Public Accounts – Communications Contingency Planning

Issue:

There is potential that the Auditor General will issue a qualified audit opinion on the 2015-16 Public Accounts of Ontario due to her position on Public Sector Accounting Board's (PSAB) requirements for pension related accounting despite her and two previous Auditors General having agreed to the Province's existing accounting for pension assets for the last 15 years. A qualified opinion would indicate that based on her work, the Auditor General feels that the financial results of the province are materially misstated and she would disclose that the 2015-16 deficit should be $5.0 billion, rather than $3.5 billion.

Overarching Key Messages (specific to pension issue):

As part of this year's Public Accounts audit work with the Auditor General, we have identified some issues regarding the treatment of pension assets.

It is our view that the Public Accounts are presented in a way that fairly presents the Province's financial position and results – including its pension assets.

Ontario has followed the same pension accounting treatment for the past 15 years. This had been accepted by the current Auditor General for the last two years.

The government will continue to dialogue with the Auditor General and other accounting experts to exchange information on this item and determine next steps.

Response Scenario 1

Government accepts a qualified audit opinion and reports the results based on its interpretation of Public Sector Accounting Standards. This means the financial actuals reported in Public Accounts, including the 2015-16 deficit of $3.5 billion remain the same. But, as noted above, the AG's audit opinion would disclose her estimate of the impact on the province's results (that the overall deficit should be higher by $1.5 billion and that the currently reported pension assets ($10.6 billion) should be written off and added to the accumulated deficit and net debt). It is expected there will be negative media and opposition reaction.

Auditor General Reaction:

It is anticipated the Auditor General will publicly defend her position and advocate that her position is right, and that the government should adopt her interpretation of PSAB to present its results fairly. She could also argue that the Province was artificially reducing its deficit by reporting increases in its pension asset when it doesn't actually have the legal ability to benefit from the gain.

The Auditor's position may generate concerns that the public, elected officials, FAO and credit rating agencies, cannot fully assess the fiscal situation using the province's financial statements in 2015-16 Public Accounts.

Messaging:

The Province's financial results show that the government has once again beat its deficit targets and is on track for a balanced budget by 2017-18.

We are disappointed with the Auditor General's audit opinion on the 2015-16 Public Accounts in regards to the Province's treatment of pension assets.

Ontario has followed the same pension accounting treatment for the past 15 years. This had been accepted by the current Auditor General for the last two years – ever since she started her position in Ontario.

The Province had sought external advice, including a third party accounting opinion that confirmed that the Province's position is reasonable.

Based on the advice received by the Province and its own assessment, it is the opinion of Deputy Ministers and senior finance/accounting officials that the Province's interpretation and application of the accounting standards is reasonable. It is our view that the Public Accounts are presented in a way that fairly presents the Province's financial position and results – including its pension assets.

The government will continue to dialogue with the Auditor General and other accounting experts to exchange information on this item, and plans to provide input to the Public Sector Accounting Board in its upcoming project on pension accounting.

Supplementary Messaging or for use in Technical Briefing

The underlying accounting standards have not changed since the date of adoption of the relevant standard in 2001. During that time, two successive Ontario governments have applied the same interpretation of PSAB.

Other Canadian jurisdictions too have had disagreements with their Auditors General about accounting matters, so this is not unusual. Our main concern in addressing areas of disagreement is to ensure transparency and support a full understanding of the basis and nature of the differences, while we engage the expert accounting community to resolve these differences.

The Auditor General's audit opinion on the Public Accounts is in no way related to the funding status of the plans. Both the OTPP and the OPSEUPP, to which her opinion relate, are well funded and have a history of strong returns.

Earlier this year, the CD Howe Institute, an independent research organization that assesses the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario, both in terms of our Public Accounts as well as our Budget and our Estimates.

Tactics and products:

Use all of the existing communications materials being planned for the release of Public Accounts (News release, backgrounder, data visualization tools, etc.). Supplement existing messaging and products with messaging specifically on this issue (Qualification) for use in scrums as well as a statement to be issued by the Premier and/or Minister Sousa and Minister Sandals directly to the gallery.

Technical briefing details - TBC

Response Scenario 2

Government introduces legislation to allow it to publish the Public Accounts later than the current legislated deadline of September 27. This may be the result of an anticipated or agreed-to process whereby the Province and the Auditor General jointly seek external advice to review what is the reasonable accounting treatment for pension assets (messaging for this scenario in square brackets below). This legislation would need to be introduced and given Royal Assent before September 27 (four sitting days) for the government to meet its legislated deadline. While this is possible, it is unlikely to happen, which means the government needs to be ready to explain why it is not meeting its legislated deadline. It is expected there would be negative opposition and media reaction to a delay in tabling the Province's final results.

Auditor General Reaction:

It is anticipated the Auditor General will not proactively comment on or support the need for a delay. However, when asked the Auditor General may suggest that the government could have done more to address the situation earlier during her audit, and reiterate her position that she believes that her interpretation of the accounting standards at issue is correct.

Messaging:

As part of this year's Public Accounts audit in our work with the Auditor General, we have identified some issues regarding the treatment of pension assets.

We have agreed to a joint process by the Auditor General to review the accounting treatment of pension assets on the Province's books.

We believe that this particularly complex accounting matter would benefit from additional discussions and consideration before finalizing this year's Public Accounts, [which the Auditor General has agreed to through a joint process TBC].

It is in the mutual best interest of the Province and the Auditor General to ensure that the accounting treatment is appropriate to achieve fair presentation of the Province's results.

We are asking for support from all sides of the House in passing this legislation as soon as possible so that we can take the necessary time to conduct an appropriate review.

If pressed whether the Province has erred on its accounting treatment:

Ontario has followed the same pension accounting treatment for pension asset reporting for the past 15 years.

This accounting treatment had been accepted by the current Auditor General for the last two years – ever since she started her position in Ontario – and by two previous Auditors General.

It is in the mutual best interest of the Province and the Auditor General to ensure that the accounting treatment is appropriate to achieve fair presentation of the Province's results.

If asked about missing the legislated deadline:

The government was tracking toward releasing the Public Accounts by September 27, which is 180 days after the end of the fiscal year. Given the concerns of the Auditor General and the work needed to address these, we believe that this particularly complex accounting matter would benefit from additional discussions and consideration before finalizing this year's Public Accounts.

[Or: Given the concerns of the Auditor General and the work needed to address these, we have agreed to a joint process with the Auditor General to review the matter.]

We are jointly consulting a panel of independent accounting experts to provide advice on whether the Province's should continue to report pension assets on its books the same way it has done so for the last 15 years, which had been accepted by Auditors General in the past, including the current Auditor General.

We expect the panel's review to take up to 6-8 weeks (TBC). After the panel concludes its work, the Auditor General would be able to issue an audit opinion on the Province's books to finalize Public Accounts.

Tactics and products:

Decision required on the preferred approach and tactics to inform the public about the outcome of tabling legislation to defer public accounts past the legislated date of September 27.

Proactive: Newsrelease or joint Ministers of TBS and MOF statement

Reactive: Supplement existing messaging and products with messaging specifically on this issue for use in scrums as well as a statement to be issued by the Premier and/or Minister Sousa and Minister Sandals directly to the gallery.