

COVID-19 and Application of Public Sector Accounting Standards (PSAS)

A plain and simple discussion on the application of PSAS to COVID-19-related financial reporting issues

Background

The COVID-19 pandemic significantly affected governments, businesses, and the public globally. Within Canada, governments, and other public sector organizations have worked to stop the spread of COVID-19. These government responses and the COVID-19-related financial and economic consequences will need to be considered in financial reporting of public sector organizations.

The Public Sector Accounting Standards Board (PSAB) has issued this publication to provide public sector entities with non-authoritative guidance on how they can apply PSAS to financial reporting issues that arise as a result of the COVID-19 pandemic. Note that many organizations are in the early stages of understanding the on-going effects of COVID-19. Other financial reporting issues may arise that need further consideration over the next year, or longer.

This publication does not constitute authoritative guidance of PSAB and is meant for information purposes only. For more detailed information, please consult the CPA Canada Public Sector Accounting (PSA) Handbook.

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Going Concern

Issue	Current Requirements
<p>With public sector entities financially impacted by COVID-19, some may no longer be considered a going concern.</p>	<p>Financial statements are prepared on the assumption that the public sector entity is a going concern, meaning it will continue in operation, and will be able to realize assets and discharge liabilities and meet its statutory obligations in the normal course of operations for the foreseeable future. (Paragraph PS 1000.63)</p> <p>However, some public sector entities will need to reassess this assumption given the current economic environment.</p> <p>The Auditing and Assurance Standards Board (AASB), the Canadian Public Accountability Board (CPAB) and CPA Canada developed a free webinar on COVID-19 implications on going concern assessments. While the content of the webinar focuses primarily on public companies, going concern implications also apply to public sector entities.</p>

Government Business Enterprises (GBEs)

Issue	Current Requirements
<p>Many GBEs have been financially impacted by COVID-19. Investments in a GBE need to be assessed for impairment. The status of the GBE also needs to be considered to determine if it still meets all four characteristics of a GBE.</p>	<p>Section PS 3070, <i>Investments in Government Business Enterprises</i>, sets out four characteristics of a GBE:</p> <ul style="list-style-type: none"> • It must be a separate entity with power to contract in own name. • It must be delegated financial and operational authority. • It sells goods and services outside of the government reporting entity (GRE). • It maintains its operations and meet its liabilities from revenues received from outside of GRE. (Paragraph PS 3070.03(b)) <p>Although the first three characteristics may not change due to the COVID-19 pandemic, a GBE's ability to generate revenue may be significantly impacted. In particular, its ability to maintain revenues from outside the controlling GRE needs to be re-evaluated given the current economic downturn.</p> <p>When the nature of a government organization changes such that it no longer meets the definition of a GBE, the organization would become a governmental unit and would be consolidated in accordance with Section PS 2500, <i>Basic Principles of</i></p>

Issue	Current Requirements
	<p><i>Consolidation</i>, and Section PS 2510 <i>Additional Areas of Consolidation</i>, instead of being accounted for on a modified equity basis. (Paragraph PS 3070.49)</p> <p>When the change in status to a governmental unit is not a specific observable event, but occurs over time, a government would account for the organization as a governmental unit for the reporting period in which the change in status occurs. (Paragraph PS 3070.51)</p> <p>When an organization ceases to meet the definition of a GBE and that organization applies accounting policies that differ from those of the GRE, the accounting policies of that organization must be conformed to those of the GRE for the purposes of its consolidation in government financial statements. (Paragraph PS 3070.52)</p> <p>When an organization ceases to meet the definition of a GBE, the financial position and results of prior periods would not be adjusted to reflect the change in status of the organization. (Paragraph PS 3070.55)</p> <p>PSAB's Public Sector Accounting Discussion Group has discussed the financial self-sustainability of GBEs. At its November 2019 meeting, the Group discussed when a GBE no longer meets the definition of a GBE. In November 2018, the Group discussed accounting for Indigenous Government Business Enterprises.</p>

