Post-Implementation Review: Section PS 3410, Government Transfers

November 2014

COMMENTS TO PSAB MUST BE RECEIVED BY MAY 15, 2015

A response form has been posted with this document to assist you in submitting your comments to PSAB. Alternatively, you may send comments via email (in Word format), to: ed.psector@cpacanada.ca addressed to:

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Overview

Introduction

PSAB’s Due Process Procedures requires that the Public Sector Accounting Board (PSAB) carry out a post-implementation review of each new standard or major amendment. Such reviews consider whether a new or amended standard has been implemented and achieved the intended objectives.

A Request for Information is one of the procedures used by PSAB to gather evidence of how a new or amended standard is being implemented. Other procedures may include review of project documents, financial statements of public sector entities, informal consultation, and surveys.

Objective

The requirement to carry out a post-implementation review for each new or amended standard was added to the PSAB’s Due Process Procedures in September 2012.

While a post-implementation review of GOVERNMENT TRANSFERS, Section PS 3410, is not required because the revised standard was issued in 2010, prior to the post-implementation review requirement, there are indications of different interpretations and applications of the standard.

PSAB is keenly aware that difficult decisions were needed during the implementation process. Now that stakeholders have had an opportunity to work through the issues related to Section PS 3410, PSAB would appreciate learning how you dealt with those issues and if you see any issues on a go-forward basis. Undertaking this post-implementation review will help PSAB assess any implementation challenges encountered by stakeholders, and the nature, extent and cause of any ongoing issues.

Next steps

Findings from responses to this Request for Information, together with evidence gathered through other formal and informal procedures will form the content of a post-implementation review report. PSAB will deliberate on the findings of the review to consider the appropriate next steps.

Responses requested

Individuals, governments and organizations are invited to send written comments on the Request for Information. Respondents who audit different types of public sector entities or entities that operate under different government transfers environment or circumstances should fill out a response form for each type of entity, where applicable and appropriate. Please check the “multiple submissions” box in the response form and use the same organization name for all the submissions.
Implementation of a new or amended standard for the first time often involves significant work and substantial discussions between preparers and auditors. While PSAB is interested in how Section PS 3410 was implemented, it is also interested in any ongoing application issues that remained unresolved. Please describe these issues, if any, in your answer to Question 8, Other Comments.
Post-implementation Review:
Section PS 3410, Government Transfers

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Background about the entity

1 Knowing the background of your entity or the entity(ies) you audited would help us understand your answers to questions in this Request for Information.

Question 1

(a) What is the nature of your (audited) entity?

- Government
- Government not-for-profit organization
- Other government organization
- Government partnership

(b) To which level of government does your (audited) entity belong?

- Federal
- Provincial
- Territorial
- Municipal

(c) What was your role in the implementation of Section PS 3410?

- Preparer
- Transferring government
- Auditor
- Recipient

(d) Is your (audited) entity subject to a balanced budget legislation or requirement?

- Yes
- No

If yes, please describe in what way, if any, the legislation or requirement has affected the entity’s accounting policy on government transfers.

(e) Is your (audited) entity subject to any legislation or regulation that prescribes the accounting treatment for transfers?

- Yes
- No

If yes, please:

(i) provide the name of the legislation/regulation and quote (or provide a link to) the relevant section(s); and

(ii) describe in what way it has affected your accounting policy on government transfers.

(f) Is there any government transfers issue identified in the audit opinion of your (audited) entity’s financial statements?

- Yes
- No
Recipent revenue recognition of capital transfers

2 This appears to be the most controversial issue relating to the implementation of the standard. In general, capital transfers may be provided with:

(a) no stipulations;

(b) stipulations requiring that the transfer be used for construction or acquisition of a tangible capital asset;

(c) stipulations requiring that the tangible capital asset be used for delivery of program or services over its useful life; and

(d) stipulations requiring refund of a portion of the transfer if the tangible capital asset is not used for service delivery or is disposed of before the end of its useful life.

