Updates to Public Sector Accounting Standards

October 2023

Saskatchewan

The Public Sector Accounting Board regularly updates their Public Sector Accounting Standards.

However, new accounting standards introduced for the reporting year ending December 31, 2023, include more complex changes that may require additional time and consideration from municipalities and their auditors.

The new sections under these standards impacting municipalities and their auditors are:

- Financial instruments (PS 3450),
- Foreign currency translation (PS 2601),
- Portfolio investments (PS 3041),
- Asset retirement obligations (PS 3280), and
- Financial statement presentation (PS 1201).

Financial Instruments

The new section PS 3450 Financial instruments is an addition to the Public Sector Accounting Standards that provides guidance on reporting derivative and non-derivative financial instruments. Previous standards specifically for financial instruments did not exist.

A financial instrument is any contract that gives rise to the financial assets of one entity and the financial liabilities or equity instruments of another entity. Inclusion of this new section will help provide guidance on how these are reported and accounted for.

Foreign Currency Translation

The new section PS 2601 Foreign currency translation replaces the former section PS 2600 Foreign currency translation.

The former section requires that monetary assets and liabilities denominated in a foreign currency be adjusted to reflect the exchange rates in effect at the date of the financial statement. The updated section now requires that non-monetary items included in the fair value category that are denominated in a foreign currency be accounted for as well. This will be reflected in the newly introduced Statement 5, Statement of Remeasurement Gains and Losses, of the 2023 Financial Statement template.

Portfolio Investments

Section PS 3041 Portfolio investments was amended to reflect the adoption of the above-noted sections (PS 3450 Financial Instruments and PS 2601 Foreign currency translation). As such, all three of these sections must be adopted simultaneously.

Portfolio investments are investments in organizations that do not form part of the government reporting entity. Such investments are normally in equity instruments or debt instruments issued by the investee such as stocks, bonds, and mutual funds.

This new standard has removed the distinction between temporary and portfolio investments. With the adoption of the above-noted sections, temporary investments will no longer apply.

Asset Retirement Obligations (ARO)
The new section PS 3280 Asset retirement obligations replaces the former section PS 3270 Solid waste landfill closure and post-closure liability.

Questions and Answers

1. **What is an ARO?**
   - An asset retirement obligation refers to all legal obligations (such as agreements, contracts, legislation, or regulations) associated with the permanent removal of a tangible capital asset from service.
   - This includes, but is not limited to, the sale, abandonment, decommissioning, dismantling, removal, and/or disposal of long-lived assets meeting recognition criteria, such as wastewater treatment facilities and buildings.

Costs within scope	Costs outside scope
• All tangible capital assets controlled by the municipality, • Includes owned assets and leased assets, • Assets in or not in productive use, and • Fully amortized and unrecognized tangible capital assets.	• Routine replacement or maintenance, • Improper use of a tangible capital asset, • Costs associated with contamination that are already covered by PS 3260, • Waste or by-products created by an asset, and • Preparing an asset for alternative use.

2. **How do I know if I have to recognize an ARO?**
   - An ARO should be recognized when:
     - There is a legal obligation to incur retirement costs,
     - A past transaction or event giving rise to the liability has occurred,
     - Future economic benefits are expected to be given up, and
     - A reasonable estimate of the amount can be made.

3. **How does this impact me?**
   - These new accounting standards, specifically regarding AROs, will likely take time and planning to work through.
   - It would be wise to start compiling and reviewing your list of assets well before the end of the reporting year to allow enough time to make proper estimates.
   - In some cases, you may find it helpful to consult with your auditor or an independent contractor to provide estimates on projected costs.
   - You will want to ensure that AROs are accounted for in accordance with PS 3280.
   - Determine ARO estimate, verify ARO entries are appropriately recorded, and keep all the supporting documentation for any required examination during the year-end audit.
   - The municipality can choose whether to restate prior period balances for comparative purposes as a result of the implementation of the above-mentioned accounting standards.
   - Consult your auditor if you have any questions regarding your options.

4. **Where do I start?**
   - Asset retirement obligations are not a new concept and have been around for a long time. However, this is the first fiscal year in which the public sector, including municipalities, are required to account for the estimated cost of these obligations on their year-end financial statements.
   - It is important that municipalities engage their auditors and operational stakeholders early to ensure plenty of time to work through this new standard well before the end of the reporting year.
   - It may be helpful to consider the following steps to getting started:

     I. **List –** Create a list of all the tangible capital assets owned, leased, or controlled by your municipality.

     II. **Investigate –** From the list, flag assets that may have asset retirement obligations and do some investigating. For this step, it may be beneficial to obtain an independent contractor to help assess the assets.

     III. **Decide –** After consulting with an independent contractor and/or your auditor, solidify the list of assets that have asset retirement obligations.

     IV. **Confirm –** Work with your auditors to confirm that there are no other AROs for tangible capital assets not recorded.

5. **This is a lot of information, and I still have questions about what I need to do differently than last year. Who can I talk to?**
   - Your auditors are aware of and well-versed in the changes to the public sector accounting standards and should be able to answer any questions you may have about how they apply specifically to your municipality.

It is important that you contact them early in the year, so you are fully aware of the types of documentation you need to start gathering for your year-end financial statements.