Office of the Provincial Controller Division

Accounting Issues and Public Accounts Update

Briefing for the Secretary of Cabinet

April 7, 2017

Topics for Discussion

1. Auditor General’s Audit Planning Report
2. Discussion on pre-election report
3. Accounting issues update
4. Education Life and Health Trust (ELHT) Reporting
5. Establishing an Audit Advisory Committee

1. AUDITOR GENERAL'S AUDIT PLANNING REPORT

AG's Audit Planning Report

- Public Accounts Planning meeting – March 24, 2017
- Report format is generally consistent with prior years' reports, and listed issues are consistent with planning discussions between OPCD and OAG staff
- Comments on draft report provided to AG on April 3; expecting final plan mid-April
- Specific Issues identified by AG

1. Pensions
   a. OTPP and OPSEUPP net pension assets
      » AG requested pension asset ceiling test parameters that are not required by PSAS requirements – OPCD agreed to provide inputs, but not calculation
      » OTPP – OPCD advised that no agreement existed at March 31st with OTF re: use of contribution surplus (for purposes of draft Audit Opinion which assumes such an agreement)
   b. Pension adjustment to accrued benefit -- $2.3B
      a. Staff will meet to discuss next week
      b. Amount includes timing differences re: contributions as well as other items
   c. AG continues to push for expanded pension disclosure exceeding PSAS requirements

AG’s Audit Planning Report

- Specific Issues identified by AG (continued)

2. Hydro Sector
   a. OPG and H1 IFRS
      » IFRS – suggested confirmation be added that OPG’s preferred ARO methodology is acceptable
   b. Hydro One Inc. – sale of second tranche
      » AG staff confirmed they have reviewed analysis provided and have no issues
   c. Sale of Brampton Hydro – transaction closed end of Feb 2017
      » Targeting to provide analysis to AG staff by mid April
   d. Hydro Rate Relief Initiatives
      » Briefing for AG and staff scheduled for April 19, 2017
3. Employee Life and Health Trusts – see separate section
4. Consolidation principles used for BPS
   e. Acknowledged change to line by line consolidation in 2016-17 Public Accounts
      » OPCD discussed with impacted ministries: required changes in process
      » Decision to move to line by line in Public Accounts noted in 2017 Document

AG’s Audit Planning Report

- Specific Issues identified by AG (continued)

  5. Transfer payments
     a. Commented on work completed by OPCD and AG staff re: clarification of guidance on year-end transfers (GIF)

  6. Cap & Trade
     b. Commented on difference in approach, but consistency of outcome re: year of recorded revenue for first auction (2017-18)

- Other issues -- various
  - GGRA – AG had proposed to audit transactions recorded; clarified no activity this year
  - AG confirmed she supports an earlier release date, but not in the current year
  - OPCD proposed bi-weekly and subsequently weekly status meetings commencing mid -April
  - Draft Management Letter of Representation remains outstanding – AG suggested a change in format in the current year
  - Oversight responsibility questions now addressed to DM level (governance and fraud related)
  - Report excludes reference to DM Attestation Letters which were required in the past

2. PRE-ELECTION REPORT

Pre-election report

- Brief discussion with AG on March 24, 2017

- Discussed:
  - Decision of government regarding if a pre-election report is tabled
  - Historical timelines for release of report and release of AG report
  - Impact of change in election timing to June

3. ACCOUNTING ISSUES

Accounting Issues -- Summary

	Issue	Fiscal impact in 2016-17	Reflected in Q3	Multi-year impact
1	Pension accounting – valuation allowances - Reversed FES treatment for OTPP/OPSEUPP - Panel recommended full valuation allowance for CAATPP and HOOPP	$14M CAATPP $0 HOOPP	Yes	Yes
2	IFRS-US GAAP differences – OPG and H1 - Decision to adopt IFRS announced in Q3 - OPG 'preferred' approach will be used	$0.1 B	Yes	Yes ($2.6B over 5 years)
3	BPS line-by-line consolidation	No	No	No-fiscal impact
4	Electricity Rate Mitigation	$100M	No	Yes
5	Cap & trade proceeds -- Revenue from 1st auction to be reported in 17/18	$478 Million	Yes	No
6	Metrolinx MOU with City of Toronto	TBD	No	Yes
7	Year-end transfer payments (e.g. Affordability Fund, AI)	TBD	No	No
8	Contaminated sites – i. OAG follow-up audit, ii. New liabilities in 2016-17	$100M	$47.5M	Yes
9	Other GBE issues (H1 sale; unrealized gains/losses)	$538M (H1) $180M (BH)	2016 Budget amt (H1 only)	No
10	EDU Remedy	NIL currently	NIL	Depends on timing of settlements

