

Montreal, June 30, 2021

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Public Sector Accounting Board
277 Wellington Street West
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Mr. Puskaric,

Please find enclosed the comments of the Technical working group on the public sector – Public sector accounting of the Ordre des comptables professionnels agréés du Québec on the Exposure Draft “The Conceptual Framework for Financial Reporting in the Public Sector.”

We would appreciate receiving a copy of the English translation of our comments.

Please note that neither the Ordre des comptables professionnels agréés du Québec nor any of the persons involved in preparing the comments shall have any liability in relation to their use, and no guarantee whatsoever shall be provided regarding these comments, as specified in the following disclaimer.

Yours truly,

Annie Smargiassi, CPA auditor, CA
Representative of the Technical working group on the public sector – Public sector
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Encl. Disclaimer and comments

DISCLAIMER

Subject to the conditions described herein, the documents prepared by the working groups of the Ordre des comptables professionnels agréés du Québec (the Order), hereinafter referred to as the “comments,” provide the opinion of the groups on statements of principles, consultation papers, associates’ drafts and exposure drafts issued by the Accounting Standards Board, Auditing and Assurance Standards Board, Public Sector Accounting Board, Risk Management and Governance Board, and other organizations.

The comments submitted should not be relied upon as a substitute for engagements entrusted to professionals with specialized knowledge in their field. It is important to note that the legislation, standards and rules on which the comments are based may change at any time and that, in some cases, the comments may be controversial.

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Users of the comments shall take full responsibility for, and assume all risks relating to, the use of the comments. They agree to release the Order from any claim for damages that could result from a decision they may have made based on these comments. They also agree not to mention the working group’s comments in the opinions they express or the positions they take.

TERMS OF REFERENCE OF THE WORKING GROUPS

The terms of reference of the working groups of the Ordre des comptables professionnels agréés du Québec are to collect and channel the views of practitioners and members in business, industry, government and education, as well as those of other persons working in related areas of expertise.

For each exposure draft or other document reviewed, the working group members share the results of their analysis. Consequently, the comments below reflect the views expressed and, unless otherwise specified, all of the working group members agree on these comments.

The Order has not acted upon and is not responsible for the comments expressed by the working groups.

GENERAL COMMENTS

Members are happy to see that several of their comments on the Statement of Concepts “A Revised Conceptual Framework for the Canadian Public Sector” were taken into account in the new proposals of the Conceptual Framework.

However, they expressed concerns about PSAB’s planned timeline for the project.

First, members consider that the timing and length of the consultation could place undue pressure on public sector stakeholders. They feel that such pressure could compromise the depth and quality of the feedback submitted to PSAB on this extremely important project. They felt that the initial consultation period was inappropriate because it coincided with the fiscal year-end of many public sector stakeholders and was too short. These issues were communicated to PSAB’s representatives and members are happy to see that PSAB has agreed to extend the consultation period to June 30.

In addition, members would have liked it if a comparison with the currently effective conceptual framework had been prepared to help them analyze the proposals. This would have made their analysis work much easier and there would have been fewer issues with the feedback period allowed by PSAB. At the very least, they said, a document setting out the most significant differences should have been provided. As it was, members had to do this analysis themselves. Members of the working group also read the document “International Summary Comparison - PSAB’s Proposed Conceptual Framework and the IPSASB’s Existing Conceptual Framework” and appreciated that a comparison had been done and shared by PSAB. However, these documents did not allow a comparison with the currently effective conceptual framework.

Several members of the Order’s working group have been involved since the Statement of Concepts was issued, but they noted that this is not the case for all public sector stakeholders who will provide feedback.

PSAB'S SPECIFIC QUESTION

Do you agree with the concepts in the proposed Conceptual Framework?

Yes, overall the members agree with the concepts in the proposed Conceptual Framework, but they had comments and concerns about certain paragraphs, as explained below.

CHAPTER 1: INTRODUCTION TO THE CONCEPTUAL FRAMEWORK

Overall, the statement in paragraph 1.07 that a conceptual framework is not part of GAAP was viewed negatively by members, but they concede that the concept is consistent with other generally accepted accounting frameworks such as IFRS and ASPE, and they agree that a conceptual framework should not override the standards. They do, however, feel that paragraphs 1.05 and 1.06 are sufficient, so they propose removing paragraph 1.07.

They also consider that paragraph 1.09 of the proposals may cause confusion over PSAB's intention regarding future inconsistencies with the Conceptual Framework. They suggest using wording similar to paragraph SP1.3 of the IFRS Conceptual Framework, reproduced below:

SP1.3 To meet the objective of general purpose financial reporting, the Board may sometimes specify requirements that depart from aspects of the Conceptual Framework. If the Board does so, it will explain the departure in the Basis for Conclusions on that Standard.

CHAPTER 2: CHARACTERISTICS OF PUBLIC SECTOR ENTITIES

Members feel that the characteristics describing the Canadian parliamentary system in paragraph 2.44 fail to define public sector entities as such, and do nothing but weigh down the text and create confusion about public sector entities not affected by this kind of process.

