

APPENDIX "A"

Unique Characteristics of Government

APPENDIX A

UNIQUE CHARACTERISTICS OF GOVERNMENT

#	Unique characteristics	Explanation	Reporting implications
1	Government's goal is to provide services and redistribute resources, not make a profit.	<p>Government accountability is primarily for the level, quality and cost of services provided. Some governments redistribute resources through grants, concessionary loans and other transfers, in accordance with government objectives. In fact, most resource redistribution involves service provision by one level of government or another, except for welfare and other monetary assistance programs.</p> <p>The ability of a government to afford existing services and meet the need for new services is also key information.</p>	<p>Net cost of services and affordability of services should be reported.</p> <p>The net economic resources (net assets) available to use in providing future services should be reported.</p>
2	Most government tangible capital assets are different in nature than those held by a business.	<p>Most government tangible capital assets represent service capability, rather than future cash inflows to the government. They, and other non-financial assets, therefore represent the portion of the government's financial position that is unexpired service potential. The distinction between financial and non-financial assets of a government is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non-financial assets are normally used only for service provision, unless they are sold and thus converted back into financial assets.</p>	<p>Financial assets and non-financial assets should be reported separately on the statement of financial position.</p> <p>The net financial resources / net debt of the government and the net economic resources (accumulated surplus / [deficit]) measures should both be reported on the statement of financial position as they represent different perspectives of the government's financial position.</p>

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3	Government capital spending may not focus on maximizing financial return because government objectives are broader.	A business is interested in what acquired capital will produce — the end product and the related net cash inflows. For government, the end product might not always be financial. Sometimes it is the process of building the capital that achieves a government objective (for example, providing employment or regional development).	Capital spending and its effect on net debt must be highlighted in the financial statements.
4	The principal source of revenue for governments is taxation.	The payment of taxes is obligatory — not part of an exchange transaction nor a voluntary contribution or investment. The bulk of government revenues do not arise from the direct sale of goods and services.	Ability to tax = ability to spend. So net debt needs to be reported because it represents the government's future revenue requirements based on past transactions and events (such as spending) to be met from future taxes and is an indication, therefore, of the affordability of additional spending.
5	Senior governments hold assets acquired in right of the Crown.	For many governments, the value and use of these items far outweigh the value and use of recognized assets. A business does not have access to these types of assets unless they are paid for.	Practical issues regarding the measurement and valuation of these assets prevent their financial statement recognition; however, disclosure of the existence of these assets is key to understanding the government's total economic resources.
6	Governments operate in a non-competitive environment. 1a(1)	No competitive market for most government outputs means that there is no independent indication of their value. And many of the services provided by government are unlikely to be	Net cost of services and affordability of services are the financial measures required, but these are not enough to show the efficiency and effectiveness of

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provided by anyone else, such as welfare and defence. The benefits of government services cannot be measured solely by a bottom line that shows net revenues or expenses.

government services.

Performance measurement information is needed, too. There is no one measure of government performance. Non-financial performance measures are also needed.

7 **A government's budget portrays public policy, establishes estimates of revenue, expense, expenditure and financing requirements and is an important part of the government accountability cycle.**

The budget includes financing requirements for operating and capital spending. It sets tax rates and decides borrowing requirements. A comparison of actual-to-budget amounts demonstrates public accountability for government finances.

Actual-to-budget comparisons should be provided in the financial statements.

8 **Some governments have debt capacities unparalleled by most other organizations in Canada.**

Some governments' only limits on their borrowing are the ability of their tax base to bear the debt burden and the financial community's assessment of that ability. Businesses are normally reined in sooner than governments. The federal government can control the money supply and has access to international agreements that no other organizations have recourse to. Both factors are taken into account in any assessment of its ability to service its debt load. High debt levels affect the flexibility of all levels of government in providing programs and services, especially in times of economic downturns.

Debt and net debt are crucial to highlight in government financial statements.

9 **Governments are held to a**

A broader public accountability must be

The nature of taxpayers as contributors to

Public Sector Accounting Handbook

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higher standard of
accountability than a business
or a not-for-profit
organization.

Explanation

demonstrated in government financial statements because the nature of a democratically elected government requires a degree of transparency in financial reporting that most private sector reports do not offer. The level of understanding of government finances held by most financial statement users demands this greater transparency. Governments are accountable to taxpayers on many levels, in contrast to the more limited accountability a company has for return on investment to a limited group of investors.

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government finances requires that they be given simple yet robust information about what has been done with their money — that is, complete information about the government's financial position and results is needed and each financial statement should convey clear, key messages about government finances.

Endnotes

1 (Popup - Popup)

1a. Some government business enterprises (as defined in GOVERNMENT REPORTING ENTITY, Section PS 1300) operate in competitive environments. For the purposes of their own financial statements, government business enterprises follow the standards in the CICA Handbook – Accounting for profit-oriented enterprises.