



Treasury Board of Canada
Secrétariat

Secrétariat du Conseil du Trésor
du Canada

Canada

Changing Accounting Frameworks

Canada's Experiences

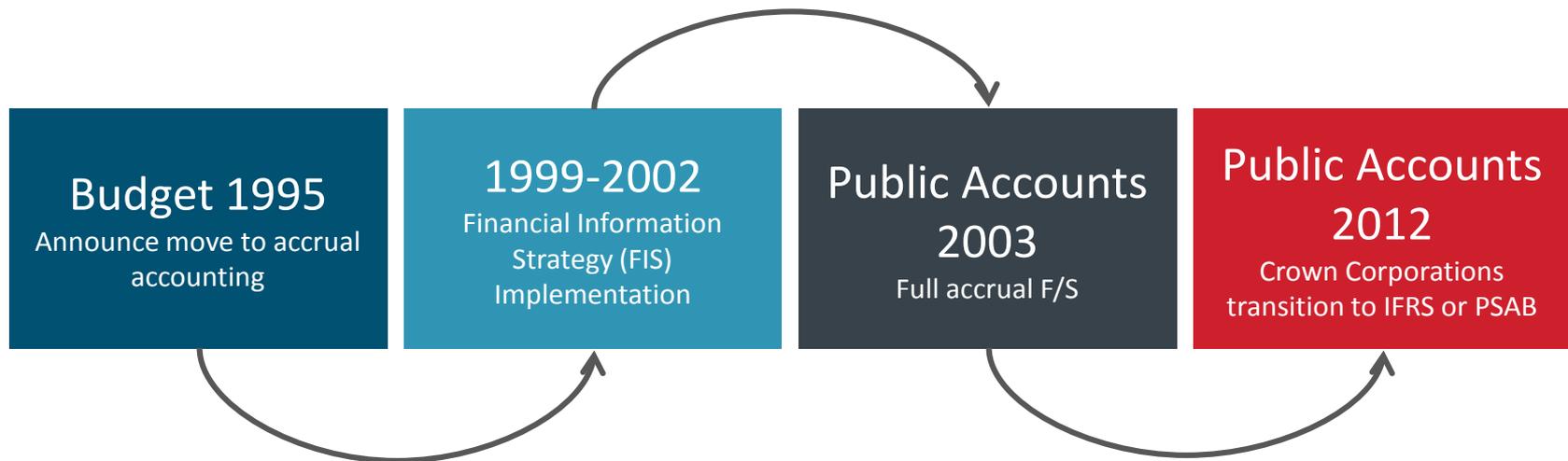
IPSASB – Consultative Advisory Group

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Executive Summary

Objectives

- To provide an overview of Canada's Experiences with implementing new accounting frameworks
- Consider lessons learned then and now



Transition to Accrual Accounting

Modified Accrual Budgeting & Accounting

- Focus is “Whole of Government” budgeting and financial reporting
- Financial assets & liabilities reported

1900s

Financial Information Strategy (FIS) Launch

Phased in over 3 years to allow departments to implement new systems, policies, processes

1999

1995

Budget 1995 Announcement of Plan

Minister of Finance announces move to accrual accounting in Budget

Budget 2003 Announcement

- Announced that 2002-03 financial statements will be on accrual basis ~~2003~~
- Budget 2003 prepared on full accrual basis.

2002

March 31, 2003 Financial Statements

- Full accrual financial statements
- All non-financial assets recorded
- All departments begin preparing and publishing full accrual F/S

2003

now

Modified Accrual Budgeting & Accrual Financial Statements

- Government’s Estimates remain on modified accrual basis with reconciliation to accrual
- Annual financial statements on accrual basis prepared by all Departments, agencies and Crown corporations

Implementation Strategy

- Budget announcements of move to accrual
- FIS Implementation Strategy lead by Central Agencies
 - 1999/00 - 14 departments
 - 2000/01 - 23 departments
 - 2001/02 - 60 departments

