity reported in the fiscal plan is not the same as that reported on in the financial statements. In such a case, the guidance states: "… it may be necessary to restrict the comparison of actual and budgeted results to the scope of financial activity reported in the budget or main estimates of expenditures. This comparison would be presented in a note or supporting schedule."

Paragraph PS 1201.133 addresses situations when a fiscal plan is not prepared on a basis consistent with that used to report the actual results. In such a case, the guidance states: "...planned results should be reported on the same basis as that used to report the results of the current period. In those circumstances, it would be necessary to provide a reconciliation of the restated information with that originally presented in the fiscal plan."

Some of these adjustments could be significant and the inclusion or exclusion would impact the users' ability to achieve the focused comparison of actual and budgeted financial results. Paragraph PS 1201.127 states: "Such comparisons serve as a starting point for understanding and assessing trends in government operations and future revenue requirements as well as for identifying variances that need to be explained."

Clarification was being sought in three scenarios:

*Scenario 1* – The amounts are amended to adopt different accounting policies. For example, this would be applicable if the entity recorded employee future benefits on a cash basis in their budget and restated as actual results apply Sections PS 3250 and PS 3255. Is it appropriate to conform the budget figures to amounts based on the application of Sections PS 3250 and PS 3255?

*Scenario 2* – The only budget approved by the entity issuing financial statements is prepared on an unconsolidated basis. To comply with Section PS 1300 the actual results are presented on a consolidated basis. Is it appropriate to add the amounts budgeted for the controlled entity?

*Scenario 3* – Certain new programs are not included in the original budget, but separate budgets were approved later during the year as each new program was approved. Is it appropriate to include the amounts budgeted for these new programs?

*The Group's Discussion*

Two Group members described their experience, gained at a provincial level, when there are differences in the scope of financial activity and reporting basis between budgets and financial statements. In each case, efforts were made to present budget figures that were consistent with the accounting principles the government applied and the activities being reported on. Working together with the entities their governments controlled, information was obtained to make adjustments necessary to enable meaningful budget to actual comparisons.

For some smaller entities, Group members acknowledged that this may not always be feasible. When the budget process and accounting principles are not conformed, there may be limitations on what accountants can do when preparing the financial statements.

When a budget does not reflect the full scope of activities being reported on, paragraph PS 1201.132 allows the comparison to be made in the notes. When the basis of accounting on which a budget is prepared is not in accordance with the PSA Handbook, paragraph PS 1201.133 indicates that the budget is conformed and a supporting reconciliation is presented in a note.

When a new program is introduced that was not part of the original budget, the view of the Group members is not to change the budget figures originally planned but to explain variances attributable to the new program in a supporting note.

## Section PS 3250: "Shared-Risk" Retirement Benefit Arrangements

Some jurisdictions have amended, or are planning to amend, legislation allowing retirement benefit arrangements described as "shared-risk" plans. At its May 2014 meeting, the Group discussed the classification of retirement benefit arrangements with shared-risk characteristics. This submission focuses on measurement of the accrued benefit obligation for shared-risk plans presuming that they are classified as defined benefit plans.

### *Issue*

Shared-risk plans are relatively new in the public sector and their characteristics present application challenges when applying the measurement guidance found in Section PS 3250, *Retirement Benefits*. Below is an illustration of those features. A number of views have emerged as accountants attempt to appropriately reflect the distinctive features of such plans.

Paragraph PS 3250.037 states: *"For a defined benefit plan, plan assets should be valued at market-related values."*

When measuring the accrued benefit obligation, actuarial assumptions are required. Paragraph PS 3250.040 states: "Accounting for retirement benefit obligations of defined benefit plans requires forecasts of future events, such as inflation rates, investment returns, interest rates, wage and salary increases, medical inflation and employee turnover and mortality. Such forecasts form the basis of actuarial assumptions."