3 Section PS 3410 takes a liability approach, meaning revenue recognition is based on assessing whether stipulations alone, or together with actions and communications of the recipient created an obligation that meets the definition of a liability. Reference is made to the definition and characteristics of a liability in the standard.

4 Three high-level views on recipient revenue recognition of capital transfers were recognized by PSAB when it approved the standard.

(a) Revenue recognition is appropriate once a transfer is authorized and eligibility criteria have been met.

(b) Revenue recognition over the period(s) the related asset was acquired or constructed is appropriate because capital transfers are financing for the acquisition or construction of the tangible capital asset.

(c) Revenue recognition over the useful life of the tangible capital asset is appropriate because capital transfers are provided to fund capacity for future services.

5 PSAB is interested in understanding how public sector entities and their auditors have applied the liability definition and characteristics in making the revenue recognition assessment of capital transfers. This would help PSAB assess the nature, extent and cause of any difference in interpretations and applications.
**Question 2**

(a) Did your (audited) entity change the accounting policy regarding revenue recognition of capital transfers in implementing Section PS 3410?

- Yes □
- No □

If yes, please describe:

(i) how the accounting policy has changed (and/or provide a copy of or a link to the description) and the rationale; and  

(ii) any issues or concerns the auditor had with the entity's interpretation and his/her rationale.

If no, please:

(i) explain why changes in accounting policy are not required; and  

(ii) describe any issues or concerns the auditor had with the entity's interpretation and his/her rationale.

(b) Did your (audited) entity have a deferred capital contribution balance prior to implementing Section PS 3410?

- Yes □
- No □

If your answer to question (b) is yes, did your (audited) entity perform a liability test for the deferred capital contribution balance upon implementing Section PS 3410?

- Yes □
- No □

If yes, please describe:

(i) the specifics of the test (and/or provide a copy of or a link to the description) and the rationale; and  

(ii) any issues or concerns the auditor had with the test and his/her rationale.

If no, please explain:

(i) why a liability test for the deferred capital contribution balance upon implementing Section PS 3410 was not needed; and  

(ii) any issues or concerns the auditor with not performing a liability test and his/her rationale.

If your answer to question (b) is yes, what happened to the deferred capital contribution balance at the date of implementation of Section PS 3410?

- Eliminated □
- Reduced □
- Retained □
(i) Please describe the terms of the capital transfers and the rationale for the elimination/reduction/retention of the deferred capital contribution balance.

(ii) Please explain how the rationale described in (i) relates to the guidance in Section PS 3410 and LIABILITIES, Section PS 3200.

(iii) Please describe any issues or concerns the auditor had with the deferred capital contribution balance subsequent to implementing Section PS 3410 and his/her rationale

(c) Do you have any challenges in applying the guidance in Section PS 3410 to revenue recognition of capital transfers?

Yes □ No □

If yes, please describe, preferably with specific examples:

(i) the main challenges; and

(ii) the considerations used in your assessment.

**Authorization required for transfer recognition**

6 Section PS 3410 provides guidance on what authorization means for transfer recognition including different thresholds for a transferring government and a recipient. The guidance for a transferring government includes the “demonstrably committed” concept and reference to LIABILITIES, Section PS 3200, for further direction.

7 At issue with authorization of transfers is at which point a transferring government loses its discretion to provide a transfer, and at which point a recipient gains control of resources that meet the definition of an asset, assuming that the eligibility criteria have been met.

8 Assessing the terms of the transfer, and actions and communications of the transferring government with professional judgment is required in:

(a) multi-year transfers, including operating and capital transfers and transfers related to repayment of capital financing;

(b) transfers with subject to “authority to pay” or “approval of appropriation” provision; and

(c) situations in which the same transfer has been provided to the same recipient for a number of consecutive years.
PSAB is interested in understanding how public sector entities and their auditors have applied the following in assessing the above-mentioned transfers:

(a) the transferring government authorization guidance in Section PS 3410 and relevant guidance in LIABILITIES, Section PS 3200; and

(b) the recipient authorization guidance in Section PS 3410 and the definition and characteristics of an asset.

