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via-mail: EDComments@ifac.org
stepheniefox@ifac.org

Ms. Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, ON M5V 3H2

Dear Stephenie Fox:

Re: Exposure Draft – Key Characteristics of the Public Sector with Potential Implications for Financial Reporting

Thank you for the opportunity to comment on the above IPSASB Exposure Draft. The Province appreciates the efforts of you and your staff in preparing this document.

The Summary Financial Statements of the Province of British Columbia are prepared in accordance with Canadian Public Sector Accounting Board (PSAB) standards. PSAB is currently undertaking a review of its Conceptual Framework and has indicated that its taskforce undertaking this review will refer to the IPSASB Conceptual Framework Exposure Draft 1 and the accompanying Consultation Papers. The Objectives of the Key Characteristics Exposure Draft raises a question of whether it should be part of IPSASB’s Conceptual Framework, as a consequence, the Province has a particular interest in the development of this Exposure Draft.

In response to the two specific matters you have requested comment upon; the Province believes that the current Exposure Draft provides essential foundation material for the development of IPSASB’s Conceptual Framework and that it should form part of the Conceptual Framework. The province has some concerns regarding the current Exposure Draft that were not subject to specific requests for comment; these concerns are set out in Appendix A to this letter. The Province believes that the Exposure Draft should only be included in IPSASB’s Conceptual Framework after addressing the issues set out in Appendix A.

The Province appreciates the efforts of IPSASB to complete its Conceptual Framework as quickly as possible and therefore understands why an Exposure Draft covering phase 1 and the Consolidation Papers covering phases 2 and 3 have been issued.

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However, given the fundamental issues raised in regard to the current Exposure Draft it would have been better if the issues addressed in Appendix A to this letter had been resolved prior to issuing documents covering phases 1 through 3. The Province also believes that its previous submissions covering the Conceptual Framework Exposure Draft and the two Consultation Papers (phases 1 through 3 of the conceptual framework project) should be read in conjunction with this submission.

Thank you again for the opportunity to comment on the Key Characteristics of the Public Sector with Potential Implications for Financial Reporting Exposure Draft. Should you have any comments or suggestions please contact me at 250-387-6692 or by email: stuart.newton@gov.bc.ca or Carl Fischer Executive Director, Financial Reporting and Advisory Branch, at 250-356-9272 or by email: carl.fischer@gov.bc.ca.

Sincerely

[Signature]

Stuart Newton
Comptroller General
Province of British Columbia

cc: Peter Milburn, Deputy Minister
Ministry of Finance

Sabine Feulgen, Deputy Secretary to the Treasury Board
Ministry of Finance

Carl Fischer, Executive Director
Financial Reporting and Advisory Services Branch
Office of the Comptroller General

Charles Coe, Special Advisor, Accounting Policy
Office of the Comptroller General
Appendix A

The Province has concerns regarding issues that have been raised in this Exposure Draft and has explained its concerns under the main headings used in the Exposure Draft. In some cases, these explanations are summarized and should be read in conjunction with more detailed comments submitted on the earlier Conceptual Framework papers covering phases 1 though 3 of the conceptual framework project.

Introduction
The intention of providing a broad explanation to readers of the need for public sector accounting standards in the “Key Characteristics” document is appropriate but it is important to address the subtleties correctly. Paragraph 1.1 refers to providing “a general overview of, some of the main characteristics of the public sector that distinguish it from the for-profit private sector”. There are numerous references throughout the paper to differences with or from the private sector, so much so that this takes on a sense of defensiveness and, in our view, conveys a lack of confidence that public sector accounting standards should exist on their own merits. The public sector is fundamentally different than the private sector and is therefore not comparable with the private sector.

