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Billions at stake in accounting dispute (TorStar)

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Billions of dollars are at stake in a simmering dispute pitting Ontario's auditor general against the provincial government. With the spring budget looming, neither side is backing down.

Now, an outside panel of top accounting and pension experts has determined that auditor general Bonnie Lysyk has gone out on a fiscal limb by effectively wiping away nearly \$11 billion in government assets, according to multiple sources.

But the auditor tells me she won't climb down, setting the stage for a public showdown over an accounting change that is worth \$1.5 billion to the bottom line this year alone.

The independent pension asset expert panel met her Friday to reveal their findings - explaining why they concluded the pension surplus is a legitimate asset on the government's books. Their report will be made public later this month, giving Lysyk more breathing room to reconsider her position before the budget deadline.

The government - and all Ontarians - may pay a price for this seemingly arcane accounting dispute if the auditor's controversial stance constrains its fiscal margin of manoeuvre, notably Liberal plans to reallocate funds for hydro relief or other spending. Fearing another credit downgrade from outside rating agencies, or an electoral downgrade from the official opposition, Premier Kathleen Wynne has turned a balanced budget into an article of faith.

But Wynne never accounted for an accounting dispute, which made her deficit elimination goal more complicated.

Lysyk announced last year that she was overturning the rules that allowed governments to book billions of dollars in surpluses for jointly-run pensions deemed provincial assets. First implemented under a PC government, and carried over by the Liberals, the traditional auditor's approach enhanced Ontario's fiscal picture.

Now Lysyk has changed her mind. Yet she seems to be having it both ways.

On the one hand, the auditor says (naturally) that any deficits in joint pension funds must be counted as government liabilities. That's standard practice.

But with a pension surplus, Lysyk now says not a penny can be counted as an asset. Neither a liability nor a surplus, these billions of dollars are being treated as trans-assets, transmogrified by the auditor into phantom money - a virtual disappearing act.

It's tempting to cast this as a political dispute between Liberal partisans and a politicized auditor. But that would be a misreading of the battle lines.

The most vociferous opposition to Lysyk's position comes from the civil servants who count up the money in the provincial treasury. The auditor, in turn, is as mistrustful of the public servants as she is of their political masters.

Lysyk challenged the controller in the government's treasury board - senior civil servant Cindy Veinot - to provide her with additional evidence that the pension money should continue to be treated as an accounting surplus. But when outside accounting consultant Deloitte LLP corroborated that position, the auditor balked. According to multiple sources, Lysyk dismissed the Deloitte submission as being biased - claiming a conflict of interest because Veinot had previously been a partner at Deloitte, and because the firm was paid a fee.

Lysyk acknowledged such fees are standard practice. But she would not comment on whether Deloitte was biased because a former partner was now a public servant.

Deadlocked, the government announced an independent panel on Public Service Accounting Standards, headed by a former chair of the Canadian Actuarial Standards Oversight Council. The expert panel reached its own conclusions:

Like a deficit, a surplus belongs to employers provided they comply with basic rules. Jointly-held pensions aren't that much more complicated - as with a joint bank account or jointly held GIC, both parties hold a proportionate share of the asset.

Lysyk wouldn't discuss Friday's meeting with the independent panel of experts, or its findings to date. Asked about the panel's credentials, she countered, "we did our homework, and we did a lot of work."

The auditor told me her mind is made up and nothing she has heard so far has changed her view. Which leaves her on a limb and the government in the lurch.

If both sides harden their positions, the auditor may refuse to fully endorse the treasury's public accounts and the government may opt to go its own way - providing detailed explanations to credit rating agencies to disprove the auditor's stance.

There are political overtones to this dispute and economic consequences. The opposition will side with the godly auditor against a big bad Liberal government. But the financial and accounting community will make up its own mind when they look at the books and the detailed explanations.

Billions of dollars are at stake, to be sure. Reputations, too.

Martin Regg Cohn's political column appears Tuesday, Thursday and Saturday. mcohn@thestar.ca, Twitter: @reggcohn

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- Bonnie Lysyk has wiped away nearly \$11 billion in government assets.

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