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PSAB and IPSASB: Comparing Reporting Models

Introduction

The Public Sector Accounting Board's (PSAB) Conceptual Framework for Financial Reporting in the Public Sector (the "Conceptual Framework") is the guide for setting future Canadian Public Sector Accounting Standards (PSAS).[1]

In May 2020, PSAB committed to continue developing future PSAS that serve the public interest, and agreed how it does so would change. When developing future standards, the Board will now use the principles of International Public Sector Accounting Standards (IPSAS) if an IPSAS equivalent standard already exists, and the Board determines that a modification of those principles is not required.

PSAB's "Criteria for modifying and reviewing IPSAS Principles" states that PSAB will amend an IPSAS principle in developing a Canadian standard if:

- it is contrary to the Board's Conceptual Framework; or
- the Board finds the IPSAS principle inappropriate for application in Canada based on the Canadian public interest.

In Chapter 6 of the Conceptual Framework, PSAB identified six financial statement objectives:

- determining the scope of financial statements;
- reporting financial position;
- reporting changes in financial position;
- comparing actual performance to that projected in the budget;
- disclosing non-compliance with financial authorities; and
- disclosing risks and uncertainties.

The IPSASB does not include a section on financial statement objectives in its Conceptual Framework.

The impact of this difference is that PSAB's Conceptual Framework provides the conceptual foundation for the Board's reporting model. As a result, when looking at an IPSAS to use, PSAB would also consider whether any presentation principles in the IPSAS require amendment to be consistent with the Board's reporting model.

[1] Material that links to the CPA Canada Handbook is available to subscribers only. However, all information needed to understand this document is provided in this document.

This document compares and summarizes the differences between PSAB's and the International Public Sector Accounting Board's (IPSASB) reporting models.

The differences arose because PSAB followed its due process in developing its reporting model. After consulting interested and affected parties, the Board debated the differences and deemed them appropriate.

This document was prepared by staff. It is not meant to be a complete overview nor an identification of all the differences.

Summary Comparison

The Reporting Model comparison is based on the key principles in:

- PSAB's Reporting Model, found in Section PS 1202, *Financial Statement Presentation*, of the CPA Canada Public Sector Accounting (PSA) Handbook; and
- the IPSASB's Reporting Model, found in:
  - the IPSASB's Conceptual Framework;
  - IPSAS 1, Presentation of Financial Statements;
  - IPSAS 2, Cash Flow Statements; and
  - IPSAS 24, Presentation of Budget Information in Financial Statements

  of the Handbook of International Public Sector Accounting Pronouncements, 2022 Edition.

At the time of writing this comparison, the IPSASB was in the initial stages of its Presentation of Financial Statements project. This project includes a review of the IPSASB's reporting model in IPSAS 1. As a result, in the future there may be new differences, or the differences noted may be eliminated.

The following table identifies the differences between the two reporting models.

The comparison classifies the differences as follows:

Similar/Consistent	The principles are similar.
Minor Differences Noted	The differences have no significant impact for setting future standards.
Difference Noted	The principles are different and may have a significant impact on setting future standards.

Subject	Comparison
Statement of financial position	Minor Differences Noted
Statement of operations	Minor Differences Noted
Statement of changes in net assets or net liabilities	Similar/Consistent
Statement of cash flow	Minor Differences Noted
Statement of net financial assets or net financial liabilities	Difference Noted
Presentation of the approved budget	Minor Differences Noted
Disclosing non-compliance with financial authorities	Minor Differences Noted
Disclosing risks and uncertainties	Similar/Consistent

Comparison and Implications of Differences Noted

Statement of financial position

Presentation of assets and liabilities

PSA Handbook	Handbook of International Public Sector Accounting Pronouncements, Volume 2
The statement of financial position should report financial assets, non-financial assets, total assets, financial liabilities, non-financial liabilities and total liabilities. (Paragraph PS 1202.049)	An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of financial position, in accordance with paragraphs 76-87, except when a presentation based on liquidity provides information that is faithfully representative and is more relevant. (Paragraph 70 of IPSAS 1)

