



**Basis for
Conclusions**

2018-2019 Annual Improvements to Public Sector Accounting Standards

September 2019

CPA Canada Public Sector Accounting Handbook

Prepared by the staff of the Public Sector Accounting Board

Foreword

In September 2019, the Public Sector Accounting Board (PSAB) released the 2018-2019 annual improvements to CPA Canada Public Sector Accounting (PSA) Handbook and Statements of Recommended Practices (other guidance). PSAB has approved for publication the contents of this document setting out its rationale for making these improvements.

The primary objective of a Basis for Conclusions document is to set out how PSAB reached its conclusions. As well, it sets out significant matters arising from comments received in response to the proposals exposed and indicates how the Board has dealt with the issues raised.

This document has been prepared by staff of PSAB. It does not form part of the PSA Handbook nor is it part of public sector generally accepted accounting principles. Basis for Conclusions documents also do not include any guidance on the application of the relevant Section or Guideline.

September 2019

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BACKGROUND

1. In June 2018, PSAB adopted an annual improvements process to correct errors in the wording, to clarify the PSA Handbook or other guidance, or to correct relatively minor unintended consequences, oversights or conflicts. These amendments are bundled together to reduce the number of individual changes to the standards or other guidance. Major or narrow-scope amendments to the standards or other guidance are not included in the annual improvements process.
2. PSAB released the [Exposure Draft, “2018-2019 Annual Improvements to Public Sector Accounting Standards,”](#) in January 2019. The Exposure Draft proposed four main categories of improvements:
 - (a) Removal of due process procedures from the PSA Handbook and other guidance.
 - (b) Amendments to correct inconsistencies relating to the introduction of the government-component category.
 - (c) Various amendments to GOVERNMENT PARTNERSHIPS, Section PS 3060.
 - (d) Other amendments to other inconsistencies or areas requiring clarification.

3. Respondents generally expressed agreement with the proposals set out in the Exposure Draft and commended PSAB on starting the annual improvements process. The specific issues addressed in this improvements project, including substantive comments received on the Exposure Draft and any changes made in response to those comments, are as follows.

REMOVAL OF DUE PROCESS

4. Prior to being amended, some due process procedures were included in the:
 - (a) Introduction to the Public Sector Accounting Standards;
 - (b) Introduction to Public Sector Guidelines; and
 - (c) Introduction to Statements of Recommended Practices.
5. As PSAB's Standard-Setting Due Process Manual sets out the due process the Board follows, the Exposure Draft proposed that these procedures be removed. Most respondents agreed with this proposal. A respondent considered that a reference to the due process might be appropriate. The Board agreed and amended the above-mentioned Introductions accordingly.

INCONSISTENCIES RELATING TO GOVERNMENT-COMPONENT CATEGORY

Background

6. In 2014, PSAB amended the Introduction to Public Sector Accounting Standards (the Introduction). One significant change was the identification and definition of a new type of public sector entity: a government component. Before 2014, government organizations included entities like government departments and agencies integral to government. The 2014 changes did not affect what composes a government reporting entity or the governmental unit for consolidation purposes. What changed was that government components (such as departments), previously included as part of "government organizations," were now a separate category. Other changes to the Introduction were also made, affecting the guidance in other PSA Handbook Sections.
7. Because of the 2014 amendments, some editorial changes were made to other standards. Further updates were planned as part of the Terminology project. However, this project was deferred so the updates to the PSA Handbook Sections were incomplete.
8. The following standards required amendments to ensure consistency with the changes made to the Introduction, to reflect the government-component category:
 - (a) GOVERNMENT REPORTING ENTITY, Section PS 1300
 - (b) BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500
 - (c) ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510
 - (d) GOVERNMENT PARTNERSHIPS, Section PS 3060
 - (e) INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070

Replacing the term “government organizations”

9. Prior to being amended, guidance in Sections PS 1300, PS 2500, PS 2510 and PS 3070 did not reflect a government component as a separate category of a public sector entity. To ensure consistency with the Introduction, PSAB amended references to “government organizations” in these Sections to “government components and government organizations” or “government components and those organizations that are controlled by the government”. These changes are consistent with the original intent of the term “government organizations”, which previously included government components. In certain cases, the term “government organization” did not require an amendment because in the context provided it was not meant to refer to government components.
10. Most respondents agreed with this change. A few respondents thought that adding the term “government component” to paragraph PS 1300.39 suggests that government financial statements would need to disclose a listing of the major departments, ministries or funds. They thought this would constitute a change in disclosure.
11. The Exposure Draft proposed to update Section PS 1300 for terminology only. The specific change in paragraph PS 1300.39 reflects the introduction of the government component as a separate type of a public sector entity. Prior to 2014, the term “government organizations” included government components. Hence, the amendment in paragraph PS 1300.39 simply segregates the government component from the government organization but does not introduce anything new.

