**Impact of Strategic Operating Reviews**

**Background**

The Government of Canada has conducted Strategic Operating Reviews (SOR) to identify areas where costs can be reduced to deliver on the Government’s commitment to achieve $4 billion in annual savings and return to a balanced budget by 2014-15. As part of this process, it is expected that staff reductions at some of our audit entities will be necessary which, per government, may not be managed through normal attrition.

The [*National Joint Council (NJC) Work Force Adjustment (WFA) Directive*](http://www.njc-cnm.gc.ca/directive/wfad-dre/index-eng.php) outlines the conditions and options for employees affected by work force adjustment situations in specified union groups, and is referred to in their collective agreements. For other union groups not covered by the NJC directive, such as PSAC, work force adjustment provisions may be included in their collective agreements. In addition, work force adjustment provisions for executives are included in the TBS [*Directive on Career Transition for Executives*](http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?section=text&id=14218)*.*

The government of Canada intends to record a liability in respect of workforce adjustment costs for the year ended 31 March 2012. Individual organizations have received instructions from the Office of the Comptroller General that they should also record the cost of workforce adjustment measures in their 2011/12 financial statements.

The Annual Audit Practice Team has reviewed this issue from the perspective of separate opinion financial statement audits. Of those entities listed in Budget 2012 [Annex 1: Responsible Spending](http://www.budget.gc.ca/2012/plan/anx1-eng.html#a1), the significant majority of impacted entities audited by the Office use public sector accounting standards, while some apply IFRS.

**Interpretation**

AAPT has concluded, with respect to Public Sector Accounting Standards and IFRS, workforce adjustment (and similar) costs should be assessed against the recognition criteria set out in PS3255.28 and .31 or IAS19.133 and .134. Workforce adjustment (and similar) benefits are involuntary special termination benefits.

Where the criteria set out in PS3255.28 or IAS19.133 are met, and amounts can be reasonably estimated, costs of workforce adjustment measures shall be accrued in the current (2011/12) year assuming the entity is not provided with any future economic benefits from these costs.

Costs to be recognized are those special termination benefits estimated to be payable to affected employees. These costs **may** include:

* Salaries and benefits during any opting period (provided or foregone)
* Salaries and benefits during a surplus priority period
* A transitional support measure cash payment
* Education allowances
* Travel and relocation
* Retraining

In reviewing the criteria set out in PS3255.31 and IAS19.134, unless there are indications to the contrary:

* Workforce adjustment (and similar) directives establish the benefits employees are to receive upon termination of employment – PS3255.31(b), IAS 19.134(b)
* Workforce adjustment (and similar) directives are publicly available documents (have been communicated to employees) – PS3255.31(b)

Audit teams must conclude on the remaining criteria under PS3255.31 and IAS19.134 as these criteria can only be assessed on an entity by entity basis:

* On or before the entity fiscal year end, those with the appropriate level of authority within the entity have committed the entity to a plan of termination including the benefits employees will receive upon their termination of employment – PS3255.31(a), IAS19.134 – **audit team assessment and conclusion required**
* The plan of termination specifically identifies the target level of reduction in the number of employees, the job classifications or functions and their locations – PS3255.31(c), IAS19.134(a) – **audit team assessment and conclusion required**
* The time frame for implementing the plan has been identified and significant changes to the plan of termination are not likely – PS3255.31(d), IAS19.134(c) - **audit team assessment and conclusions required**

Audit teams shall carefully review the use of management estimates and assumptions where employees have not had sufficient time to select their particular transitional options. Given the flexibility and discretion provided for Executive positions in the *Directive on Career Transition for Executives*, it may not be possible to determine a reasonable estimate of costs and liabilities associated with this employee group. Audit entities may need to discount workforce adjustment amounts falling due more than 12 months after the end of the reporting period.

Audit teams who analyse the issue of workforce adjustment (and similar) benefits and liability recognition in the current year are asked to consult with a Central Team Principal on the results of their analysis prior to concluding.

Note that incremental severance benefits due to lay off should also be considered and may need to be recognized where surplus employees have resigned prior to year-end under the workforce adjustment directive.

**Presentation and Disclosure**

Where material, disclosure of recognized workforce adjustment costs incurred and accruals outstanding at year end shall be made as required by applicable financial reporting frameworks.

Measurement uncertainty disclosure may need to be updated to capture the nature and extent of any associated material measurement uncertainty.