PSAB considered whether assets and liabilities should be presented as current and non-current. The Board believes that, given the characteristics of public sector entities, it is more important to present the nature of the assets as financial and non-financial on the statement of financial position. Presenting financial and non-financial assets and liabilities helps to calculate the net financial assets or net financial liabilities indicator. If an entity wants to present assets and liabilities as current and non-current, this can be done in the notes to the financial statements. The Board believes that attempting to show this breakdown – in addition to the financial and non-financial presentation on the statement of financial position – would make the statement visually complex.

What does this difference mean for setting future PSAS in Canada?

When PSAB sets future standards for specific assets or liabilities by leveraging the principles in an IPSAS, the Board will need to provide additional guidance as to whether such assets or liabilities are financial or non-financial.

Definition of financial assets and financial liabilities

PSA Handbook	Handbook of International Public Sector Accounting Pronouncements, Volume 2
A **financial asset** is an asset that could be used to discharge existing financial liabilities or spend on future operations and is not for **consumption** in the normal course of operations. (Paragraph PS 1202.053) A **financial liability** is a liability that is expected to be settled using existing or future financial assets. (Paragraph PS 1202.087)	A financial asset is any asset that is: (a) Cash; (b) An equity instrument of another entity; (c) A contractual right: (i) To receive cash or another financial asset from another entity; or (ii) To exchange financial assets or financial

PSA Handbook	Handbook of International Public Sector Accounting Pronouncements, Volume 2
	liabilities with another entity under conditions that are potentially favorable to the entity; or (d) A contract that will or may be settled in the entity's own equity instruments and is: (i) A non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or (ii) A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. …. A financial liability is any liability that is: (a) A contractual obligation (i) To deliver cash or another financial asset to another entity; or (ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or (b) A contract that will or may be settled in the entity's own equity instruments and is: (i) A non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or (ii) derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. …. (Paragraph 9 of IPSAS 28, Financial Instruments: Presentation)

The definitions of “financial assets” and “financial liabilities” in Section PS 1202 are broader than those in the IPSASs. The “financial assets” and “financial liabilities” definitions in the IPSASs are linked to financial instruments.

PSAB’s definitions of a “financial asset” and a “financial liability” are designed for use in calculating the net financial assets or net financial liabilities indicator, an important indicator in the Canadian public sector.

What does this difference mean for setting future PSAS in Canada?

PSAB made consequential amendments to refer to “financial instrument assets” and “financial instrument liabilities”. The definitions for these terms are similar in substance to the “financial asset” and “financial liability” definitions used in IPSAS. So, in setting future standards based on an IPSAS, the Board will need to clarify whether reference to a financial asset and/or financial liability in an IPSAS should be amended to reference financial instrument assets and/or financial instrument liabilities.

Net financial position

PSA Handbook	Handbook of International Public Sector Accounting Pronouncements, Volume 1
The statement of financial position should account for net assets or net liabilities as the indicator of net financial position. (Paragraph PS 1202.049)	Net financial position is the difference between assets and liabilities after adding other resources and deducting other obligations recognized in the statement of financial position. (Paragraph 5.28 of the Conceptual Framework)

In its net financial position indicator, the IPSASB includes other resources and other obligations. PSAB does not.

What does this difference mean for setting future PSAS in Canada?

Since the IPSASB has not yet identified any transactions that would fall into either the “other resources” or the “other obligations” category, the net financial position indicator of both standard setters is currently the same.

If the IPSASB decides to use “other resources” and “other obligations” in an IPSAS that has principles PSAB wishes to leverage, PSAB will need to determine an alternative accounting treatment and presentation that meets the financial reporting objective of providing accountability information. This alternative accounting treatment may or may not lead to the same impact on the net financial position indicator. For example, PSAB may consider using the “accumulated-other” component of net assets or net liabilities. The “accumulated-other” component may be used to recognize items, transactions or other events that PSAB feels should be recognized outside of surplus or deficit when they arise, to better serve the accountability objective.