Replacing the term “organizations”

12. To maintain consistency with changes to “government organizations”, the Exposure Draft proposed to replace the term “organizations” with “entities” when that term was used broadly to include government organizations as defined pre-2014 Introduction changes (which included government components). Most respondents agreed with this amendment. A few respondents suggested that PSAB reconsider using the term “entities” in paragraphs PS 1300.25-.26 when “entities” is used in the context of line-by-line consolidation. They thought that, in this context, the term “entities” would be too broad as it includes government business enterprises, which are not consolidated. Instead, respondents suggested that the term “governmental units” should be used. The Board agreed and amended the guidance accordingly.

Amendments to Appendix A of Section PS 2500

13. Prior to being amended, Appendix A of Section PS 2500 did not reflect a government component as a separate category of a public sector entity. It also contained several cross-reference or terminology errors. Consequently, the Exposure Draft proposed amendments to update Appendix A. Most respondents agreed with these changes.
14. A respondent thought that the section of Appendix A which provides that “A Government = the sum of all its government components and government organizations” is confusing. The respondent thought the term “government” is generally used to refer to core government but not to a government reporting entity. PSAB agreed and replaced the term “government” with “government reporting entity” and removed footnote 1.
15. A few respondents also questioned whether government partnerships should be included in Appendix A. The purpose of Appendix A is to outline the government reporting entity framework. By definition, a government reporting entity does not include government partnerships.

Out of scope

16. Respondents suggested several other amendments, including changes to the definitions of a governmental unit, government organization, government component, government reporting entity, government business enterprise and government financial statements. These changes would broaden the definitions and likely change practice and, therefore, are beyond the scope of annual improvements.
17. Two respondents asked PSAB to reconsider using the term “governmental unit” in the context of non-controlling interest, acquisition or sale. They thought using this term in this context may not be appropriate as government components, which comprise a governmental unit, may not have non-controlling interest, be acquired or sold.
18. The 2014 changes to the Introduction introduced a separate category of a public sector entity, the government component, but did not result in changes to what constitutes a governmental unit. Given this, the guidance in Section PS 2510 already considers whether a government component could have non-controlling interest, be acquired or sold. These situations may be rare as provided in paragraphs PS 2510.11 and PS 2510.33. Further consideration of whether government components enter into such transactions are beyond the scope of annual improvements.

AMENDMENTS TO SECTION PS 3060

Replacing the term “government”

19. Prior to being amended, Section PS 3060 referred to “government” throughout the Section. This term was replaced with “public sector entity”, “public sector” or “entity” consistently with the approach taken in the Introduction.
20. All respondents supported this amendment; however, a few noted that the same change should be considered in the remaining PSA Handbook Sections. PSAB considered that amending all PSA Handbook Sections to update the term “government” would be beyond the scope of annual improvements, given the significance of the undertaking. Instead, the Board agreed to update this terminology incrementally when standards and other guidance are updated as part of a given annual improvement cycle. As indicated in the Exposure Draft, the Board only updated Section PS 3060 for this terminology. This is because all other standards included in the 2018-2019 annual improvements are government focused and in certain cases the amendment of the term “government” requires further thought and may not meet the criteria of an annual improvement.

Replacing the terms “government partnership” and “government business partnership”

21. Prior to being amended, Section PS 3060 referred to two types of partnerships: “government partnership” and “government business partnership”. PSAB amended these terms to “partnership” and “business partnership” because:
 - (a) the original terms were no longer appropriate given amendments to the term “government” throughout Section PS 3060; and
 - (b) the amended terms better reflect that not only governments but also government organizations, may enter into partnerships.

