Fwd: Public Accounts update

From: "MacIntyre, Kyle (TBS)" <kyle.macintyre@ontario.ca>
To: "Foster, Robert (CAB)" <robert.foster@ontario.ca>, "Farrow, Alicia (CAB)" <alicia.farrow@ontario.ca>, "McLean, David (MOF)" <david.mclean@ontario.ca>
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Begin forwarded message:

> **From:** "Orencsak, Greg (TBS)" <Greg.Orencsak@ontario.ca>
> **Date:** September 13, 2016 at 10:29:47 PM EDT
> **To:** "Orsini, Steve (CAB)" <Steve.Orsini@ontario.ca>, "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca>, "Davidson, Steven (CAB)" <Steven.Davidson@ontario.ca>, "Betzner, Lynn (CAB)" <Lynn.Betzner@ontario.ca>
> **Cc:** "Bromm, William (CAB)" <William.Bromm2@ontario.ca>, "Hughes, Karen (TBS)" <Karen.Hughes@ontario.ca>, "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>, "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>
> **Subject: Public Accounts update**

> Steve, in advance of tomorrow's Public Accounts FPC item, I thought it'd be useful to provide an update on where we are with the audit of Public Accounts.
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> We have received a letter from the AG this afternoon that sets out her position on the pension asset valuation. It is (again) materially different than what she told our staff verbally the day before, and more akin to what it was about a week ago when she first quantified the potential impacts for the first time.
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> To recap, her current position is that we should have no pension asset on our books, as we cannot access the surplus of a jointly-sponsored pension plan (TPP, OPSEU pension trust) in an unfettered way. She has taken this position despite the MAG legal opinion we have provided that supports our view that the province can derive an economic benefit from such a surplus, and our interpretation of the standards which supports the valuation of the asset on our books.
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> According to the AG's current position, we should be adding $9.2B to the accumulated deficit as an opening adjustment in 2015-16, and another $1.4B to the annual deficit. This would increase net debt by $10.6B and also the annual deficit would go to $4.9B (still lower than the $5.7B interim deficit for 2015-16). Importantly, this interpretation would also result in volatility and uncertainty in future years, as any further increase in pension assets would be "reversed" by adding the impact to the annual deficit.
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> We are taking the following steps in response to these latest developments:
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> - We are meeting with the AG along with our external accounting advisors (Deloitte) at 8 am on Wednesday. We will use this opportunity to try to convince the AG that our existing interpretation of the standards is correct, which would not result in the impacts above. She has signed off on the province's books for each of the last two years based on this existing interpretation.
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> - Deloitte is also preparing a formal accounting opinion for the Province.
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> - In addition to our internal MAG legal opinion, we have also engaged an external law firm to do a legal opinion about the Province's ability to derive an economic benefit from pension assets on our books.

- We have reached out to both the current federal AG's office and a former federal AG (Desautels) on whether they would be willing to provide an accounting opinion, as well. These discussions are ongoing.

We will persist in making the strongest case possible to support our views. However, in the event that we are not successful and the AG is not willing to budge, we have to consider where that leaves the government.

If our external advisors (accounting and legal) support our existing interpretation of PSAB standards, along with the controller, it would be very difficult to sign off on the financial statements in a way that reflects the AG's current position, i.e. a $4.9B deficit and higher net debt.

If we stick with our existing numbers, in turn, would then likely lead the AG to qualify the financial statements as the differences would be material. The AG would have to explain her qualification, and the government would also have to be able to support its position, which is why it is critically important for us to have solid external advice. While we are doing everything possible to mitigate the likelihood of a qualification, it is a potential outcome so we will be flagging the risks tomorrow.

Even putting this aside, some of the issues that we have parked this year will continue to be of great interest to the AG for next year's Public Accounts (e.g., IFRS vs. US GAAP consolidation of OPG/H1) which could result in material differences - again - leading to the risk of a qualified opinion. While the government has the ability to legislate accounting standards through regulation, the AG may not accept that either.

The FPC materials try to capture the state of play as of tonight, and we will speak to updates coming out of the 8 a.m. meeting.

Greg