Accounting Issues – Update

	Issue	Update
1	Pension accounting – valuation allowances - Reversed FES treatment for OTPP/OPSEUPP - Full valuation allowance for CAATPP and HOOPP	• Reference to conclusion on HOOPP and CAATPP in 2017 Document • Supplementary report should be posted before Document is released
2	IFRS-US GAAP differences – OPG and H1 - Decision to adopt IFRS announced in Q3 - OPG 'preferred' approach will be used	• Updated estimates received from OPG – very consistent with previous information (max difference in any year $50M)
3	BPS line-by-line consolidation	• Decision to move to line-by-line in 2016-17 Public Accounts, disclosed in 2017 Document
4	Electricity Rate Mitigation	• Affordability Fund – OPCD analysis complete; Hydro One IFRS analysis in process; will provided documentation to AG once complete
5	Cap & trade proceeds -- Revenue from 1st auction to be reported in 17/18	• Auction certified on April 3rd, agreement with AG on year revenue is recognized – 2017/18
6	Metrolinx MOU with City of Toronto	• Agreement not signed before year-end
7	Year-end transfer payments	• Worked with ministries re: year-end transfers; in all cases that OPCD was consulted on, funds disbursed before year-end
8	Contaminated sites – i. OAG follow-up audit, ii. New liabilities in 2016-17	i. Follow up audit – no additional requests received from OAG ii. MNDM -- $100M recorded in 2016-17 (inc. Essar); monitoring Grassy Narrows
9	Other GBE issues (H1 sale; Brampton sale)	• Documentation provided to AG or in process
10	EDU Remedy	• Monitoring settlements – CUPE, ETFO, OPSEU outstanding

4. EDUCATION LIFE AND HEALTH TRUST (ELHT) REPORTING

ELHT Reporting

- Creation of ELHTs (in total 6 trusts) was agreed during the negotiation for the 2014-17 labour agreements to streamline employees' health, life and dental benefits for the sector
  - Legislation: Section 144.1 of the *Income Tax Act* (Canada)
  - Non-controlled trusts are not consolidated into the Province's books.
  - There is no change to accounting on the School Boards' books.
- Crown agreed to provide $175M one-time funding to the trusts; plus an increase in the School Board Operating Grants ($10M in 2016-17, $15M in 2017-18 and ongoing)
  - Trusts are effective once the trust agreements are signed.
  - 4 trusts established during 2016-17 already received funding; funding will be paid for the remaining 2 trusts once established,
- On March 10th, upon the AG's request, EDU met the AG and her staff
  - EDU walked through the structure of the trusts and accounting implications
  - The AG appeared to agree in general with the EDU's proposed accounting analysis
  - The AG raised the issue on the potential risk of the government to fund the trust deficit
    - Upon further analysis by OPCD and EDU, it is concluded that the government is
      - not exposed to any risk for active employees benefit cost (97% of total trust members)
      - only exposed to a small portion of the retiree benefits liability (less than 3% of total trust members); the liability will be diminishing over years due to eligibility around age limit for most retirees in this group.
      - analysis is in the process of being finalized

5. ESTABLISHING AN AUDIT ADVISORY COMMITTEE

Purpose

1. To identify the proposed structure and approach to establish an Advisory Audit Committee of independent experts to provide advice to the Government of Ontario and the Auditor General (AG)
    - Since the previous update on January 13th, OPCD has continued exploring establishing an Advisory Audit Committee, including receiving feedback from TBS Legal, Ontario Internal Audit Division (OIAD), Corporate Policy, Agency Governance and Open Government (CPAGOG), Public Appointments Secretariat, TBS Corporate Services and MBC Support Branch.
2. To discuss considerations and next steps

Advisory Audit Committee

- An Advisory Audit Committee would enhance the integrity and efficiency of Public Accounts audits by providing an independent forum for communication and discussion between government staff and the AG
- Specifically an Advisory Audit Committee would provide both parties:
  - Access to independent experts who could provide advice and wise counsel on the planning of the Public Accounts
  - A neutral space to discuss significant financial accounting and reporting issues where there might be disagreement
  - A forum where independent experts in the field of auditing and accounting could provide an appropriate challenge to either party
- The Advisory Audit Committee would not be related to the Standing Committee on Public Accounts and would not make representations to that body