Characteristics of the Public Sector
The focus should be on the characteristics of the public sector that drive their reporting requirements. The Province believes that the basic characteristics of government will convey the need for public sector accounting standards without a need for reference to the private sector and include the following:

- Government is a not for profit organization;

- Government holds all the collective assets/resources and liabilities/obligations of the nation/jurisdiction on behalf of all of the people of the nation/jurisdiction;

- Government may acquire or own specific assets and incur specific liabilities for the purpose of achieving its policy objectives;

- Government provides goods and services to the public or on behalf of the public usually without payment (non-exchange transactions) or where payment is made it usually does not equal the cost or value of the goods or services provided;

- Government “income or revenue” results primarily from taxation which is usually unrelated to specific goods or services provided by government;

- Government does not have a financial capital base and over time accumulated surplus or deficit are driven to approximate a balanced or nil position; and

- Government is accountable to all of the people/citizens within its jurisdiction.
Reasons for Not Focusing on Comparison with Private sector

Accounting standards in the public sector may come to the same conclusion as the private sector for the same reasons; an example might be that Cash is an asset. Conversely public sector standards may come to the same or similar conclusions but for different reasons; an example might be Tangible Capital Assets (or Property Plant and Equipment). The fact that the presentation on the respective balance sheets is the same or similar is interesting but has no meaning and is of no consequence. There is no basis or reason to compare the financial statements of government or the financial performance of government with a private sector entity; they exist for fundamentally different reasons, therefore there is no reason to make comparisons regarding individual items that might appear in the respective financial statements.

Paragraph 2.2 notes that Government engages “in many commercial transactions of an exchange nature that are the same or similar to those in the private sector” including “the delivery of goods and services from private sector suppliers, such as the construction contracts, remuneration for employees under the terms of employment contracts, and borrowing and lending on money markets.” This is an example of seeking out similarities with the private sector but results in focusing attention on the form rather than the substance of transactions. The substance of all the above transactions is to provide goods and services to the public on a non-exchange basis. Accounting standards must be based on principles that reflect the substance of the issues and should not be influenced by the form of the transaction.

A case is sometimes made that comparison with the private sector is necessary to facilitate the comparison of individual government organizations with similar private sector organizations. This logic is flawed because the only basis for which comparison with the private sector would be valid is when a government organization receives revenue from the public via “exchange based transactions”, in which case, in all probability, it would be a government business enterprise (GBE) and would be following IFRS and comparability would be achieved. All other government organizations (non-GBEs) are essentially non-exchange service provision vehicles or administrative extensions of their respective ministries. It is important to ensure that public sector accounting standards are written with the government summary (consolidated) financial statements as the primary model which will also be followed by subordinate government organizations. Public sector accounting standards should not be written from the perspective of individual government organizations and imposed upwardly on the parent government.

All public sector standard setters need to justify their standards for Government accounting from scratch without reference to the private sector. The Province is concerned that frequent reference to the private sector at a micro level may create an aura of comparability when one does not exist and may facilitate the consideration or application of a private sector approach to accounting for an item with a name common to both sectors without regard for the respective substantive reasons for owning the item or the purpose to which it is put. Therefore, an asset is an asset is not a valid perspective.
Government’s Accountability
Paragraph 1.2 refers to government being accountable to a legislative body (or equivalent). The Province believes that it is accountable to all of the people; taxpayer or not, bondholder or not, wealthy or homeless, male or female; all in equal measure. Our financial statements are published on our website. Our financial statements are tabled in the legislature and discussed in the Public Accounts Committee but this is in the context of the members of the legislature acting in their capacity as elected representatives of the people. The Province believes that it is accountable to the people and as part of that process government meets with a select group of their elected representatives to answer their questions.