Components of net assets or net liabilities

PSA Handbook	Handbook of International Public Sector Accounting Pronouncements, Volume 1
An entity's net assets or net liabilities will always include the accumulated surplus or deficit component. Standards may require certain revenues or expenses to be initially recognized directly in a component of net assets or net liabilities rather than the surplus or deficit of the period in which they arise. When these requirements apply to an entity, it should report the composition of its net assets or net liabilities at the financial statement date segregated by the following main components: (a) accumulated surplus or deficit; and, if applicable (b) accumulated remeasurement gains and losses; and/or (c) accumulated other In rare circumstances, for some entities, issued share capital may be an additional component. Changes in share capital do not represent revenue or expense. (Paragraph PS 1202.112)	When an entity has no share capital, it shall disclose net assets/equity, either on the face of the statement of financial position or in the notes, showing separately: (a) Contributed capital, being cumulative total at the reporting date from owners less distributions to owners; (b) Accumulated surpluses or deficits; (c) Reserves, including a description of the nature and purpose of a reserve within net assets/equity; and (d) Non-controlling interest. (Paragraph 95 of IPSAS 1)

Both the IPSASB and PSAB have:

- components that accumulate past surpluses and deficits;
- components that accumulate gains and losses related to certain remeasurements/revaluations; and
- components related to share capital.

The differences in the components of net assets or net liabilities relate to:

- the IPSASB's non-controlling interest component;
- PSAB's accumulated-other component; and
- the items included in the components that accumulate gains and losses related to certain remeasurements/revaluations.

What do these differences mean for setting future PSAS in Canada?

Non-controlling interest: In PSAB's reporting model, a non-controlling interest component is not required because, unlike the IPSASB, PSAB requires proportionate consolidation accounting when a non-controlling interest exists. When developing future standards by leveraging principles from an IPSAS that deal with a non-controlling interest, PSAB would need to amend the accounting to be consistent with the proportionate consolidation approach.

Accumulated other: PSAB has introduced the accumulated-other component. The IPSASB does not have an equivalent component. This component is available to PSAB as a possible recognition option as it develops future standards as a way to present the economic substance of transactions and other events.

Accumulated remeasurement gains and losses: PSAB, in its accumulated remeasurement gains and losses component, includes the items identified in Section PS 2601, *Foreign Currency Translation*, and Section PS 3450, *Financial Instruments*. In contrast, the IPSASB's equivalent component, called "reserves," includes items related to foreign currency translation and financial instruments as well as:

- changes in revaluation surplus (related to property, plant and equipment and intangibles); and
- remeasurements of defined benefit pension plans.

When developing future standards by leveraging principles from an IPSAS, PSAB may decide to include additional items in the accumulated remeasurement gains and losses component.

Statement of operations

PSA Handbook	Handbook of International Public Sector Accounting Pronouncements, Volume 1
An entity should recognize all revenue and expense arising in the period in the statement of operations unless a standard requires otherwise. (Paragraph PS 1202.131)	All items of revenue and expense recognized in a period shall be included in surplus or deficit, unless an IPSAS requires otherwise.[2] (Paragraph 99 of IPSAS 1) The entity's surplus or deficit for the period is the difference between revenue and expense reported on the statement of financial performance. (Paragraph 5.32 of the Conceptual Framework)
The statement of operations should: (a) report revenues recognized in this statement segregated by significant type; (b) report expenses recognized in this statement by function or major program; and (c) account for the surplus or deficit for the period, which is the difference between the revenues and expenses recognized in the statement of operations. (Paragraph PS 1202.133)	An entity shall present…a subclassification of total revenue, classified in a manner appropriate to the entity's operations. (Paragraph 108 of IPSAS 1) An entity shall present…an analysis of expenses using a classification based on either the nature of the expenses or their function within the entity, whichever provides information that is faithfully representative and more relevant. (Paragraph 109 of IPSAS 1) Entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortization and employee benefits expense. (Paragraph 115 of IPSAS 1)

The two minor differences between the statement under IPSASB's and PSAB's reporting models are:

- the name of the statement; and
- the presentation of expenses.