Paragraph PS 3250.042 states: *"Actuarial assumptions should be based on the government's best estimates of expected long-term experience and short-term forecasts."*

In determining a discount rate, the guidance in paragraph PS 3250.044 is considered:

> "The actuarial assumptions underlying the valuation of the retirement benefit liability and expense would be internally consistent. For example, when a government determines its discount rates by reference to its plan asset earnings, the assumptions used to determine the short-term forecast incorporated in the discount rates would be consistent with the short-term forecasts of rates of return on assets currently held in the fund. When a government determines its discount rates by reference to its cost of borrowing, the assumptions used to determine the short-term forecast incorporated in the discount rates would be consistent with the specific rates of interest and the periods committed to by the government on the amounts borrowed."

*View A – Projection of the benefits is an actuarial assumption*

Measurement of the accrued benefit obligation and the plan assets are independent.

Those holding View A assert that as the funding policy of the plan targets benefits to fall within a specified range over the long term and the target is monitored, adjustments such as contribution increases are automatically generated when plan assets fall to a level that appears insufficient to meet these targets. As a consequence, actuarial assumptions could include benefits payable considering additional contributions from both employees and employer under the funding deficit recovery plan when those contributions represent the best estimate of the effect of the performance target (and subject to a contribution cap also factored into the actuarial assumptions). Actuarial assumptions would also include estimates about conditional indexation consistent with the terms of the plan.

Paragraph PS 3250.040 provides examples of future events forming the basis of actuarial assumptions and both additional contributions and conditional indexations would also be such future events to be included as actuarial assumptions. A retirement benefit liability could arise when:

- the projected returns to be earned on the referenced plan assets exceeds the discount rate; or
- the best estimate of benefits payable considers indexing / future variability in contributions due to funding shortfalls.

Under View A, the funding policy objectives of the plan are reflected in the actuarial assumptions. Retirement benefits expense and retirement benefits interest expense would be determined in accordance with Section PS 3250.

*View B – The accrued benefit obligation is equal to the value of the plan assets*

Measurement of the accrued benefit obligation and the plan assets are linked.

Under this view, the benefits payable to the members cannot exceed the plan assets, the accrued benefit obligation should simply be equal to the value of the plan assets, measured at market-related values as required by paragraph PS 3250.037.

An accrued benefit obligation is defined in the Glossary to Section PS 3250 as “the value of retirement benefits attributed to services rendered by employees and former employees to the financial statement date.

Accordingly, applying the requirements in paragraphs PS 3250.040 and PS 3250.042, the best estimate of the value of the retirement benefits is the value of the plan assets that will be used to settle the accrued benefit obligation at the financial statement date. Shared risk plans are structured to meet very narrowly defined risk management goals and the funding levels are set to meet these objectives. Consequently, disconnecting the accrued benefit obligation from the value of the plan assets does not provide a faithful representation of the value of the benefits from the entity’s perspective.

No projection forward of the benefits or discounting is made. Until changes are made to the contribution rates or to the conditional indexation rates, these changes are not considered to have been incurred at the financial statement date. While not directly in scope, this would be consistent with the accounting for plan amendments that are only reflected when they are incurred (paragraph PS 3250.63).

Under View B, the current service cost for the period is contributions made by the employer offset by contributions  made by employees.

*View C – Projection of the benefits based on current funding*

Measurements of the accrued benefit obligation and the plan assets are initially linked. Plan assets are measured independently at market-related values as required by paragraph PS 3250.037.

As for the accrued benefit obligation, unlike the approach used in View B, the entity projects benefits payable to members based on current funding. Consistent with paragraphs PS 3250.040 and PS 3250.041, an entity would forecast future events that could have an impact on the accrued benefit obligation.

The starting point for such a forecast would be the plan assets currently available. This would not include additional contributions contemplated under the funding deficit recovery plan to the extent that such changes to contribution rates have not been incurred yet (similar to View B in this regard). This would only include benefits payable based on expected returns on plan assets generated in the future from current funding levels.

The entity discounts these benefit payments using a discount rate consistent with the guidance found in paragraph PS 3250.044. This may include a reference to a short-term forecast of plan asset earnings or a short-term forecast of an entity’s cost of borrowing. The statement of operations would include a current service cost for funding made by the employer during the period offset by a benefit for funding made by employees during the period. Changes in actuarial assumptions (expected earnings on assets and the discount rate) would lead to actuarial gains and losses.

