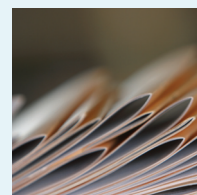




BDO Dunwoody LLP
Chartered Accountants
and Advisors

Financial Reporting by Government Organizations

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The Public Sector Accounting Board (PSAB) currently requires government business enterprises (GBEs) and government business-type organizations (GBTOs) to follow the accounting standards in the Accounting Standards Board (AcSB) Handbook. As part of its strategic plan, the AcSB will require all publicly accountable enterprises to move to International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. At that point, the current AcSB Accounting Handbook will no longer exist. PSAB previously announced that GBEs and GBTOs – which it considers to be publicly accountable – will also move to IFRS.

A number of stakeholders for government organizations raised concerns over the decision to require GBEs and GBTOs to move to IFRS, so PSAB decided to take the opportunity to revisit its decisions on which accounting standards all government organizations should follow. On February 24, 2009 they issued an Invitation to Comment (ITC) discussing alternatives for GBEs and GBTOs. PSAB has classified government organizations into four different types. The four categories, their definitions and examples are included in Appendix A.

The direction for Government Not-for-Profit Organizations (GNPOs) – who are currently required to follow the CICA Accounting Handbook – is discussed in a separate ITC issued jointly by PSAB and the AcSB entitled “*Financial Reporting by Not-for-Profit Organizations*”. Please see the BDO Dunwoody LLP Client Publication “*Not-for-Profit Organizations – February 2009*” for a review of the ITC.

As part of the ITC pertaining to GBEs and GBTOs, PSAB has already made the following decisions:

- They will not consider the non-publicly accountable enterprise standards, which are currently being developed, as an option, because government organizations are accountable to the public. A standard that has reduced disclosure requirements with the intent that the user has access to ask further questions and simplified accounting treatments is not appropriate for entities that are accountable to the public.
- Allowing all government organizations the choice between IFRS and the PSAB Handbook is not appropriate because it will introduce non-comparability and will leave it up to the entity's management and auditors to determine the most appropriate generally accepted accounting principles (GAAP) to use.
- A size test is not an appropriate basis to determine whether IFRS or the PSAB Handbook should be applied because it would just be an arbitrary mark.
- They are not revisiting the definition of a GBE or the accounting requirements for them as part of the ITC.

For other government organizations (OGOs) PSAB is recommending a free choice between IFRS or the Public Sector Accounting Board Handbook. They have provided four alternatives (other than the current requirement to move to IFRS) for GBEs and GBTOs. The alternatives presented in the ITC are summarized below:

Type of Government Organization	Current Requirements (as of Jan. 1, 2011)	Alternative #1	Alternative #2	Alternative #3	Alternative #4
Government Business Enterprises (GBEs)	IFRS	Publicly accountable – IFRS ¹	IFRS	IFRS	IFRS
		Remainder – choice between IFRS or PSAB Handbook			
Government Business -Type Organizations (GBTOs)	IFRS	Publicly accountable – IFRS ¹	Choice between IFRS or PSAB Handbook	Self sustaining ² – IFRS	Private sector competitor ³ – IFRS
		Remainder – choice between IFRS or PSAB Handbook		Remainder – choice between IFRS or PSAB Handbook	Remainder – choice between IFRS or PSAB Handbook
Government Not-for-Profit Organizations (GNPOs)	Under review by the AcSB and PSAB in a separate ITC (See BDO Dunwoody LLP February 2009 publication)				
Other Government Organizations (OGOs)	Choice between IFRS or PSAB Handbook				

Adopting IFRS is a significant project (See BDO Client Publication “*IFRS Time to Get Ready - January 31, 2008*”. In the case of smaller organizations, especially those related to smaller municipalities and First Nations, it is unlikely that the benefit achieved from the adoption of IFRS will exceed the cost of compliance. Therefore, we encourage you to thoroughly review and respond to the ITC. The deadline to provide comments to PSAB is April 17, 2009.

¹ The AcSB has preliminarily defined publicly accountable enterprises as:

- (a) Entities that have issued or are in the process of issuing debt or equity instruments that are or will be outstanding and traded in a public market; or
- (b) Entities whose primary business is to hold assets in a fiduciary capacity for a broad group of outsiders such as banks, credit unions and insurance companies including auto, crop, health and workers’ safety.

PSAB would use the same definition to determine publicly accountable profit-oriented GBEs and GBTOs.

² The decision on whether to apply IFRS or have the choice is based on a portion of the International Public Sector Accounting Board’s definition of a government business enterprise. Self-sustaining GBTOs would be those organizations that are not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm’s length).

³ The decision on whether to apply IFRS or have a choice is based on whether the GBTO is competing with similar entities outside of the public sector that also follow IFRS.

Appendix A

Definitions and Examples of Government Organizations

Type of Government Organization	Definition	Examples
Government Business Enterprise (GBE)	<p>Has all of the following characteristics:</p> <ul style="list-style-type: none"> (a) It is a separate legal entity with the power to contract in its own name and that can sue and be sued; (b) It has been delegated the financial and operational authority to carry on a business; (c) It sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity; and (d) It can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity. 	<p>Canada Post Corporation</p> <p>Toronto Hydro</p> <p>A grocery store, logging or gravel business that was incorporated by a First Nation or a training facility that was incorporated by a municipality that also meet all of the characteristics of a GBE</p>
Government Business-Type Organization (GBTO)	<p>Has all of the following characteristics:</p> <ul style="list-style-type: none"> (a) It is a separate legal entity with the power to contract in its own name and that can sue and be sued; (b) It has been delegated the financial and operational authority to carry on a business; and (c) It sells goods and services to individuals and organizations as its principal activity. 	<p>Via Rail Canada Inc.</p> <p>Toronto Transit Commission</p>
Government Not-for-Profit Organization (GNPO)	<p>Government entities, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose. The government that controls it, the not-for-profit organization's contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.</p>	<p>Canadian Race Relations Foundation</p> <p>National Arts Centre Foundation</p> <p>Some First Nations Housing Corporations</p>
Other Government Organization (OGO)	<p>All other organizations that are controlled by the government.</p>	<p>Provincial Ministry of Education</p>