



Office of the Provincial Controller Division

Accounting Updates

Briefing for the Secretary of Cabinet

October 6, 2017

Confidential – For Internal Discussion Purposes Only

Topics for Discussion



1. 2016-17 Public Accounts Audit
2. Transit Infrastructure
3. Accounting Risks – 2017-18
4. Advisory Audit Committee Update

1. 2016-17 PUBLIC ACCOUNTS AUDIT

2016-17 Public Accounts Audit



Highlights of AG Audit Findings Report

- Two qualifications in the audit opinion
- Other matters paragraph in opinion – rate-regulated accounting not permitted under PSAS; future material misstatement resulting from “legislated accounting”; FSD&A does not reflect pension accounting or market accounts appropriately
- Statement that combination of pension accounting, market accounts and rate regulated accounting may result in an adverse opinion in 2017-18
- Accounting for Fair Hydro Plan
 - Alleges management ignored requests for information; letter to DM Angus referenced
 - Indicates that accounting “opinion shopping” from private-sector firms not appropriate
- Summary of unadjusted differences (SUDs)
 - Disagreement with OAG on the majority of the items raised
 - OAG referenced performance materiality of \$440 million in current year (only referred to planning materiality in prior year which was \$670 in the current year) – could have an impact on amount of work completed by auditor (increased work) or on resolution of differences of view on issues

2016-17 OAG Summary of Unadjusted Differences



Issue – Incr/(decr) to in-year deficit	Description
Unadjusted differences agreed to by government accountants: \$302 million increase to deficit	
Unadjusted differences to which there was no dispute – (\$10 million)	- Updated information on PIT from July 2017 CRA data – \$312 million - Subsequent year-end tax receipts (EHT, Gas, Tobacco, Fuel, etc.) – (\$104 million) - Ontario Rebate for Electricity Consumers (OREC) over-accrual – (\$29 million) - Ontario Works – late claims not accrued - \$23 million - Drug rebate fiscalization – cutoff error (calendar versus fiscal year) - \$100 million - Consolidation of CCACs/CAS – opening balance sheet impact (no deficit impact)
Unadjusted differences disagreed with by government accountants: \$201 million increase to deficit	
• Corporate tax fiscalization - \$94 million	• AG suggests a Q4 estimate based on 25% of the calendar year • OEP supports using 33% based on analysis; varying corporate tax year-end
• Algonquin land claim - \$200 million	• AG established probability of settlement based on a sample of past claims; assessed reasonable estimate is determinable from documents (Agreement in principle) • OPCD cited other jurisdiction (BC) accounting treatment; ratification is not determinable; reasonable estimate is not determinable (despite federal accrual)
• Remedy – (\$160 million)	• AG determined that lowest of three scenarios presented be accepted (accrual too high) • EDU supports the current remedy accrual pending final ruling given ETFO is returning to course – may have impacts on other settlements
• Grassy Narrows - \$85 million	• AG cites minister's June statement confirming responsibility at the fiscal year end • MOECC/OPCD view is that government did not accept responsibility at the year-end; the June announcement was a 2017-18 event
• Early Years / Child Care program - \$58 million	• AG cites Mandate letter and Budget announcements as establishing an obligation for a program that operates under a TP agreement on a calendar year with municipalities • EDU provides support that program enhancements don't come into effect until funding is approved and TP agreements are signed (July 2017)
• Employee Life and Health Trusts – (\$52 million)	• AG indicates that as some trusts were not established at year end, expense is disallowed • EDU emphasizes that the trust is a vehicle to satisfy an obligation to employees which existed at the year-end based on the agreement signed between EDU and the unions
• IESO rate-regulated accounting – (\$24 million)	• AG indicates that rate-regulated accounting is not permitted under PSAS • IESO received an unqualified opinion for use of rate-regulated accounting under PSAS
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2. TRANSIT INFRASTRUCTURE

Project Ownership Considerations

(slide provided by MTO)

- Transit projects can either be owned by the province or by a municipality. Each ownership model brings with it different accounting and risk implications.
- **Provincially-owned projects:**
 - Province can amortize the costs over the life of the project, helping to reduce the immediate fiscal impact.
 - As owner of the project, the Province has control over decision-making.
 - The Province assumes all implementation and construction risks. These include: environmental risks, local community impacts, property acquisition, cost overruns and project delay.
 - As project owner the Province is also responsible for all operating, maintenance, lifecycle, insurance and other liability costs of a project.
 - It is important to note however that some or all of these costs can be sub-contracted back to the municipality.
- **Municipally-owned projects:**
 - Provincial contributions are made through Transfer Payment Agreements, which result in shorter-term fiscal pressures.
 - As a funding partner to a municipally-owned project, the Province does not have control / decision-making authority.
 - All implementation risks as described above are the ultimate responsibility of the municipal project owner, along with all operating, maintenance, lifecycle, insurance and other liability costs.