Government Transfers

Issue	Current Requirements
<p>Governments are providing stimulus for individuals and organizations to address the COVID-19 crisis.</p>	<p>A transferring government should recognize a government transfer as an expense in the period the transfer is authorized, and all eligibility criteria have been met by the recipient. (Paragraph PS 3410.12)</p> <p>Some government stimulus provided to individuals or entities may meet the definition of entitlements. Appendix B of Section PS 3410, <i>Government Transfers</i>, addresses how the requirements of the standard would be applied to entitlements. Entitlements are transfers that a government must make if the recipient meets the specified eligibility criteria. Examples of federal entitlements are Employment Insurance, Old Age Security, and Equalization. New programs set up in response to COVID-19 may be in the form of entitlements.</p>

Issue	Current Requirements
	<p>A recipient public sector entity should recognize revenue related to a government transfer:</p> <ul style="list-style-type: none"> • that has no eligibility criteria when the transfer is authorized (paragraph PS 3410.16); • that has eligibility criteria when the transfer is authorized and those eligibility criteria have been met (paragraph PS 3410.17); or • that has stipulations that give rise to a liability, as those stipulations are met. (paragraph PS 3410.19) <p>Some stimulus transfers have few eligibility requirements or eligibility requirements that are met fairly quickly by applicants for government assistance, so expense recognition by the transferring government would likely occur in fiscal 2020-21. If these transfers have no stipulations on their use, they would be recognized as revenue by a recipient public sector entity once they have met the eligibility requirements, which will often be in fiscal 2020-21 too.</p> <p>Any transfer with stipulations mandating how the transfer is to be used would be recognized by a recipient public sector entity as the recipient meets the transfer stipulations. This may occur in fiscal 2020-21 and/or over several future years.</p>

Impairment of Financial Assets

Issue	Current Requirements
<p>Decline in market values of financial instrument assets because of the COVID-19 pandemic need to be assessed to determine if the declines are temporary or permanent.</p>	<p>Section PS 3041, <i>Portfolio Investments</i>, and Section PS 3450, <i>Financial Instruments</i>, set out accounting requirements for financial instrument assets. Both standards provide requirements for accounting for the impairment of financial instrument assets of a public sector entity.</p> <p>The recessionary environment caused by the COVID-19 pandemic requires more time than usual to consider whether any impairments have occurred. With the recent recovery of some dramatic stock-market losses, the measurement of any impairment may need to be evaluated right up until the financial statements are ready to be issued.</p> <p>When a condition indicating an impairment in the value of a portfolio investment has persisted for three or four years, there is a</p>

Issue	Current Requirements
	<p>general presumption that there has been a loss in value which is other than a temporary decline. (Paragraph PS 3041.13)</p> <p>Impairment losses should be reported in the statement of operations. (Paragraph PS 3041.07)</p> <p>Financial instruments in the fair value category are recorded at their fair value at the year-end date.</p> <p>Gains and losses on financial instruments designated to the fair value category are reported in the statement of remeasurement gains and losses. (Paragraph PS 3450.076)</p>

Impairment of Tangible Capital Assets

Issue	Current Requirements
<p>Conditions may indicate a tangible capital asset no longer contributes to a government's ability to provide goods and services. This may be the case when there has been a change in use of the tangible capital asset, the tangible capital asset is removed from service or there is a decline in the need for services provided by the tangible capital asset.</p>	<p>The impairment of tangible capital assets may be applicable to assets that have been closed or made idle due to measures such as physical distancing.</p> <p>When the value of economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset should be reduced to reflect the decline in the asset's value. (Paragraph PS 3150.31)</p> <p>The persistence of conditions indicating an impairment over several successive years increases the probability that a write-down is required. (Paragraphs PS 3150.34-.35)</p> <p>Conditions may indicate a need to revise the amortization method or the estimate of remaining useful life. (Paragraphs PS 3150.29-.30)</p> <p>Also note that if a tangible capital asset is idle due to it not being required for use during COVID-19, amortization should be suspended for the period not in use.</p>

Liabilities

Issue	Current Requirements
<p>Governments are announcing obligations to the public in efforts to address the COVID-19 crisis. They are using several available tools to stimulate and protect the</p>	<p>Section PS 3200, <i>Liabilities</i>, is a general application standard. It is relevant when an obligation exists for which there is no specific standard in the PSA Handbook.</p>