This method could give rise to a retirement benefit liability when the projected return to be earned on the referenced plan assets exceeds the discount rate (if the discount rate is determined by reference to the rate of borrowing). For example, an employer contributes $100 to the retirement fund. Under this view, the $100 would be projected until the expected timing of the pension benefit payment at say five

per cent being the expected earnings on plan assets for that period. The projected value of the plan assets at the expected time of the pension benefit payment would then be discounted at a discount rate, based on the cost of borrowing of say, three per cent. This would lead to a retirement benefit liability since the accrued benefit obligation would exceed plan assets. However, when the discount rate is determined by reference to the expected rate of return on plan assets, the approach yielded under this alternative would be similar to View A.

Under View C, retirement benefits expense for current service cost would be calculated by reference to the funding made during the year (and projected in a similar manner to the calculation on the accrued benefit obligation). Retirement benefits interest expense would be determined in accordance with Section PS 3250. Actuarial gains and losses could be recognized, for example, upon revisions to the expected return on assets or to the discount rate.

*View D – Projection of the benefits is not an actuarial assumption*

Measurement of the accrued benefit obligation and the plan assets are independent.

When making actuarial assumptions, the entity does not anticipate measures the Board of Trustees may adopt to comply with the funding policy. Paragraph PS 3250.040 describes the nature of actuarial assumptions: "Accounting for retirement benefit obligations of defined benefit plans requires forecasts of future events, such as inflation rates, investment returns, interest rates, wage and salary increases, medical inflation and employee turnover and mortality. Such forecasts form the basis of actuarial assumptions."

Changes to comply with the funding policy are accounted for as plan amendments. Paragraph PS 3250.066 requires: *"The cost of plan amendments related to prior period employee services should be accounted for in the period of the plan amendment."*

Under View D, the measure of the retirement benefits expense does not anticipate the financial effects of changes to comply with the funding policy until such changes are made.

*Other concerns*

Group Members were invited to comment on other concerns cited in the submission:

- How should the preparer develop an actuarial assumption regarding conditional indexation? For example, should that actuarial assumption be derived from the funded status at the end of the period? If the current funded status allows for conditional indexation, this is presumed to apply to future periods as well and conversely if the current funded status does not allow for conditional indexation, it is presumed not to apply to future periods. Or should the preparer estimate future funding status and determine for each future period whether conditional indexing will be allowed? What impact does a regulatory minimum target have on this estimate?
- How should the preparer develop an actuarial assumption regarding potential additional contributions? For example, should such assumption be developed in a manner similar to the conditional indexation assumption (i.e., by reference to the current funded status)? Or should the

preparer estimate future funding status and determine for each future period whether additional contributions will be required?

- To what extent should the approach used to develop assumptions leverage the stochastic modelling performed upon inception or conversion of a plan?

*Fact Pattern*:

At the crux of a shared-risk plan is a funding policy and stipulated thresholds designed to manage contributions within a reasonable range but at the same time provide a high probability that a target level of benefits will be paid. This is done both through a fairly conservative investment strategy and the operation of funding parameters. Thresholds are determined so as to ensure that the risk of missing the targets is effectively managed — when the plan assets get too low relative to plan liabilities, additional contributions are required to be made. To summarize:

- Benefits are established pursuant to a formula. The benefits are not guaranteed but targeted with contributions and benefits being managed through a funding policy.
- The contributions of the employer match those of the employee.
- Indexation adjustments (i.e., to link the benefits to inflation) are not guaranteed but conditional on available funds.
- The funding policy is required, by regulation, to include the following primary and secondary risk management goals:
  - the primary risk management goal is at least a 97.5 per cent probability that the past base benefits will not be reduced over a 20 year period; and
  - the secondary risk management goal is an expected escalation (inflationary) adjustment of the base benefit shall, on average, over a 20-year period exceed 75 per cent of the increase in the consumer price index.
- The viability of a shared-risk plan is tested using an asset liability model. This model must comply with the following:
  - economic assumptions are established based on the actuary's best estimates taking into account the current economic environment and future expectations and shall reflect a reasonable distribution of future economic scenarios (this is done using stochastic – i.e. based on probability – modelling);
  - economic assumptions subject to review every 12 months; and
  - demographic assumptions consistent with funding policy liabilities.
- The primary and secondary risk management goals must be met on conversion of a pension plan to a shared-risk plan.
- The primary risk management goal must be tested each year.
- A funding policy valuation is also required to be completed annually.