Name of the statement

In developing the Canadian public sector reporting model, PSAB preferred the name "statement of operations" over "statement of financial performance" because financial performance is a broader concept, the reporting of which is beyond the scope of financial statements. Surplus or deficit is only one aspect of financial performance and is the bottom-line indicator on the statement of operations. Further, based on feedback received from Canadians, "statement of operations" is their preferred name.

[2] Some IPSASs deal with items that may meet the definitions of "revenue" or "expense" but are excluded from surplus or deficit. These IPSASs require that these items be recognized directly in net assets or net liabilities.

Presentation of expenses

IPSASB allows presentation of expenses by function or object on the statement of financial performance. PSAB decided to retain existing requirements for presentation of expenses by function on the statement of operations and disclosure of the nature (object) of the expenses in the notes for the following reasons:

- it provides accountability for the total costs for each major function of the public sector entity;
- it is useful for understanding the cost of the public sector entity's economic resources consumed in meeting its objectives; and
- it allows financial statement readers to compare the costs of each function to its total costs and, as a result, obtain information about the public sector entity's priorities (e.g., the percentage of revenue used for education could be compared to the amount used for health).

What do these differences mean for setting future PSAS in Canada?

Name of the statement: PSAB does not expect the different name of the statement to affect future standard setting.

Presentation of expenses: The different presentation of expenses may require PSAB to amend the presentation requirements in future standards it develops by leveraging IPSAS principles to be consistent with the requirement in Section PS 1202, (i.e., to present expenses by function or major program).

Statement of cash flow

PSA Handbook	Handbook of International Public Sector Accounting Pronouncements, Volume 1
The statement of cash flow should report cash flows during the period classified by operating, capital, investing and financing activities. (Paragraph PS 1202.175) If an entity enters into financing activities, the statement of cash flow should account for the net cash available to be used for financing activities or the net cash needed to be generated by financing activities. (Paragraph PS 1202.192)	The cash flow statement shall report cash flows during the period classified by operating, investing, and financing activities. (Paragraph 18 of IPSAS 2)

The IPSASB provides a greater level of detail for this statement in IPSAS 2, a standard separate from the financial statement presentation standard, IPSAS 1. PSAB deals with the statement of cash flow only in the reporting model standard, at approximately the same level of detail as for other financial statements. In addition to this, two minor differences between the statement of cash flow under IPSASB's and PSAB's reporting models are:

- the PSAB requirement for presentation of capital activities; and
- the PSAB requirement for isolation of financing activities.

Presentation of capital activities

PSAB decided to retain the presentation of capital activities in the statement of cash flow, as these are significant in the public sector.

Isolation of financing activities

PSAB decided to highlight net cash before financing activities after all other categories of cash inflows and outflows for the period are presented and, as a result, isolate financing activities. Such presentation would show whether all of an entity's other activities combined resulted in the need for cash to be raised through financing activities. This presentation highlights one aspect of the entity's sustainability. Reporting sustainability is an important dimension of accountability reporting, and it is important to many of the respondents to PSAB's Consultation Paper 1, "Characteristics of Public Sector Entities," and Consultation Paper 2, "Measuring Financial Performance in Public Sector Financial Statements."

What do these differences mean for setting future PSAS in Canada?

Presentation of capital activities: This difference may require PSAB to amend the presentation requirements in future standards it develops by leveraging IPSAS principles to be consistent with the requirement in Section PS 1202 (i.e., present capital activities within the statement of cash flow).

Isolation of financing activities: PSAB does not expect this difference will affect future standard setting. This cash flow presentation requirement only affects how the categories of cash flow activities are ordered, not the items presented in each category.