Overview of Projects *(slide provided by MTO)*

Project / Capital Budget	Ownership	Project Status	Considerations
Eglinton Crosstown LRT \$5.3B (2010\$)	Province Note: Finch W, Sheppard E LRTs also provincially owned	Under construction Finch W in procurement, Sheppard E to follow	- Delivered by Metrolinx and Infrastructure Ontario. - In service September 2021. - Per draft cost-sharing agreement, City required to cover operating, regular maintenance costs (~\$2B over 30 years). - Province responsible for the lifecycle maintenance costs (~\$700M over 30 years). - These terms also apply to Finch W and Sheppard E LRTs.
Scarborough Subway Extension \$3.346B (YOE\$)	Municipality	<5% design	- Provincial contribution to City of Toronto project capped at \$1.48B (2010\$). - Project scope and budget have undergone various revisions as design progresses. - Province has not received a project business case.
Relief Line South \$6.8B (YOE\$)	TBD	0-2% design	- May be challenge for Province to demonstrate ownership i.e., that project is separate and distinct from municipal transit operations (links to existing TTC subway system). - Particularly complex - tunneling downtown Toronto, other cost risks e.g., complexity of Gerrard/ Pape station construction beneath existing rail corridor. - City's initial operating cost estimate of over \$6 billion 2031–2080 (Escalated \$).
Yonge Subway Extension \$5.6B (YOE\$)	TBD	1 – 15% design	- May be challenge for Province to demonstrate ownership i.e., that project is separate and distinct from municipal transit operations (extension of existing TTC subway line). - Crosses Toronto and York Region municipal boundary. - May 2017 Toronto City Council resolutions state: - City/ TTC will own, operate, and maintain YSE, recognizing it is extension of Line 1, subject to cost-sharing agreements with York Region and/or Ontario - City will not agree to YSE unless construction of Relief Line South fully funded with firm completion schedule.

Status re: AIP with City



- Agreement in Principle (AIP) with the City of Toronto (“City”) in final stages (expecting to be signed in the near term)
- Metrolinx finance function has reviewed and has confirmed that LRTs will be accounted for as provincial assets
- External auditor for Metrolinx (PwC) has been engaged during the negotiation process and is reviewing the final draft of the contract
- PwC to confirm back whether they have discussed the issue with the OAG and/or whether they are planning to raise this contract with the OAG during the course of this year’s audit
- OPCD will work with Metrolinx to ensure OAG receives the appropriate accounting analysis for this agreement

3. OTHER 2017-18 ACCOUNTING ISSUES

Accounting Risks – 2017-18



- Hydro One – OEB Transmission Decision released September 28, 2017 – OPCD is working with Hydro One to determine the accounting impact of the decision
- Hydro One – given the reduced ownership position, accounting for Hydro One as a controlled government business organization is currently being assessed by KPMG
- Ontario Power Generation – as part of the translation from US GAAP to IFRS for government reporting, the discount rates used under IFRS result in an adjustment relating to asset retirement obligations reported
- Contingent liabilities – OPCD is working with MAG to review the accounting requirements under PS3300 (Contingent Liabilities) for assessment of contingent liabilities, including land settlement claims
- Remedy (EDU) – monitoring outcome of settlement with ETFO

4. ADVISORY AUDIT COMMITTEE UPDATE

Advisory Audit Committee Update



1. Principles

- Established by amendment to the Auditor General Act
 - Provide independent and qualified individuals opportunity to review AG's draft reports prior to public release
- Composition and Tenure
 - Up to seven members appointed by Order in Council
 - Competitive selection process based on pre-defined competency framework
 - AG involved in selection process invited as member of selection panel

2. Implementation

- Proposed legislation part of a new government mandate
- Working on Cabinet submission and draft legislation
- Seeking direction to proceed