

Province of New Brunswick

Department of Local Government – Implementation of PSAB

Summary Document for Controlled Entities

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Introduction

All municipal units in New Brunswick are required to adopt the Public Sector Accounting Handbook (PSA) as set out by the Canadian Institute of Chartered Accountants (CICA). As such, all of the entities under the control or shared control of the municipality are to be consolidated into the annual financial statements of the Municipality.

This summary document is being provided to assist you in getting started with identifying the entities that each unit deals with and determining whether or not control exists; what type of entity it is; and which consolidation method to utilise during consolidation.

Controlled Entities Project Plan

All municipal units enter into transaction with at least one other municipal type entity during the course of providing services to the residents within that municipal area of responsibility. All these transactions must be reviewed to determine whether or not those transactions give rise to a situation where the unit is in fact controlling the operations of the other entity. The process of reviewing all such transactions may be time consuming and the team assigned to do this must be led by an accountant that clearly understands the concepts.

Step 1

Identify the person who will be in charge of project management and accountable for results and timing. This person will need to be a good project manager.

Step 2

Identify the team who will be assigned to collect the data. The people who gather the financial information will not need to be accountants, they can be from various departments, council members or students hired for the summer. However, the people who will determine if control exists should be from the finance department.

Step 3

Determine the project outcomes and timelines that will meet the Province of New Brunswick's requirement to be compliant by 2012.

Step 4

Review current data available on the transaction with your Municipal unit. Does the unit control the other entity? Review of financial statements of the other entities. Determine type of entity. Determine consolidation method

Step 5

Get started today.

Determination of Control

After your team has been established, you will need to identify all transactions with other entities. The time required to complete this part of the project will depend on how large your municipal unit is and how complex your operations are. It will be easy to identify the transactions. However, determining control can be very difficult and subjective.

The CICA is very specific in PSAB section 1300 on the process to go through to determine if control exists. You will need to work through the indicators of control for each entity that you are considering whether control exists.

Some of the persuasive indicators are:

- 1) government has the power to unilaterally appoint or remove a majority of the members of the governing body of the organization;
- 2) government has ongoing access to the assets of the organization, has the ability to direct the ongoing use of those assets, or has ongoing responsibility for losses;
- 3) government holds the majority of the voting shares or a "golden share" that confers the power to govern the financial and operating policies of the organization; and
- 4) government has the unilateral power to dissolve the organization and thereby access its assets and become responsible for its obligations.

Then there are several more indicators that need to be worked through, some indicators will need to be weighted based upon importance in each circumstance. See Appendix B for all the relevant indicators and the discussion provided by PSAB.

Types of Controlled Entities

There are four types of controlled entities that will need to be reported on by the Municipal Unit:

- 1) *Government Business Enterprises – PSAB Section 3070*

A government business enterprise (GBE) is an organization that has all of the following characteristics:

- a) it is a separate legal entity with the power to contract in its own name and that can sue and be sued;
- b) it has been delegated the financial and operational authority to carry on a business;
- c) it sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity; and

- d) it can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.

GBEs will be required to adopt International Financial Reporting Standards (IFRS) for 2012.

2) *Government Partnerships – PSAB Section 3060*

A government partnership is a contractual arrangement between the government and a party or parties outside of the government reporting entity that has all of the following characteristics:

- a) the partners cooperate toward achieving significant clearly defined common goals;
- b) the partners make a financial investment in the government partnership;
- c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and
- d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

3) *Government Not-For-Profit Organizations*

Government NFPOs are currently under review by the CICA and PSAB to determine the best accounting methodology to adopt for 2012. There is an exposure draft issued that outlines the considerations being reviewed.

4) *Other Government Organizations*

Other government organizations (OGO) will be allowed self-selection such that they would be able to choose between IFRS and the PSAB Handbook.

Consolidation Methods

There are three types of consolidation methods to be applied:

- 1) Full line for line consolidation
- 2) Proportionate line for line consolidation

- 3) Modified Equity Consolidation

Each type applies to a certain type of entity, as follows:

- 1) Full line for line consolidation will be used to consolidate departments and 100% owned government organization
- 2) Proportionate line for line consolidation will be used to consolidate partially owned government organizations and government partnerships
- 3) Modified equity will be used to consolidate Government Business Enterprises