Issue	Current Requirements
<p>economy and the public. The actions being described and implemented need to be assessed to determine if a liability needs to be recognized.</p>	<p>Many obligations being assumed by governments will be in the form of government transfers, loans, or loan guarantees, for which specific standards exist. However, other obligations assumed by public sector entities in response to COVID-19 may not be addressed in specific public sector accounting standards.</p> <p>All types and levels of government have likely made commitments and entered into new funding obligations leading up and subsequent to the March 31 year-end. It will be important to apply the recognition criteria listed in Section PS 3200 for those types of arrangements that do not fall in the scope of a specific standard.</p> <p>Liabilities have three essential characteristics:</p> <ul style="list-style-type: none"> • they embody a duty or responsibility to others; • they will be settled by future transfer of economic benefits; and • they are past transactions or events. (Paragraph PS 3200.05) <p>A liability should be recognized when:</p> <ul style="list-style-type: none"> • there is an appropriate basis of measurement; and • a reasonable estimate of the amount involved can be made. (Paragraph PS 3200.03)

Loan Guarantees

Issue	Current Requirements
<p>Loan guarantees are another tool to give economic assistance to certain industries or individuals.</p> <p>Given the economic downturn, it is possible that loan guarantees may be called when the borrower defaults.</p>	<p>When a loss on a loan guarantee is likely, a provision for a loss should be accounted for as a liability on the statement of financial position and as an expense in the statement of operations. (Paragraph PS 3310.08)</p> <p>The likelihood of losses relating to loan guarantees may increase as a result of borrower defaults relating to COVID-19 and the subsequent economic downturn. The following factors may indicate that a loss is likely on a loan guarantee or a class of loan guarantees:</p> <ul style="list-style-type: none"> • the borrower’s recent financial performance, including financial statements that show a decline in the borrower’s current financial position, particularly its liquidity, as evidenced by severe losses in the current year or recent years, a serious

Issue	Current Requirements
	<p>deficiency in working capital or cash flow, or an excess of liabilities over assets;</p> <ul style="list-style-type: none"> • factors known at the time of reporting that are likely to affect the borrower’s ability of the to repay the loan in the future, including economic conditions in the country, region, or industry in which the organization operates. For individuals, this would be income stability and income earning potential; • recent collection experience for the loan, including a current default in making interest or principal payments when due on debt obligations; • failure to meet debt covenants on existing debt obligations; • independent credit reports that indicate concerns about an organization’s or individual’s ability to meet its continuing obligations; • a decline in the market value of a traded debt instrument issued by a borrower that is unrelated to a change in market interest rates; and • the adequacy of the security pledged for the loan(s), including the type of assets and the ratio of their current market value to the loan principal amount outstanding. (Paragraph PS 3310.09)

Loans Receivable

Issue	Current Requirements
<p>To address the COVID-19 pandemic, government stimulus for individuals and organizations may include loans with special terms:</p> <ul style="list-style-type: none"> • They may have concessionary terms. • Some or all of the loan may be forgivable. • Some loans may ultimately be repaid through 	<p>Section PS 3050, <i>Loans Receivable</i>, addresses all three special circumstances. The substance of a loan arrangement must be evaluated to determine if the loan is – all or in part – more in the nature of a grant. If the loan is concessionary, forgivable, or to be repaid through future appropriations, the grant portion should be recognized as an expense in the statement of operations when the loan is made. (Paragraphs PS 3050.10, PS 3050.17, and PS 3050.20)</p> <p>Valuation allowances should be used to reflect:</p> <ul style="list-style-type: none"> • loans receivable at the lower of cost and net recoverable value (paragraph PS 3050.30);

Issue	Current Requirements
<p>appropriations provided by the same government to the borrowing entity.</p> <p>Concessionary loans, forgivable loans and loans that may be repaid through future appropriations need consideration to determine if all or part the loan is more in the substance of a grant.</p> <p>The ability to collect loans also needs to be assessed.</p>	<ul style="list-style-type: none"> • collectability and risk of loss; (paragraph PS 3050.32); and • a provision for expected forgiveness of an individual loan or a particular class of loans. (Paragraph PS 3050.33)