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CHAPTER 3: FINANCIAL REPORTING OBJECTIVE

Some members feel that the points in paragraphs 3.29 and 3.30 of the proposals will generate a significant number of issues in practice. In their view, not all the information referred to in these paragraphs is found in financial statements, particularly the information described in 3.29(a). Members believe that PSAB should make it clear that this information is not found in financial statements, as certain stakeholders may think there is some expectation regarding the disclosure of such information in the financial statements.

Members explained that for many organizations, particularly municipal organizations, budgets are not prepared in accordance with applicable financial statement presentation standards. A reconciliation between budget and actual results must be presented in a note to the financial statements. Furthermore, auditors do not audit the budget preparation process, but only whether the budgets presented in the financial statements reflect the originally approved budgets. A note that the budgets were not audited is sometimes included in the financial statements of such entities. In addition, explanations on the difference between performance and budget are usually unaudited and not generally integral to a public sector entity's financial statement disclosures. Members concluded that the notion of auditing non-historical financial information is unclear and subject to diversity in practice. For some, it is simply a question of ensuring that the budget is the one that was originally approved; for others, it may include the budget preparation process. Members concluded that this diversity in practice may confuse users of financial information and they think that the expectations should be clarified.

Next, a number of non-compliance disclosures are found in annual reports or MD&As, but not in the financial statements themselves. Members provided examples of situations that do not affect the financial statements per se, including appropriations approval, situations in which an entity presents a deficit even though this type of entity is prohibited by law from running a deficit, overspending during the year which is settled by year-end.

Assurance standards also provide for specific compliance engagements and reports to be issued in situations where an authority requests an auditor to provide an opinion on compliance.

In view of these issues, members believe that only legislative authorities applicable to financial statements should be covered in this chapter, specifically in paragraphs 3.29 and 3.30. Members suggest moving the guidance on legislative authorities applicable to other information, such as information that would be included in an annual report, to the Introduction to the Conceptual Framework. They believe these comments are consistent with paragraphs BC6.22 and .23 of the Basis for Conclusions.

CHAPTER 9: RECOGNITION AND MEASUREMENT IN FINANCIAL STATEMENTS

Members indicated that a public sector restructuring may not result in a change for a consolidated entity. According to them, the activities of an entity in the group can be pursued through alternative means elsewhere within the consolidated group without impacting the services offered. They feel that it is typical for a government to restructure without necessarily discontinuing operations and this should have no impact on the measurement of assets and liabilities. Members therefore feel that paragraph 9.39 should be amended to take this aspect into account, because ceasing operations does not necessarily imply going concern uncertainty.

CHAPTER 10: PRESENTATION CONCEPTS FOR FINANCIAL STATEMENTS

Members disagree with the guidance in paragraph 10.25. The requirement to disclose whether information in the financial statements is or is not in compliance with the standards is not the responsibility of the entity preparing the financial statements and should not be included in the conceptual framework of the accounting standards. This is the responsibility of the auditor, who will determine the impact of the non-compliance and report the conclusion in the audit report. Instead, members suggest adding to Chapter 7, Financial Statement Information: Qualitative Characteristics and Related Considerations, the concept of fair presentation found in IFRS (specifically IAS 1 *Presentation of Financial Statements*), paragraphs of which are reproduced below. However, they admitted that they have never encountered this situation in practice.

- 19 In the extremely rare circumstances in which management concludes that compliance with a requirement in an IFRS would be so misleading that it would conflict with the objective of financial statements set out in the [Conceptual Framework](#), the entity shall depart from that requirement in the manner set out in paragraph [20](#) if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.
- 20 When an entity departs from a requirement of an IFRS in accordance with paragraph [19](#), it shall disclose:
- (a) that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;
 - (b) that it has complied with applicable IFRSs, except that it has departed from a particular requirement to achieve a fair presentation;
 - (c) the title of the IFRS from which the entity has departed, the nature of the departure, including the treatment that the IFRS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the [Conceptual Framework](#), and the treatment adopted; and
 - (d) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.

Members also feel that additional disclosures outside the requirements of the applicable accounting framework should be discussed, and guidance included to the effect that such information is not required and is not part of the financial statements. Examples include reconciliations used to determine the surplus or deficit for the period for tax purposes presented in the financial statements of Quebec municipalities, and climate change information which will be an integral part of the financial statements of the cities of Montreal, Toronto and Vancouver.

Members are concerned with the content of paragraph BC10.15 of the Basis for Conclusions, particularly the aspect of "recognition" of information based on legal requirements. Normally, if a treatment departs from applicable GAAP requirements, the auditor will qualify the audit report. Acknowledging that a legal requirement can override GAAP causes great concern. This opens the way to legislating whenever a government decides not to apply a GAAP requirement. Members question which situations are meant to be addressed by this paragraph.

Also, for members, “non-compliance with GAAP” has nothing to do with the presentation of additional note disclosures or schedules in the financial statements. Paragraph BC10.15 is not consistent with the section title and is in the wrong section of the Basis for Conclusions.