



Office of the  
Auditor General  
of Canada

Bureau du  
vérificateur général  
du Canada

17 May 2021

International Public Sector Accounting Standards Board

International Federation of Accountants  
277 Wellington Street West  
Toronto, ON M5V 3H2

**RE: Request for Information – Concessionary Leases and Other Arrangements Similar to Leases**

Thank you for the opportunity to provide input on this Request for Information (RFI). I am responding on behalf of the Office of the Auditor General of Canada.

We are pleased to submit to the International Public Sector Accounting Standards Board the information requested in the RFI.

Sincerely,

Lissa Lamarche, CPA, CA

Assistant Auditor General  
Office of the Auditor General of Canada

## Specific questions posed by the International Public Sector Accounting Standards Board (IPSASB):

In order to respond to the questions below, OAG Canada considered information collected through audits of public sector entities currently reporting under Canadian Public Sector Accounting Standards and, to a lesser extent, International Public Sector Accounting Standards.

**Question 1:** In your jurisdiction, do you have concessionary leases (or similar arrangements) as described in this RFI? If yes, please:

- (a) Describe the nature of these leases (or similar arrangements) and their concessionary characteristics; and
- (b) Describe the accounting treatment applied by both parties to the arrangement to these types of leases (or similar arrangements), including whether the value of the concession is reflected in the financial statements.

OAG response:

Based on information obtained through our audits, we are not aware of any significant concessionary leases (or similar arrangements), as described in this RFI.

**Question 2:** In your jurisdiction, do you have leases for zero or nominal consideration as described in this RFI? If yes, please:

- (a) Describe the nature and characteristics of this type of lease (or similar arrangement); and
- (b) Describe if and how the value of the concession is reflected in the financial statements of both parties to the arrangement.

OAG response:

Yes, we have leases for zero or nominal consideration as described in this RFI.

- a) The nature of these types of leases vary. For example, some of our entities provide or receive office space and/or use of equipment and services such as security, janitorial, information technology support and other services and amenities. These transactions are between related parties.
- b) For our entities reporting under Canadian Public Sector Accounting Standards, which represent the majority of these types of arrangements we are aware of, related party transactions are in scope of PS 3420, Inter-entity transactions. Based on this standard, for the provision of goods and services, when there is a policy of cost allocation and recovery, a revenue and a corresponding equal expense is recorded by both parties to the transaction at the exchange amount; these amounts are then eliminated upon consolidation as applicable. However, when there is no policy of cost allocation and recovery, the recipient may still choose to recognize these costs when they would otherwise have been purchased and a reasonable estimate of the amount involved can be made. When the recipient chooses to recognize these unallocated costs it reports these items as both a revenue and an expense. These unallocated costs are measured at

the carrying amount or fair value unless policy, budget practices or accountability structures dictate otherwise. It is to note that despite the cost allocation policy choice, disclosures about related party transactions would be made in the financial statements. The level of detail disclosed will be determined based on the assessment of various factors, including but not limited to, the significance of the transaction.

**Question 3:** Does your jurisdiction have arrangements that provide access rights for a period of time in exchange for consideration? If yes, please describe the nature of these arrangements and how they are reflected in the financial statements of both parties to the arrangement.

OAG response:

Yes, we have a few arrangements that provide access rights for a period of time in exchange for consideration in respect to both tangible and intangible assets. Some of the entities we audit provide access rights to some of their properties (e.g. land). In the financial statements of the entities in our portfolio, these arrangements are reflected either at exchange amount or are not reflected (when made at nominal value). We are not aware of how these transactions are recorded in the financial statements of the other parties to the arrangements.

**Question 4:** In your jurisdiction, do you have arrangements with the same or similar characteristics to the one identified above? If yes, please describe the nature of these arrangements and how they are reflected in the financial statements of both parties to the arrangement.

OAG response:

No, we do not have arrangements with the same or similar characteristics to the one described in the RFI.

**Question 5:** In your jurisdiction, do you have arrangements involving social housing with lease-type clauses or other types of lease-like arrangements with no end terms? If yes, please describe the nature of these arrangements and how they are reflected in the financial statements of the social housing provider.

OAG response:

Yes, we have a few arrangements involving social housing with lease-type clauses or other types of lease-like arrangements with no end terms. Some entities we audit rent housing to qualifying individuals at concessionary rates. Rental income is recorded on an accrual basis but the value of the concession is not reflected in the financial statements. Note disclosure includes significant accounting policies and in one instance these arrangements are described in a note where information on the mission of the entity is provided.

**Question 6:** In your jurisdiction, do you have arrangements involving the sharing of properties without a formal lease contract? If yes, please describe the nature of these arrangements and how they are reflected in the financial statements of both parties to the arrangement.

OAG response:

Yes, we have one arrangement involving the sharing of properties without a formal lease contract. One of the entities we audit (entity A) provides, without charge, the use of buildings, equipment, leasehold improvements, mainframe and software systems, medical equipment and vehicles for use in program and service delivery to a related party (entity B). Entity A controls entity B. Entity A retains ownership of all tangible capital assets (TCA) used by entity B. Entity A's financial statements include these TCAs and as such entity B has no TCAs recognized in its financial statements. Entity B has recognized grant-in-kind revenue for the use of these TCAs provided free of charge by entity A. In addition, entity B has recognized an equal corresponding rent expense for these TCAs based on entity A's amortization. The grant-in-kind revenue for the use of these TCAs provided free of charge and the corresponding rent expense for these TCAs are eliminated upon consolidation. The nature of the arrangement as well as an estimate of how much these services without charge would have cost entity B are disclosed in the notes to entity B's financial statements.

We are also aware of one arrangement where an entity we audit (entity C) makes office space available and provides administrative support services to a not-for-profit organization (not a related party to entity C) at no cost. Contributed goods and services are not reflected in the financial statements as the fair value of the goods and services cannot be reasonably estimated. There is note disclosure describing the nature of the arrangement and why it is not reflected in entity C's financial statements.

**Question 7:** In your jurisdiction, do you have other types of arrangements similar to leases not mentioned in this RFI? If so, please describe the characteristics of these arrangements and how they are presently being reflected in the financial statements of both parties to the arrangement.

OAG response:

No, we do not have other types of arrangements similar to leases not mentioned in this RFI.