Measurement Uncertainty

Issue	Current Requirements
<p>Uncertainty surrounds COVID-19-related estimates that are recognized or disclosed in the financial statements. Under normal circumstances, such uncertainty is often not material. However, given today's environment, consideration as to the materiality of the effects of measurement uncertainty is needed.</p>	<p>The nature of measurement uncertainty that is material should be disclosed. (Paragraph PS 2130.06)</p> <p>The extent of measurement uncertainty that is material should be disclosed when it is reasonably possible that the amount could change by a material amount in the near term. (Paragraph PS 2130.07)</p> <p>Consideration would also be given to disclosing other relevant information to describe the measurement uncertainty, such as:</p> <ul style="list-style-type: none"> • a description of the key assumptions used in estimating the amounts and whether the assumptions are susceptible to change; • an explanation of the changes made to past assumptions if the uncertainty remains unresolved; and, • when a range of reasonably possible amounts is disclosed: <ul style="list-style-type: none"> ○ the sensitivity of the range to changes in the assumptions used to determine the range; and ○ the reason for the sensitivity. (Paragraph PS 2130.15) <p>Imprecision due to the use of estimates may warrant discussion in the Statement of Recommended Practice (SORP-1), <i>Financial Statement Discussion and Analysis</i> (FSD&A), when an entity chooses to prepare an FSD&A document.</p>

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	<p>Estimates used in financial statements may need to be re-evaluated given the current economic downturn. Changes in estimates are addressed in Section PS 2120, <i>Accounting Changes</i>.</p> <p>Overall, greater consideration may be needed in developing estimates, such as accruals. Estimated amounts based on experience may not be as relevant and new facts and circumstances will need to be considered.</p>

Retirement Benefits

Issue	Current Requirements
<p>The COVID-19 pandemic has caused changes in the market value of plan assets. Lower interest rates may have significant impacts on public sector financial statements.</p>	<p>The components of retirement benefit liability are:</p> <ul style="list-style-type: none"> • accrued benefit obligation, including the effects of plan amendments, settlements, and curtailments; • plan assets, if any; and, • unamortized actuarial gains and losses. (Paragraph PS 3250.017) <p>Plan assets would need to be valued at market-related values. (Paragraph PS 3250.037)</p> <p>Actuarial gains and losses should be amortized to the liability or asset and the related expenses in a systematic and rational manner over the expected average remaining service life of the related employee group. (Paragraph PS 3250.062)</p>

Risk Disclosures

Issue	Current Requirements
<p>Public sector organizations are required to disclose the nature and extent of risks arising from financial instruments. For many organizations, COVID-19 has negatively impacted financial risks.</p>	<p>Section PS 3450, <i>Financial Instruments</i>, requires that a government should disclose information that enables its financial statements users to evaluate the nature and extent of risks arising from financial instruments to which it is exposed at the financial statement date. (Paragraph PS 3450.085)</p> <p>The required disclosures focus on the risks that arise from financial instruments and how they have been managed. These risks typically include credit risk, liquidity risk, and market risk. Market</p>

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	<p>risk comprises three types of risk: currency risk, interest rate risk, and other price risk. (Paragraph PS 3450.086).</p> <p>Section PS 3450 requires both qualitative and quantitative disclosures on these types of risks, including any policies, and processes for managing the risk. The standard requires a government to disclose how exposure to these risks and the policies and processes for managing these risks have changed from the previous period. (Paragraph PS 3450.087)</p> <p>The COVID-19 pandemic has affected the financial risks public sector organizations face. Therefore, this information would need to be disclosed.</p>

Tax Revenue

Issue	Current Requirements
<p>The COVID-19 pandemic raises certain issues around tax revenue of which preparers of financial statements need to be aware:</p> <ul style="list-style-type: none"> • Governments measure assets arising from tax transactions using estimates. • Additional transfers through the tax system or tax concessions may be offered to assist individuals and organizations. • Deferred tax payments will affect cash flows. 	<p>A government should evaluate the extent to which its tax receivables are ultimately collectible and valuation allowances should be used to reflect tax receivables at their net recoverable amount. (Paragraphs PS 3510.09 and PS 3510.31).</p> <p>Initial recognition of tax revenue is based on an estimate. Due to COVID-19, estimates of tax revenue may consider:</p> <ul style="list-style-type: none"> • any government delays of tax payment deadlines; • any government-allowed deferrals of tax instalments; and • any other government tax-relief measures. These may be in the form of tax concessions or transfers through the tax system. <p>Subsequent changes in estimates are accounted for in accordance with Section PS 2120.</p> <p>Section 3510, <i>Tax Revenue</i>, makes a distinction between transfers made through a tax system and tax concessions in terms of how they are recognized.</p> <ul style="list-style-type: none"> • Tax revenue should not be grossed up for tax concessions. (Paragraph PS 3510.34). Tax concessions would be netted against the type of tax revenue for which they are providing relief. (Paragraph PS 3510.44)