- When the ratio of assets/liabilities is less than 100 per cent in two successive funding valuations, contributions of the employer and employee are increased (up to a maximum of 25 per cent of the initial contribution rate or two per cent of earnings).
  - If the above is insufficient to meet the primary risk management goal, future and past base benefits may be reduced until a ratio of 105 per cent is achieved and the primary risk management goal is met.
- When the ratio of assets to liabilities is 105 per cent or more:
  - any prior reductions in benefits are reversed; and
  - in the event this is insufficient, in consultation with the pre-established funding excess utilization plan, one or both of the following changes are made:
    - benefits are indexed; and
    - the contributions of the employer and the employees decrease.
- Governance is provided by an independent board of trustees with representatives from the employees and the employer. Each trustee is mandated to act independently of the person who appointed him or her. The employees and the employer appoint an equal number of trustees.
- The terms of the plan indicate that: "The sole obligation of persons making contributions under a shared-risk plan is limited to making or remitting, within the time prescribed by regulation, the contributions required under the plan text and the funding policy."
- In the case of a plan wind-up, plan members would be entitled to a wind-up value. The wind-up value is equal to the:
  - funding policy liabilities of the benefits that each member or former member is entitled to multiplied by the funded ratio at that time.

*The Group's Discussion*

The presenter explained certain similarities in the views. Views A and D share the perspective that the accrued benefit obligation and the plan assets are measured independently of one another. Views B and C adopt a perspective that provisions in the shared-risk plan create a linkage between the accrued benefit obligation and the plan assets.

Group members commented on the inherent difficulty of applying Section PS 3250 to plans with features such as those in the illustration. The employer does not promise a defined benefit in the traditional sense. Instead, the benefit promise is conditional. A target level of benefits is provided subject to a funding policy used to manage contributions and benefits. The employer provides no assurance that the target level of benefits can be maintained.

Group members expressed mixed views. Several Group members supported the perspective that measurement of the accrued benefit obligation is linked to the plan assets. This view is based on the expectation that a shortfall in funding may decrease benefits as the terms of the plan do not place any further obligation on the employer. These Group members felt that as the funding policy limited the

options available, there is a practical link between management's best estimate of the liability and the plan assets.

Other Group members disagreed with the conclusion that measurement of the accrued benefit obligation and plan assets are linked. Measurement of the accrued benefit obligation is not related to the measurement of the assets. Limiting the liability's value to the amount of the plan assets might not result in presenting the full extent of the liability. Group members supporting View A explained that any actions taken by the board of trustees to comply with the funding policy would not constitute a plan amendment.

The presenter was asked to clarify the role of the board of trustees. It was explained that the funding policy largely predetermines the actions available to the board of trustees. One Group member cautioned not to presume that all plans are the same. It was observed that some plans grant a board of trustees a degree of discretion. If discretion is present and the board of trustees has not yet decided on what action to take by the financial reporting date, this could present an issue. If the board trustees had discretion over the required course of action, some Group Members indicated they would adopt View D.

The discussion also touched on provisions in Section PS 3250 that describe joint defined benefit plans. The illustration evidences some but not all of the characteristics of a joint defined benefit plan. In the case of a joint defined benefit plan, Section PS 3250 states that the employer's risk is limited to its portion of the plan. While the illustration describes a plan that is funded equally by the employees and the employer, the risk of a benefit shortfall is borne by the retirees and the employees entitled to benefits at a future date. The employer does not expect to make additional contributions.

The other concerns cited in the submission were not discussed.

## The Value of Statements of Recommended Practice

Statements of Recommended Practice (SORPs) are issued by PSAB to provide general guidance to a government or government organization (entity) choosing to provide supplementary information beyond that which is contained in its financial statements.

Group members were asked to share their experience as users of SORPs to support reporting on the performance of public sector entities. PSAB's 2013-2016 Strategic Plan, states an aim of PSAB is to support the preparation of "comprehensive, high-quality comparable financial and non-financial performance data."

The most recent SORP was issued in May 2009. No SORPs are in development.

