



Issue Date:	Effective Date: <b>March 2009</b>	Responsible Agency: <b>Office of the Comptroller General</b>	Directive No: <b>602</b>
Chapter: <b>Government Accounting Policy</b>			
Directive Title: <b>CONSOLIDATED FINANCIAL STATEMENTS</b>			

## 1. POLICY

In accordance with the requirements of *s.45* of the *Nunavut Act*, the Territorial Accounts shall be prepared in such form as the Commissioner may direct and in accordance with accounting principles recommended by the Canadian Institute of Chartered Accountants.

## 2. DIRECTIVE

The Comptroller General will prepare consolidated financial statements that include all of the organizations that make up the government reporting entity, as well as its share of government partnerships, in accordance with Generally Accepted Accounting Principles (GAAP) as recommended by the Canadian Institute of Chartered Accountants through the Public Sector Accounting Board (PSAB). The consolidated financial statements will be tabled in the Legislative Assembly in accordance with *s.74* of the *Financial Administration Act (FAA)*.

Where an organization falls within the criteria for inclusion in the government reporting entity, but in the professional judgment of the Comptroller General, its inclusion in the financial statements of the consolidated reporting entity would not be appropriate, the organization may be excluded from the government reporting entity. In assessing the appropriateness of excluding the organization, the Comptroller General shall consider the criteria stated by PSAB for departing from its recommendations. These are: significance of the organization being excluded, cost versus benefit to the users of the financial statements and professional judgment of what constitutes fair presentation or good practice.

Related boards, agencies, funds, and enterprises which are deemed by the Comptroller General to fall within the government reporting entity, as well as any government partnership, shall provide, within the time frames established annually by the Department of Finance, any appropriate accounting information which may be required in order to facilitate the preparation of consolidated financial statements.

The information required above must be prepared in sufficient time to meet the requirements of s.74 of the *FAA*.

### **3. PROVISIONS**

- 3.1. The eligibility of entities to be included in the government reporting entity will be determined by the Comptroller General, in accordance with the recommendations of PSAB.
- 3.2. Government financial statements shall consolidate government units line-by-line on a uniform basis of accounting after eliminating inter-governmental unit transactions and balances.
- 3.3. Government business enterprises will be reflected in the Government's financial statements using the modified equity method of accounting.
- 3.4. Government partnerships will be reflected in the Government's financial statements using the proportionate consolidation method.
- 3.5. Government business partnerships will be reflected in the Government's financial statements using the modified equity method.
- 3.6. Information requirements, formats, and timetables for submission by government organizations and government partnerships, for the preparation of the Public Accounts, will be established by the Comptroller General and provided to the organizations and partnerships on a timely basis.

## **APPENDIX A**

### **DEFINITIONS**

#### **Consolidation**

Consolidation is an accounting process whereby the financial statements of the reporting entities are combined on a line by line basis after eliminating inter-governmental transactions and balances. The consolidation is performed using a uniform basis of accounting for the reporting entities.

#### **Control**

Control is the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities.

#### **Government Organization**

A government organization is an organization that is controlled by the Government. They include both government units and government business enterprises.

#### **Government Business Enterprise**

A government business enterprise 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.

#### **Government Business Partnership**

A government business partnership has the same characteristics as a government business enterprise defined above.

#### **Government Business-Type Enterprises**

A government business-type organization is a government 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; and
- (c) it sells goods and services to individuals and organizations as its principal activity.

Unlike government business enterprises, government business-type enterprises normally rely on government assistance for their day to day operations and may, in the normal course of operations, sell their goods and services to individuals and organizations within the government reporting entity.

### **Government Partnership**

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.

Government partnerships do not include contracts such as leases and sale-leasebacks; purchase/sale transactions such as outsourcing of services or management contracts; contributions under shared cost arrangements; loans or loan guarantees.

### **Government Reporting Entity**

The government reporting entity includes the government organizations that are controlled by the Government as determined by the Comptroller General.

### **Government Unit**

A government unit is a government organization that is not a government business enterprise. Government units would include: government not-for-profit organizations, and government business-type organizations.

### **Modified Equity Method**



The modified equity method is a method of accounting for the investment in a government business enterprise and government business partnerships in the consolidated financial statements of the Government. Under this method, the net financial position and operating results of government business enterprises or government partnerships are reflected in the consolidated financial statements as a one-line item. While unrealized profits and losses resulting from inter-entity transactions are eliminated, other inter-entity transactions and balances are not. The true equity method is "modified" in that the accounting policies of the component entities are not adjusted to conform to that of the Government.

### **Proportionate Consolidation Method**

Proportionate consolidation is a basis of accounting for a government's interest in government partnerships, other than government business partnerships, whereby a government's pro rata share of each of the assets, liabilities, revenues and expenses that are subject to shared control, is combined on a line-by-line basis with similar items in the government's financial statements using similar accounting policies and eliminating the proportionate share of inter-governmental balances and transactions.