



Emerging Issues Task Force

Issue Number: 19-01

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Issue Short Heading: Year End Audit Issues for year ended December 31, 2018

Issue Category:

- Membership issue
- Government (Provincial)
- Government (Federal)
- PSAB
- Other

Issue Description

The Public Sector Accounting Board (PSAB) has issued a number of standards that were effective April 1, 2017 for years ended March 31, 2018. Entities with December 31 year ends will be applying them for the first time for the year ended December 31, 2018.

The following is a brief overview of the new standards

Issue Commentary/ Research:

1. PS 2200, Related Party Disclosures, and PS 3420, Inter-entity Transactions
Previously, there was no overarching standard in the PSA Handbook that dealt with related party transactions.

The new standards provide guidance on disclosure of related party transactions as well as how to recognize and measure transactions between commonly controlled entities.

The standard does not apply to restructuring transactions, certain elements in consolidated financial statements, or disclosure of key management personnel compensation arrangements that are routinely paid in exchange for services rendered.

A related party exists when one party has the ability to exercise control or shared control over the other, when two or more parties are subject to common control or shared control, and includes key management personnel and close family members.

A related party transaction is a transfer of economic resources or obligations between related parties or the provision of services by one party to a related party.

Disclosure is generally required when a transaction occurs between related parties at a value different from what would have been determined by unrelated parties; and the transactions have or could have a material financial effect on the financial statements.

Disclosure would include information about the nature of the relationship, the types of transactions recognized, the amounts of the transactions, the basis of measurement, the amount of any outstanding balances, including related terms and conditions, any contracts with related parties, any contingent liabilities with related parties, and transactions with related parties for which no amount has been recognized.

2. PS 3210, Assets

Additional guidance provided as to the definition of assets, specifically as it relates to some of the terminology used in the definition.

3. PS 3320, Contingent Assets

This new section defines contingent assets as possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset.

Disclosure is required when the occurrence of a confirming future event is likely.

4. PS 3380, Contractual Rights

The new section defines contractual rights as a right to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future.

This section requires disclosure of a description about the nature, extent and timing of contractual rights.

5. PS 3280, Asset Retirement Obligations

This new standard is not effective until year-ends beginning on or after April 1, 2021, or municipal calendar years ended December 31, 2022.

An asset retirement obligation is associated with the retirement of a tangible capital asset controlled by a public sector entity (municipality). Typical retirement costs could include post-retirement operation, maintenance and monitoring costs.

The standard sets out definitions, methods of calculating the liability, and required disclosures.

The adoption of this standard will result in the withdrawal of PS3270, Landfills.

This standard is being brought to your attention as it will result in additional work required by the staff of a municipality to inventory their tangible capital assets, determine if a liability exists for any of them, and then to quantify that liability.

6. Revised Auditor Reporting Standards

The Auditing and Assurance Standards Board (AASB) adopted new and revised auditor reporting standards that are effective for audits of financial statements for periods ending on or after December 15, 2018.

These changes affect the presentation of the Independent Auditor's Report.

Expect the following changes:

1. The auditor's opinion has been moved from the end to the beginning
2. There will be an explicit statement of the auditor's independence in accordance with relevant ethical requirements
3. There will be a separate section in the auditor's report where situations exist related to "Material Uncertainty Related to Going Concern"
4. There will be a section under the heading "Other Information" when an entity prepares other information that accompanies the financial statements and the auditor's report
5. There will be an enhanced description of management's responsibilities related to assessing going concern, identification of those charged with governance and their responsibility for oversight, and an enhanced description of the auditor's responsibilities

Conclusion:

The intention of this memorandum was to highlight the above issues to initiate and help facilitate positive discussions within each municipality and help keep pace with the ever-changing accounting and audit standards.

References:

BDO Canada LLP: Public Sector Accounting Standards (PSAS) Update 2018 published September 2018

CPA Canada Audit and Assurance Alert Canadian Auditing Standards issued May 2017

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Prepared by BDO Canada LLP for the Hot Topics Initiative Subcommittee