*Background*

As part of an "environmental scan" for PSAB's upcoming 2016-2019 strategic review, staff of PSAB reviewed annual reports issued by the federal government, the provinces and territories and some local governments. In total, 37 annual reports were reviewed. Use of:

- SORP-1, *Financial Statement Discussion and Analysis*, in 25 reports;
- SORP-2, *Public Performance Reporting*, in one report;

- SORP-3, *Assessment of Tangible Capital Assets*, in one report; and
- SORP-4*, Indicators of Financial Condition*, in 24 reports.

(Note: SORP-2 and SORP-3 can be applied to information presented outside of an annual report. Only annual reports were reviewed as part of the environmental scan.)

The International Public Sector Accounting Standards Board (IPSASB) has issued two Recommended Practice Guidelines (RPGs):

- RPG 1,*Reporting on the Long-Term Sustainability of an Entity's Finances*; and
- RPG 2,*Financial Statement Discussion and Analysis*.

IPSASB is working on a third RPG, “Reporting on Service Performance Information.”

The Government Finance Officers Association's Canadian Award for Financial Reporting program encourages applicants to apply SORP-1 when preparing a Financial Statement Discussion and Analysis.

### *The Group’s Discussion*

The Director, Public Sector Accounting, explained the history and purpose of SORPs. To help readers better understand financial statements, SORP-1 provides guidance for a financial statement discussion and analysis, which explains the amounts reported. SORP-2 was issued in response to interest in the reporting of performance information. It is a "how to" guide for communicating the important work of a public sector entity, explained in non-financial terms. SORP-3 was issued in part to address the limitations with using historical cost when reporting on tangible capital assets. When reporting of tangible capital assets was under discussion, local governments were particularly interested in how to communicate information about asset condition. The low adoption rate indicated in the survey figures is understandable given the limited number of local government financial statements selected for review. SORP-4 was developed to broaden the perspective of readers. It encourages the presentation of a range of indicators in addition to the basic measures of surplus or deficit and net debt.

One Group member noted that smaller municipalities continue to focus on improving the overall quality and accuracy of information on their tangible capital assets. Given limited resources, their principal focus is on complying with generally accepted accounting principles and supplementary information mandated by the Ministry of Municipal Affairs. Other Group members noted that SORP-3 requires the involvement of specialists. Assessments of asset condition can be judgmental. An underlying concern is readers may inappropriately conclude a liability exists when this is not the case.

Group members discussed the value of SORPs already issued by PSAB. Most Group members found value in some or all of the SORPs. Other Group members noted SORPs can lead to tension as there is a desire to "tailor" the presentation of information. On occasion, application of SORP guidance is seen to compete with other forms of communication, such as budgets and business plans. Debates about application and customization lead to tension.

Varying perspectives were expressed on the future of SORPs. Several Group members commented that PSAB needs to make addressing complex financial reporting issues its principal priority. One

Group member suggested PSAB evaluate how SORPs serve the public interest. Other Group members noted users of non-financial information are interested in understanding the scope of the challenges governments face in planning for the replacement of outdated information systems and worn-out infrastructure. Requests to government organizations for more information about their non-financial performance are increasing.

One Group member noted there is a desire to breathe new life into SORPs. PSAB may need to do more to inform constituents about the benefits that can arise from their application. Efforts to support the application of SORPs have fallen off since the SORP-4 was issued in 2009. When existing SORPs are updated or new ones prepared, Group members suggested due process needs to involve experts outside of the accounting community. This is needed as the SORPs focus on non-financial matters. This form of reporting is bound to tread on policy initiatives, as communicated in budget or other documents of the government.

One Group member noted that many government organizations reporting on non-financial performance are often reluctant to look beyond methodologies provided by the ministries of the governments they are accountable to. Perhaps the aim of SORPs is simply to influence how governments approach the presentation of supplementary information and the guidance ministries and departments give to government organizations. SORPs are a source of recommended practices rather than requirements.

## Standard Setting in the Public Interest

In its mission statement, PSAB states its aim is to establish standards and other guidance for financial reporting in a manner that serves the public interest.