Issue	Current Requirements
	<ul style="list-style-type: none"> • Transfers through the tax system would be recognized as expenses. (Paragraph PS 3510.33) <p>The timing of recognition of transfers made through a tax system depends on how the transfer is authorized. There is potential for earlier recognition if the transfer is authorized through tax legislation: (Paragraph PS 3510.41)</p> <ul style="list-style-type: none"> • When the transfer is authorized under legislation that is not tax legislation, it would be recognized in accordance with Section PS 3410, <i>Government Transfers</i>. • When the transfer is authorized under tax legislation, it would be recognized as a transfer made through a tax system in accordance with Section PS 3510. By their nature, the meeting of eligibility criteria for such transfers is normally coincident with the authorization of the related tax legislation, so these transfers would be recognized as expenses when the related tax measures are considered to be authorized.

Subsequent Events

Issue	Current Requirements
<p>Elected government officials have announced government intentions to provide support during the COVID-19 pandemic. Some of these announcements may have occurred after an organization's financial statement date but before the financial statements have been completed. Consideration of subsequent events is required.</p>	<p>Consideration of the requirements of Section PS 2400, <i>Subsequent Events</i>, will be relevant when interventions have been launched after the reporting date. The Section distinguishes events that require changes to the amounts recognized in the financial statements from events that require only disclosures in the notes, with quantifications of estimates wherever possible.</p> <p>Elected government officials may announce government intentions in the period after the financial statement date and before completion of the financial statements. To be treated as subsequent events and reported or disclosed in financial statements, such intentions need to be supported by sufficient evidence that they can and will be fulfilled. They require careful evaluation to determine whether there is a clear relationship to conditions existing at the financial statement date that affect the estimates involved in preparation of financial statements. (Paragraphs PS 2400.04-.05)</p>

Issue	Current Requirements
	<p>For events relating to conditions that existed at the financial statement date, adjust the financial statements. (Paragraph PS 2400.09)</p> <p>For events not relating to conditions at the financial statement date but will cause significant change to assets or liabilities in the subsequent period, or may have a significant effect on future operations, the event should be disclosed. (Paragraph PS 2400.13)</p> <p>Some subsequent events do not require adjustment of the financial statements. However, their significant effect and unusual nature may require disclosure in notes to the financial statements.</p> <p>Examples include:</p> <ul style="list-style-type: none"> • commitments to provide financial support to the public and businesses; • a decline in the market value of investments; • significant restructuring of the public service; and • significant restructuring of the legislation regulating local governments. (Paragraphs PS 2400.11-.12)

Guidance Specific to Government Not-for-Profit Organizations (GNFPOs)

Many GNFPOS are significantly impacted by COVID-19. For example, schools, colleges, and universities are shifting to remote learning for students. Hospitals are directly impacted by COVID-19.

For those GNFPOs that do not apply PS 4200 series, many of the topics, and issues addressed earlier are applicable.

For those GNFPOs that do apply PS 4200 series, although the topics and issues addressed earlier are applicable, there might be alternative guidance found in the PS 4200 series. For example:

- Consideration of government funding received. (Section PS 4210, Contributions – Revenue Recognition)
- Consideration of impacts on tangible capital assets given changes in the extent or manner of use and associated amortization. (Section PS 4230, Capital Assets Held by Not-for-Profit Organizations)

Other Resources

PSAB and the other Canadian Boards are working hard to develop COVID-19-related resources to support stakeholders' application of standards.

PSAB and CPA Canada developed a free webinar addressing frequently asked questions around accounting and reporting implications of COVID-19 to the public sector.

The AASB, CPAB, and CPA Canada also developed a free webinar on COVID-19 implications on going concern assessments. While the content focuses primarily on public companies, going concern implications discussed are also applicable to public sector entities.

[COVID-19 news and resources](#) are also available for publicly accountable entities, private enterprises, and not-for-profit organizations applying the CPA Canada Handbook – Accounting.

Contact Us

Have any questions? Contact us at:

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