PHASE-IN

- New central accounting system
- Departments submit summary trial balance monthly
- Departments acquire new integrated financial systems (7 clusters)
- New interfaces required to central systems

SYSTEMS

POLICIES

- Based on Public Sector Accounting Standards in Canada
- Supplemental Treasury Board Accounting Standards issued where needed
- Complete new “Chart of Accounts” issued

PEOPLE

- Focus on training as limited accrual accounting knowledge in finance community
- 1st stream: orientation; chart of accounts; accrual accounting concepts; and accounting for capital assets
- 2nd stream: business analysis and advice; financial statement preparation; and financial statement analysis

Lessons Learned During Implementation

- Communication between all stakeholders throughout is critical
- Don't underestimate lead time

PHASE-IN

- Significant financial investment required
- Excellent project management required
- Cluster approach provides synergies
- New systems infrastructure is the foundation for improved reporting and decision making

SYSTEMS

- New chart of accounts requires extensive training
- Broad guidance for departments not enough
- Finalize all policies as soon as possible
- Work with external auditors continuously
- Be practical where historical costs not available
- Consult with other jurisdictions

POLICIES

PEOPLE

- Hire professional staff with accrual accounting experience – both in departments and the budget experts (i.e. Dept of Finance)
- Engage people through interdepartmental working groups
- Watch workload capacity
- Tremendous opportunities for personal growth and challenge
- Other stake-holder training (Parliamentarians)

On Reflection Today

- Different basis of accounting for budgeting (Estimates) and accounting (Budget and F/S) requires clear communication and reconciliation between the two bases
- Management continues to prioritize cash since Estimates remain on modified accrual; this causes challenges from a fiscal policy perspective in forecasting in year results as accruals are done only at year end

ONGOING CHALLENGES

POLICIES

- Keeping policies ever-greened has been a challenge resulting in periodic major “policy suite resets”
- Public Sector Accounting Standards continue to evolve requiring retroactive restatements every few years of audited financial statements

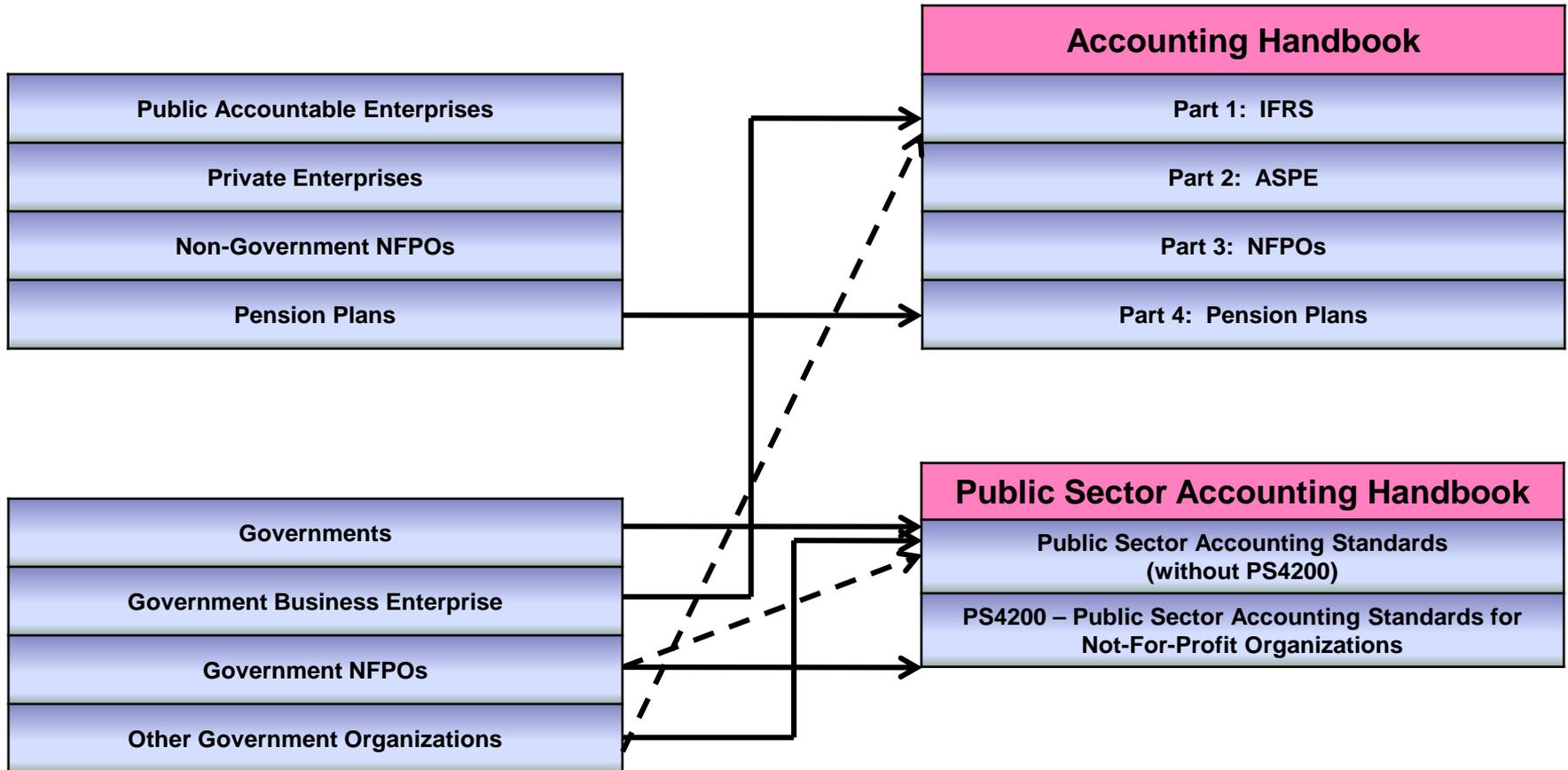
- While Cluster approach provided synergies, it allowed too much flexibility in design
- Establishing a centrally led design with solid information requirements would enhance consistency of reporting and comparability between departments