22. Most respondents agreed with this change, with one respondent not seeing the need for replacing these terms and another suggesting that they be replaced with “public sector partnership” and “public sector business partnership”. PSAB considered that these suggested terms might not be the most appropriate because:
- (a) this amendment may cause confusion between similar terms – “public sector business partnership” and “government business enterprise” – with one referring to “public sector” and the other to “government”; and
 - (b) those terms do not reflect the possibility of a private sector partner in the partnership.

The Board thought that the terms “partnership” and “business partnership” would be most neutral, with the existing definitions of these terms providing the appropriate details of the arrangement.

Amending the title of Section PS 3060

23. PSAB changed the title of Section PS 3060 from *Government Partnerships* to *Interests in Partnerships*. The Board considered, and most respondents agreed, that this new title:
- (a) is consistent with the terminology changes in Section PS 3060;
 - (b) reflects the objective of Section PS 3060 of how to account and report a public sector entity’s interests in partnerships; and
 - (c) reflects that this Section does not deal with the accounting and reporting by the partnership itself.
24. The amended title also reflects feedback from respondents that a partnership may hold an interest in a partnership and numerous interests in partnerships. Hence, the title reflects the plural form of the term “interest” as it is linked to the term “partnerships”. This notion was also reflected in certain paragraphs of Section PS 3060 where the term “interest” (singular) was previously used in relation to the term “partnerships” (plural).

Clarifying the definition of a partnership

25. The Exposure Draft proposed that the definition of “partnership” clarifies that a partnership includes a partnership between two government organizations under the same government reporting entity. This clarification was made in paragraph 16 of the [Basis for Conclusions, “Amendments to the Introduction”](#) but not included in the guidance of Section PS 3060. PSAB considered, and all respondents agreed, that such clarification should be included directly in the standard. The Board also agreed with a respondent that a partnership could be between more than two government organizations under the same government reporting entity and adjusted the guidance accordingly.

OTHER AMENDMENTS

26. The Exposure Draft proposed to add the term “Indigenous government” in paragraphs PS 1300.02 and PS 1300.43 to ensure that PSA standards were inclusive of this stakeholder group when specific types of governments are set out. Most respondents supported this amendment.
27. Another proposed amendment in the Exposure Draft was to indicate that Sections PS 2500, PS 2510 and PS 3070 do not deal with the accounting for interests in partnerships, which is dealt with in Section PS 3060. A respondent noted that this amendment may have unintended consequences,

as Sections PS 2500 and PS 2510 provide useful guidance when applying the principles set out in Section PS 3060. For example, some partnerships are proportionately consolidated and the relevant guidance on proportionate consolidation is included in Section PS 2510. While Section PS 3060 refers to both Sections PS 2500 and PS 2510, PSAB agrees that scoping out Section PS 3060 from these two Sections may result in auditor and preparer debates on whether these standards can be used to supplement the guidance in Section PS 3060. Consequently, the Board only amended Section PS 3070 to communicate that it does not deal with accounting for public sector entity's interests in partnerships.

28. The Exposure Draft also proposed other amendments to address certain inconsistencies related to the 2014 changes to the Introduction or other matters staff noted during the review of the 2018-2019 annual improvements. These included incorrect PSA Handbook Section cross-references, inconsistent definitions and the removal of old transitional provisions that were no longer applicable. Respondents supported these amendments.

OTHER MATTERS

29. A respondent raised a concern about how consequential amendments are communicated when a new standard is issued. The respondent found the current approach difficult to follow and asked that all consequential amendments be clearly identified, together with an effective date and a method of adoption. This issue is not within the scope of annual improvements as it deals with the approach of how consequential amendments are communicated. PSAB noted this issue and will consider it further.
30. Some respondents have noted a few missing amendments, stemming from the proposals in the Exposure Draft, or suggested other minor amendments. PSAB considered and addressed them, if appropriate, in finalizing the 2018-2019 annual improvements.

EFFECTIVE DATE

31. A respondent asked about the effective date and transitional provisions related to the proposed amendments in the Exposure Draft. As indicated in the highlights section of the Exposure Draft the amendments are effective for fiscal years beginning on or after April 1, 2020, with earlier application permitted. PSAB intends that the amendments be applied retrospectively given that annual improvements are not expected to affect practice. The Highlight Summary to the PSA Handbook also provides this information.

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