This would help PSAB assess the nature, extent and cause of any difference in interpretations and applications of the authorization guidance.

**Question 3**

(a) Which of the following transfer(s) does your (audited) entity provide or receive?

(b) Are any of the transfers subject to an "authority to pay" or "approval of appropriation" provision?

<table>
<thead>
<tr>
<th>(a)</th>
<th>(b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Multi-year operating transfer</td>
<td>provide □ Yes □ No □</td>
</tr>
<tr>
<td>receive □ Yes □ No □</td>
<td></td>
</tr>
<tr>
<td>(ii) Multi-year capital transfer</td>
<td>provide □ Yes □ No □</td>
</tr>
<tr>
<td>receive □ Yes □ No □</td>
<td></td>
</tr>
<tr>
<td>(iii) Multi-year transfer related to repayment of capital financing</td>
<td>provide □ Yes □ No □</td>
</tr>
<tr>
<td>receive □ Yes □ No □</td>
<td></td>
</tr>
<tr>
<td>(vi) Same transfer provided to the same recipient (received from the same transferor) for a few consecutive years without multi-year commitment</td>
<td>provide □ Yes □ No □</td>
</tr>
<tr>
<td>receive □ Yes □ No □</td>
<td></td>
</tr>
</tbody>
</table>

(c) Please answer the following for each type of transfer provided/received checked in the above table:

(i) Please describe the specific terms, actions and communications related to the transfer (and/or provide a copy of or a link to the description) and identify whether your (audited) entity is the transferring government or the recipient.

(ii) Did the accounting treatment of this transfer change in implementing Section PS 3410?

Yes □ No □

(iii) If your answer to question (ii) is yes, please describe how the accounting treatment of this transfer has changed and the rationale.
(iv) Please explain how the accounting treatment and the rationale provided in (iii) relate to the guidance in Sections PS 3410 and:

- LIABILITIES, PS 3200, if the entity is a transferring government; or
- the definition and characteristics of an asset if the entity is a recipient.

(v) Please describe any issues or concerns the auditor had with this accounting treatment and his/her rationale.

(d) Do you have any challenges in applying the authorization guidance in Section PS 3410 to transfer recognition?

Yes □ No □

If yes, please describe, preferably with specific examples,

(i) the main challenges; and

(ii) the considerations used in your assessment.

**Eligibility criteria and stipulations**

11 The term “stipulations” was introduced in Section PS 3410 and was distinguished from “eligibility criteria” because of their different effects on transfer recognition by a transferring government and a recipient.

12 Eligibility criteria are pre-conditions that a recipient must meet to be qualified for a transfer. Stipulations are terms of the transfer that a recipient must meet after it qualifies for or receives a transfer.

13 A transferring government recognizes a transfer when the transfer is authorized and all eligibility criteria have been met by the recipient. When a recipient recognizes a transfer is not as straightforward. It is because stipulations alone, or together with a recipient’s own actions and communications, may create an obligation that meets the definition of a liability.

14 PSAB is interested in understanding how public sector entities and their auditors have applied the definitions of and the distinction between eligibility criteria and stipulations. This would help PSAB assess the nature, extent and cause of any differences in interpretation and application.

**Question 4**

(a) Is the guidance on distinguishing between eligibility criteria and stipulations useful?

Yes □ No □

If yes, please describe the benefits, preferably with specific examples.
(b) Did your (audited) entity change the accounting policy as a result of the additional guidance on eligibility criteria and stipulations in Section PS 3410?

Yes □  No □

If yes, please describe:

(i) how the accounting policy has changed (and/or provide a copy of or a link to the description) and the rationale; and

(ii) any issues or concerns the auditor had with the entity’s interpretation and his/her rationale.

(c) Do you have any challenges in applying the definitions of and the distinction between eligibility criteria and stipulations in transfer recognition?

Yes □  No □

If yes, please describe, preferably with specific examples:

(i) the main challenges; and

(ii) the considerations used in your assessment.