Statement of net financial assets or net financial liabilities

The IPSASB does not require reporting the net financial assets or net financial liabilities indicator (formerly known as “net debt”) in financial statements. So, the IPSASB does not require a statement of net financial assets or net financial liabilities to present the indicator. PSAB does require the indicator and a separate financial statement to report it. PSAB is of the view, and many affected and interested parties strongly agreed, that the net financial assets or net financial liabilities indicator is an important indicator. However, nothing in the IPSAS prohibits a preparer from calculating and presenting the indicator.

What does this difference mean for setting future PSAS in Canada?

When PSAB sets future standards for specific assets or liabilities by using the principles in an IPSAS, the Board may need to provide additional guidance as to the impact on the net financial assets or net financial liabilities indicator.

Presentation of the approved budget

Requirement to present the budget

PSAB believes that all public sector entities should present their approved budget on the statement of operations because the comparison of actual financial statement results with those budgeted is a fundamental component of the financial accountability cycle in the public sector. Actual-to-budget comparison provided in the financial statements forms the basis for closing the accountability cycle. It is crucial for users to be able to compare what actually happened with what was planned or budgeted.

IPSAS 24, *Presentation of Budget Information in Financial Statements*, applies only to those entities that are required to or elect to make publicly available their approved budgets.

What does this difference mean for setting future standards?

PSAB does not expect this difference will affect future standard setting, as:

- the budget requirements in Section PS 1202 would be retained; and
- individual IPSAS, other than IPSAS 24, normally do not discuss the impact of items, transactions or other events on the budget.

Location of the presentation of the budget

PSA Handbook	Handbook of International Public Sector Accounting Pronouncements, Volume 1
The statement of operations should present a comparison of the actual financial performance of the accounting period with that originally budgeted. (Paragraph PS 1202.202) If an entity reports the change in net financial assets or net financial liabilities on the statement of net financial assets or net financial liabilities, the statement should present a comparison of the items that comprise the change in net financial assets or net financial liabilities for the accounting period, as well as the change in net financial assets or net financial liabilities for the period, with the figures originally budgeted. A comparison to budget is not required for remeasurement gains and losses. (Paragraph PS 1202.204) If an entity chooses not to report the change in net financial assets or net financial liabilities, it should disclose in the notes or schedules a comparison of the total actual capital expenditures incurred in the period with those originally budgeted. (Paragraph PS 1202.205)	Subject to the requirements of paragraph 21, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts, either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with IPSASs. (Paragraph 14 of IPSAS 24)

The IPSASB requires an entity to present a comparison of the budget amounts for which it is held publicly accountable and the actual amounts, either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with IPSAS 1. PSAB requires the budget be presented on the existing financial statements (i.e., a column to the statement of operations). PSAB was of the view that the current practice of presenting the budget on the statement of operations provides the strongest public accountability.

What does this difference mean for setting future standards?

PSAB does not expect this difference will affect future standard setting, as:

- the budget requirements in Section PS 1202 would be retained; and
- individual IPSASs, other than IPSAS 24, normally do not discuss the impact of items, transactions or other events on the budget.

Presentation of multiple budgets

PSA Handbook	Handbook of International Public Sector Accounting Pronouncements, Volume 1
The statement of operations should present a comparison of the actual financial performance of the accounting period with that originally budgeted. (Paragraph PS 1202.202) The budget amounts on the face of the financial statements or disclosed in the notes or schedules, as required by paragraphs PS 1202.202 and PS 1202.204-.205, should be presented: using the same basis of accounting, following the same accounting principles, for the same scope of activities, and using the same classifications as the actual amounts. (Paragraph PS 1202.210)	… an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts, either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with IPSASs. The comparison of budget and actual amounts shall present … The original and final budget amounts… (Paragraph 14 of IPSAS 24)

The IPSASB requires that the comparison of budget and actual amounts presents the original and final budget amounts.

PSAB believes that the approved original budget should be presented on the financial statements:[3]

- It is the budget that was thoroughly considered and approved by the appropriate authority.
- It is the budget against which an entity is held accountable.