Information Needs of the Public
Paragraph 2.3 raises an important issue regarding the definition of the information needs of the public. That paragraph seeks to define what the information needs of the public are. The Province has two concerns in this regard. First, IPSASB makes no reference to any survey or communication with the primary user of public sector financial statements, which is the public, and is therefore speculating about what the public wants. In some cases a government organization will be established by legislation, in which case, the legislation may specify what accounting standards the entity will follow. In effect, this is the people through their elected representatives deciding what level of disclosure they feel is appropriate for their needs. Secondly, standard setters need to be conscious of the difference between producing a public good in the form of accounting standards and seeking to establish themselves as protectors of the public interest by presupposing what the public needs. Under Canada’s Constitution only the federal Parliament, Provincial/Territorial Legislatures and the Supreme Court have authority to protect the public interest. Parliament and Legislatures can delegate authority to protect the public interest via specific legislation to entities such as the Securities Commission and other regulatory boards etc. In Canada, no such authority has been delegated to any accounting standard setting body. There are many examples demonstrating the Legislature’s ability to establish disclosure standards in the public’s interest including legislation and regulations that determines disclosure requirements for both publically listed corporations and for privately held companies/partnerships. The Province adheres to legislation, passed by the people’s elected representatives, setting the accounting standards it will follow, subject to regulations that legislation decrees may be set by the Treasury Board.

Non-Exchange Transactions
Several paragraphs in section 2, 4, 5, 6 and 8 refer to the nature of non-exchange transactions or the nature of government held or specifically acquired assets or liabilities incurred in determining accounting for these items. While the Province agrees in a generic sense with these statements, the Province draws your attention to the specific issues raised in IPSASB’s Conceptual Framework papers and the Province’s answers to those specific issues.

Importance of the Budget
Section 3 discusses the importance of the budget in assessing the needs of users of financial reports and in determining the scope of financial reporting. Again the Province agrees with this statement in a generic sense. However the budget has extremely important relevance in the discussion about accounting standards and the conceptual framework.
The budget is both a government policy statement and an estimate of the cost of implementing the policies announced and any related taxation implications. The Province sees government financial statements primarily as an accountability vehicle relative to the budget and the government’s adherence to what the government indicated it would accomplish in the budget. Accounting standards should be set in a manner that ensures that the substance of the government’s policy decisions is clear and that the results of implementing these policy decisions are appropriately reflected. In other words, accounting standards should reflect the policy decisions of government, accounting standards should not drive or influence government policy decisions.

The Province believes that government does not have a capital base and that capital maintenance theory whether applied from the perspective of financial capital (with or without inflation adjustments) or from a physical capital perspective is inappropriate. Of particular concern are capital maintenance concepts supporting standard setters’ suggestions of valuing a government’s balance sheet using market prices at one point in time and revaluing it at a second point in time and measuring performance as the difference between the two net market values. This result essentially stands back and independently values the entity and would not be comparable with the budget document. The Province believes that accountability is the primary goal of financial accounting and that the cost basis of asset/liability valuation is the appropriate valuation basis for accountability. Other statements in the related Conceptual Framework papers state that an entity specific valuation method such as the cost method of asset valuation is unreliable because it represents the intentions or expectations of the entity or its management. The Province believes that its financial statements are intended to account for the impact of government’s policy decisions on the financial position of government. They are not intended to be an independent valuation they are intended to be government’s explanation of its stewardship. Considerable discussion of this topic is provided in the Province’s responses to the Conceptual Framework papers which should be read in conjunction with this response.

**Regulatory Role of Government**

In discussing the regulatory role of government (Section 7) the paper raises the possibility that government regulatory agencies might not be included in the government reporting entity. Regulatory authority, over matters within our jurisdiction, rests with government and these agencies are funded from the budget. Under PSAB standards they are included in the government reporting entity. This is a new idea or concept which is the only item in this paper that is not also addressed in the related Conceptual Framework papers. The Province would be interested in a full discussion of the logic behind this idea, without which the Province is not prepared to take a position.

**Statistical Basis of Accounting (Section 9)**

The Province cooperates with the Canadian government in supplying information under the System of National Accounts for the International Monetary Fund (IMF). The Province supports the IMF and other international agencies and is pleased to comply with the reporting requirements associated with membership in these agencies. However the Province is not accountable to the IMF, it is accountable only to the residents of the Province.
While it is good financial management to develop accounting systems that provide information for different purposes, all reporting to the IMF or related agencies is special purpose accounting and should not in any way influence general purpose accounting standards that impact the Province's accountability reporting to the public resident in our jurisdiction.