Advance payment

15 The previous standard allowed a transferring government to recognize advance payments as financial assets. Section PS 3410 does not because, based on the definition of a government transfer, a transferring government does not receive economic value in return that meets the definition of an asset.

16 PSAB is interested in understanding how public sector entities and their auditors have implemented these changes. This would help PSAB assess the nature, extent and cause of any difference in interpretations and applications.

Question 5

(a) Did your (audited) entity change the accounting policy regarding advance payment of transfers in implementing Section PS 3410?

Yes □  No □

If yes, please describe:

(i) how the accounting policy has changed (and/or provide a copy of or a link to the description) and the rationale; and

(ii) any issues or concerns the auditor had with the entity’s interpretation and his/her rationale.
(b) Did your (audited) entity have a prepaid expense balance prior to implementing Section PS 3410?

Yes □  No □

If your answer to question (b) is yes, did your (audited) entity perform an asset test for the prepaid expense balance upon implementing Section PS 3410?

Yes □  No □

If yes, please describe:

(i) the specifics of the test (and/or provide a copy of or a link to the description) and the rationale; and

(ii) any issues or concerns the auditor had with the test and his/her rationale.

If no, please explain:

(i) why an asset test for the prepaid balance upon implementing Section PS 3410 was not needed; and

(ii) any issues or concerns the auditor had with not performing an asset test and his/her rationale.

If your answer to question (b) is yes, what happened to the prepaid expense balance at the date of implementation of Section PS 3410?

Eliminated □  Reduced □  Retained □

(i) Please describe the rationale for the elimination/reduction/retention of the prepaid expense balance.

(ii) Please explain how the rationale described in (i) relates to the guidance in Section PS 3410 and the definition and characteristics of an asset.

(iii) Please describe any issues or concerns the auditor had with the prepaid expense balance subsequent to implementing Section PS 3410 and his/her rationale.

(c) Do you have any challenges in applying the guidance in Section PS 3410 to advance payment?

Yes □  No □

If yes, please describe, preferably with specific examples:

(i) the main challenges; and

(ii) the considerations used in your assessment.
Other implementation challenges

17 Section PS 3410 was revised with other changes such as recognizing a transfer of a tangible capital asset as expense at its net book value by the transferring government and removal of the reference to contingent recoveries. PSAB is not aware of implementation challenges with these changes.

18 PSAB is interested in any challenges preparers and auditors have in applying other guidance in Section PS 3410 that have not been covered in the questions above.

Question 6

Please describe any other challenges in applying Section PS 3410 that are not covered in the questions above, preferably with specific examples.

Effects of the standard

19 PSAB is interested in any positive, negative or neutral consequences Section PS 3410 had on financial reporting, operating practices and structuring of transactions. For example, its effects on:

(a) how government transfers are provided and structured;

(b) the transparency and accountability of public sector financial statements; and

(c) the decisions of users of public sector financial statements.

Question 7

(a) Have any revisions been made to the terms and conditions of transfer agreements because of implementing Section PS 3410?

Yes □ No □

If yes,

(i) is your (audited) entity the transferring government or recipient?

Transferring government □ Recipient □

(ii) please describe how the terms and conditions have been revised, the rationale for the revision and any benefits from the revision (preferably with specific examples);

(iii) please indicate if the recipient is controlled by the transferring government.

Yes □ No □
(iv) please describe any issues or concerns the auditor had with the revisions and his/her rationale.

(b) Did the implementation of Section PS 3410 affect your (audited) entity’s budget (or fiscal plan) and/or financial statements?

   Budget/fiscal plan: Yes □ No □

   Financial statements: Yes □ No □

   If yes, please identify the effect.

(c) Please describe any other effects of Section PS 3410 that have not been covered in the questions above, preferably with specific examples.

Other comments

20 PSAB welcomes other comments on Section PS 3410.

Question 8

Please provide any additional comments you may have on Section PS 3410. (For example, the definition of liability being different from legal liability; ongoing application challenges; unresolved issues.)