### *Issue – What is in the public interest?*

PSAB's Terms of Reference state:

> "The Public Sector Accounting Board (PSAB) serves the public interest by establishing standards and other guidance for financial reporting by all Canadian entities in the public sector and by contributing to the development of internationally accepted public sector financial reporting standards. The mission of PSAB shall be to contribute to supporting informed decision-making and accountability by maintaining a framework that provides a basis for high-quality information about organizational performance reported by Canadian public sector entities."

From time to time, standard setters and those commenting on the proposals of standard setters will advocate a view or approach as being in the "public interest". On occasion, views of what is in the public interest can be conflicting.

It may well be that the public interest is an abstract notion and the characteristics of what is in the public interest is multi-faceted. There appears to be no widely accepted definition.

#### *The Group's Discussion*

For the past few years, PSAB has more explicitly addressed the public interest as part of due process. The Chair of PSAB explained the Board challenges itself to complete the phrase, "this is in the public interest because…"

The Chair of PSAB explained the purpose of the Group's discussion was to:

- inform the Board of factors to consider when discussing whether the development of a standard is in the public interest, to improve Board discussions;
- help put together language that would explain and/or communicate why the actions the Board is undertaking are in the public interest;
- improve the documents issued at each stage of due process by explicitly addressing the notion of public interest; and
- issue a standard that is in the public interest.

Group members discussed two important aspects of public interest. Who is the public? What is in the public interest? The public could possibly include all individuals and organizations that rely on the financial statements of an entity to make decisions. Members of the public may have less access to intermediaries, such as investment analysts, to interpret financial reports for them. Consequently, for standards to be in the public interest, they must result in recognizing and reporting transactions in an understandable manner. Group members discussed the value of creating a document to support discussions of why a particular standard is in the public interest.

During the discussion, Group members reflected on the International Federation of Accountants (IFAC) Policy Position 5, *A Definition of the Public Interest*. In this document IFAC states that:

> "To determine whether an action, decision, or policy has been undertaken in the public interest, an assessment can be made against public interest criteria, being conscious of the dimension of both outcome (net benefits) and process. That is, IFAC considers that there are two general assessments:
>
> - *The Assessment of Costs/Benefits* – The extent to which, for society, as a whole the benefits of the action, decision, or policy outweigh the costs; and
> - *The Assessment of Process* – The extent to which the manner of considering the action, decision or policy was conducted with the qualities of transparency, public accountability, independence, adherence to due process, and participation that includes a wide range of groups within society."

Group members discussed these two dimensions and consider both dimensions important. Outcomes need to be assessed. Failure to resolve important issues does not lead to standards that are in the public interest. There was a lot of discussion around the fact that the outcome of a standard should be to improve the information being provided on the financial statements. However, it was noted that the view of what constitutes an outcome that is in the public interest is subjective. It was also noted that an outcome that appears to be in the public interest at present may not be in the public interest at some point in the future. It is for this reason that standards need to be revisited to ensure they continue to be in the public interest.

Assessing due process is critical as a good process should lead to an outcome that is in the public interest. However, this may not always be the case. As a result, some Group members suggested that

the focus should be on achieving a good outcome. Other Group members suggested that a check point in the due process is whether due process has garnered the support and confidence of those affected by the standard. Group members also noted that independence is a key element for a good due process and standard setters should strive for independence.

The PSA Discussion Group plays a valuable role in the assessment of outcomes as it is a mechanism that provides feedback to PSAB. Post-implementation reviews can be useful as they too assess whether the standard is accomplishing what was intended.

Group members considered whether a public interest analysis should be explicitly embedded in due process. Some Group members suggested caution for various reasons. Reasons included a perception that the analysis may be seen as advocating one's own interests. As well, it can be challenging to capture what is in the public interest when there are a variety of views. Other Group members suggested each "exposure draft" address this question for stakeholder comment. Comments may identify issues that would otherwise be overlooked. Ultimately, a better outcome will occur.

Group members also suggested:

- including application guidance;
- increasing efforts to engage stakeholders at each stage of due process; and
- summarizing PSAB's assessment that the standard is in the public interest.

The standard-setting process is an evolving practice. Improvements need to be continuous. Standard setters strive for independence and they do their best in developing and approving standards that are in the public interest having considered different factors.