

Moving PSAB forward – THE COMPLETE PICTURE

Submitted by Manitoba Intergovernmental Affairs

Ready or not, municipal accounting practices are soon to be completely changed. The Public Sector Accounting Board (PSAB) has issued new financial reporting standards for government, bringing these practices more in line with the private sector. Preparing for these new standards will require an extraordinary effort on the part of municipal staff and strong support from their elected officials. In Manitoba, the changes are particularly extensive as we move to catch up with previous practices, and prepare for new standards at the same time.

The biggest change will happen in 2009 when municipalities will be required to include tangible capital assets (TCA) as part of their annual financial statements. It has been said, “This may well be the biggest financial accounting change made to municipal accounting in over a century.” Why? Municipalities are all about capital assets – and these assets are a key component in local government operations and the delivery of services to citizens. But, currently they are not reflected in the financial statements except in a hit-and-miss way.

Citizens are demanding more transparency and accountability from all levels of government and these statements no longer fit the bill. The statements are prepared on a cash basis, with minimal disclosure requirements and little information on TCA. Given that TCA represent the most significant assets owned by municipalities, it follows that they should be incorporated into the

financial statements. TCA includes items such as roads, buildings, vehicles, equipment, land, public utility systems, computer hardware and bridges.

In contrast, the new statement format will include not only TCA and their amortization, but also the accrual of liabilities when they are incurred and not when they are paid (such as the cost of landfills), and the consolidation of entities that are under the control or shared control of the municipality.

What are the benefits?

PSAB GAAP standardizes public body financial recording practices across Canada. This increases the public’s confidence in municipal financial statements and permits the comparison of municipalities not only within the Province but also across provincial jurisdictions.

Municipal councils and administrators are entrusted with the stewardship of public resources. PSAB GAAP enhances public transparency and accountability as the financial statements provide a summarized but “full picture” of a municipality’s financial situation. This means that councils will have better information to make important decisions that affect the long-term sustainability of their community.

The recognition and amortization of TCA in the financial statements will provide information on the full cost of providing goods and services. Under the current system council decisions can be made without directly taking into consideration the full

cost of an asset. With the new standards councils are in fact required to acknowledge the cost of using the asset while at the same time setting the cash aside for replacement. By amortizing TCA the cost of using the asset to provide the service is recognized. As a further benefit, including TCA in the financial statements will also provide information to the reader on the remaining useful life of a municipality’s TCA. It gives the reader an idea of when assets will have to be replaced.

When must PSAB be implemented?

By December 31, 2009 all municipalities will be required to prepare their financial statements in accordance with PSAB GAAP. Currently, the federal government, the three territories, and most provincial governments report in accordance with PSAB. Municipal governments in British Columbia, Alberta, Saskatchewan, Ontario and Nova Scotia have been complying with current PSAB standards and recommendations for several years. The City of Winnipeg is currently the only local government in the Province that has adopted PSAB GAAP.

What if our municipal financial report is not PSAB compliant by December 31, 2009?

Your municipal auditor will be required to include with the audited financial statement a



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qualified audit opinion that the statements do not comply with the requirements of PSAB GAAP. A qualified audit opinion may attract unwanted negative public attention and raise public apprehension over a council's management of the public purse.

A more direct result is the effect that non-compliance could have on receipt of your Federal Gas Tax funding. The Gas Tax dollars are contingent on municipalities preparing PSAB compliant information. Compliance will ensure that there is not an interruption in the Federal Gas Tax payments committed to your municipality.

How will PSAB be implemented in Manitoba?

To oversee the implementation of PSAB, a Steering Committee was formed, comprised of representatives from the AMM, MMAA, and Manitoba Intergovernmental Affairs. The Committee will provide leadership and direction to the project and ensure that key milestones are met.

A project team, resourced by both the AMM and the Department, will develop and provide all municipalities with a practical set of reference manuals along with training, advice and one-on-one assistance to Chief Administrative Officers (CAOs) and finance staff to address the technical issues created by the move to PSAB.

The adoption of PSAB GAAP is a major undertaking. There will be a significant one-time or 'bulge' effort to prepare that first set of PSAB financial statements for 2009. The implementation plan addresses the magnitude of the task by breaking the process into manageable pieces, with recommended milestones to be achieved by key target dates. The timeline is tight.

What can elected officials do to help ensure PSAB is implemented on schedule?

Encourage your administrative staff to attend training sessions offered by the PSAB project team. These sessions will explain the PSAB requirements and your staff will then be able to explain the basics of PSAB to you, the elected officials. Training for CAOs and finance staff is critical to ensure the successful implementation of PSAB. Registration for these training sessions is being managed through the AMM.

Council and the CAO will need to evaluate the amount of time and resources that will be required for the implementation of PSAB. It is also important for municipalities to ensure that their computer software program will be able to meet the requirements of PSAB GAAP.

What are the first steps?

The first major step towards PSAB compliance is the recording of the tangible capital assets (TCA) owned by the municipality. A TCA reference manual has been written and posted on the AMM website for CAO use. Twenty-two training sessions for municipal staff have been scheduled, beginning in late June until the end of September. Registrations are now being accepted through the AMM.

The first two major milestones related to TCA are:

- Identification of all municipal TCA by December 31, 2007; and
- Valuation of these TCA by March 31, 2008.

After March 31, 2008 CAOs and finance staff will need to devote time and attention to the other remaining implementation issues.

Although it seems that there is no time to lose in preparing for the change, these new municipal accounting practices will have many positive effects. The financial statement will be more readable and understandable, presenting a clear picture of the overall financial position of the municipality. Perhaps most importantly for elected officials is the fact that PSAB GAAP accounting will provide the full cost for providing services and more clearly identify the effects that funding decisions have on the financial position of the municipality. Ⓢ

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