Having more than one budget column on the statement of operations may complicate the actual-to-budget comparison and reduce the accountability provided by the comparison.

[3] There are exceptions to this requirement.

What does this difference mean for setting future standards?

PSAB does not expect this difference will affect future standard setting, as

- the budget requirements in Section PS 1202 would be retained; and
- individual IPSASs, other than IPSAS 24, normally do not discuss the impact of items, transactions or other events on the budget.

Explanation of material differences between the budget and actual amounts

PSA Handbook	Handbook of International Public Sector Accounting Pronouncements, Volume 1
No requirement in Section PS 1202.	… an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts, either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with IPSASs. The comparison of budget and actual amounts shall present … By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes. (Paragraph 14 of IPSAS 24)

The IPSASB requires an explanation of material differences between the budget for which the entity is held publicly accountable and the actual amounts in the notes unless such explanation is included in other public documents issued in conjunction with the financial statements. PSAB does not.

What does this difference mean for setting future standards?

PSAB does not expect this difference will affect future standard setting, as many entities have chosen to implement Statement of Recommended Practice SORP-1, *Financial Statement Discussion and Analysis*, which encourages entities to include a discussion of variances between actual and budget amounts.

Restating actuals versus budget figures

PSA Handbook	Handbook of International Public Sector Accounting Pronouncements, Volume 1
When the basis of accounting, accounting principles, scope or classification used in the budget is different from that used for the financial statements, the approved budget amounts would need to be restated, and the restated amounts would be identified and reported as such on the face of the statement of operations.[4] Note disclosure or a schedule would reconcile the restated budget numbers back to those approved in the original budget. These reconciliations would need to be understandable and based on appropriate information to allow the user to hold the entity to account. (Paragraph PS 1202.212)	An entity shall present a comparison of budget and actual amounts as additional budget columns in the financial statements only where the financial statements and the budget are prepared on a comparable basis. (Paragraph 21 of IPSAS 24) When the budget and the financial statements are not prepared on a comparable basis, a separate Statement of Comparison of Budget and Actual Amounts is presented. In these cases, …the Statement of Comparison of Budget and Actual Amounts is prepared on the budget basis. (Paragraph 23 of IPSAS 24) The reconciliation [between the actual amounts prepared on a comparable basis to the budget and the actual amounts presented in the financial statements] shall be disclosed on the face of the statement of comparison of budget and actual amount, or in the notes to the financial statements. (Paragraph 47 of IPSAS 24)

If the budget and the actuals are not prepared in the same manner, PSAB requires the budget numbers be restated. However, the IPSASB requires the actual numbers be restated in accordance with how the budget is prepared.

PSAB believes that since the actual amounts are audited, users can have some level of comfort in these numbers. As a result, the PSAB believes that it is more appropriate to restate the budget numbers to be consistent with the basis of accounting, accounting principles, scope and classification used in the financial statements.

What does this difference mean for setting future standards?

PSAB does not expect this difference to affect future standard setting, as:

- the budget requirements in Section PS 1202 would be retained; and
- individual IPSASs, other than IPSAS 24, normally do not discuss the impact of items, transactions or other events on the budget.

[4] The same requirement applies to the statement of net financial assets or net financial liabilities if an entity chooses to present the change in net financial assets or net financial liabilities in accordance with paragraph .204.

Disclosing non-compliance with financial authorities

PSAB requires that financial statements disclose when an entity's revenue, borrowing, investing, expense and expenditure are not within the limits authorized by its financial authorities. The IPSASB does not.

What does this difference mean for setting future standards?

PSAB does not expect this difference to affect future standards setting. The disclosure requirements in Section PS 1202 would be retained.

Contacts

Antonella Risi, CPA, CA
Associate Director, Public Sector Accounting
Phone: +1 (416) 204-3484
Email: arisi@psabcanada.ca

Martha Jones Denning, CPA, CA
Associate Director, Public Sector Accounting
Phone: +1 (416) 204-3288
Email: mjonesdenning@psabcanada.ca