SYSTEMS

PEOPLE

- Continued need to hire professional staff with accrual accounting experience
- Senior management do not have strong focus on accrual leading to weaknesses in understanding accrual impacts on decision making. Accrual based Federal Budget was not enough to instil change in behaviour.
- Training must be on-going

2012 Revised Accounting Handbook Structure



IFRS Implementation for Crown Corporations

Assess impact of change

Provided training to a subject matter expert at TBS to lead the change to IFRS and worked with a consultant to understand the GAAP differences.

Create Working Groups

Arranged quarterly meetings of all Crown corporations to share information on the new accounting framework; supplemented by learning sessions on complex accounting areas.

Develop new tools

Developed a checklist of IFRS/PSAB differences to allow Crown corporations that needed to report under PSAB for consolidation to understand requirements. Revised annual reporting forms.

Communicate the change

Ensured that parliamentarians and media lines were prepared so that key stakeholders were aware of the pending change.

GAAP Challenges



Capital Assets

- On transition government had no historical cost records for capital assets → developed a “Net Book Value Calculator”
- No technical knowledge of accrual accounting in departments
- Accrual accounting did not solve rust out issue



Transfer Payments

- Took 7 years for Canada to develop a standard and still issues with implementation
- In decision making presumption is that cash = accrual; no consideration to ongoing eligibility criteria



Standards Evolution

- PSAB changes to standards are historically slower than IFRS leading to differences in accounting compared to peers and Crown corporations
- For example, pension & employee future benefits and Financial Instruments



Reporting Frameworks

- PSAB uses Net Debt Model and has not concept of “other comprehensive income”
- IFRS and IPSASB have more traditional Balance Sheet and Other Comprehensive Income model



Complex Disclosures

- As standards evolve and become more complex, the related financial statement disclosures are more difficult for users of government F/S to understand
- Leads to need for simplified reporting

Questions

Implementing full accrual
accounting is as much about the
journey as it is about achieving the
destination.