Proposed Structure

- Mandate
  - A statutory mechanism would require the AG to provide independent and qualified individuals the opportunity to review her draft reports prior to being publicly released
  - The Advisory Audit Committee would review and advise on issues related to:
    - Financial statement presentation and disclosure, accounting policies and pronouncements, and non-financial performance information,
    - Any other issues referred to it by the Minister of Finance/President of Treasury Board, or the AG.
  - Purely advisory in nature and not binding on either party
- Composition and Tenure
  - Would consist of up to seven independent members appointed through OIC
  - Members would be selected through a competitive process based on pre-defined competency framework
  - Members would serve for an initial period of up to 3 years, for up to 2 terms
  - Members must attend/participate in the meetings; no substitutes or alternates should attend in place of a member
  - Would report to the Government and the AG regarding substantive matters
- Administrative support provided by OPCD

Meetings

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- The Advisory Audit Committee would meet at least three times a year:

Timing	Purpose of Meeting
Q1: April-June	Discuss interim audit issues identified during Public Accounts Audit
Q2: July - Sep	Discuss final Audit Report for Public Accounts Audit and Auditor General's Report
Q3: Oct-Dec Q4:Jan-March	Discuss Audit Planning for next year's Public Accounts Audit

- The Chair may also call a meeting to review any matter at the request of either the AG or the minister of Finance/President of the Treasury Board
- The meeting schedule would be reviewed if the Advisory Audit Committee increased the scope of its work

Budget

- A draft budget for an Advisory Audit Committee has been calculated at $413k per annum. This includes:
  - Per diems and travel costs for the chair and other members
  - Policy and administrative support for the Agency provided by OPCD staff
  - Procurement costs (including translation)

- Per diems are included at $350/Chair, $250/Vice Chair, $200 members as recommended in Agency & Appointments Directive
  - CAC per diems are paid at $1,500/External Chair and $1,200/external members
  - AG Senior Advisory Panel per diems are paid at $300/half day meeting

- Two FTEs are included to provide information, conduct research, help write reports, and administrative support

Considerations

- Does AG's recently established Panel of Senior Advisors obviate the need for an Advisory Audit Committee?
  - Panel discussions and deliberations are confidential to the AG
  - Panel does not provide a forum to discuss and resolve issues where there might be disagreement between the AG and government staff
- Should initial legislation be written for just Public Accounts or with the full scope of review, Public Accounts, VFM, and Special Reports?
  - Current AG practice of one annual report may hinder the work of an Advisory Audit Committee.
- Should Legislation be enacted as part of a new government mandate, or upon renewal of the AG contract in 2023?
  - Amendments to the *Auditor General Act* to authorize the establishment of the Advisory Audit Committee, and an implementation plan set out in regulations
- Should new funding/FTEs be requested or will funding be provided from the existing base?
  - Should members per diems exceed base amounts defined in the Agency & Appointments Directive?

Next Steps

- Address outstanding considerations
- Obtain DMO and MO approval to proceed
- Prepare draft legislation and Treasury/Management Board approval
- Establish TB/MB and LRC timing

Appendix A: Member Competencies

Technical Knowledge	
CPA designation and/or other professional and academic credentials	Audit and Financial accounting practices
Public accounting/standard setting	Consolidation and accrual accounting theories
Experience	
Senior level experience with large private, public, and/or not-for-profit organizations with both business and board experience	Solid track record of implementation and achieving positive results
Strong understanding of governance	Understanding of the global economic climate
Skills	
Appreciation of the public sector decision making process and accountability framework	Ability to convey complex concepts, issues and options for resolution
Ability to maintain an independent and unbiased perspective	Ability to build and maintain positive relationships
Strong support for ethics	Effective communication skills
Consensus building skills and experience	Conflict resolution skills and experience
Influencing skills	Decision making skills and experience

Appendix B: Financial Impact

- Proposed per diem of $350 for the Chair and $200 for other members. This is the recommended remuneration for Advisory Agency members with special expertise.
- Two Ministry staff to support the Advisory Agency in providing information as required, conduct research, help write reports, and administrative support

		#people	Per diem	# meeting / year	# days / meeting	Total Cost (rounded)
Advisory Agency Costs						
Chair		1	350	4	15	11,000
Members		6	200	4	10	29,000
		Total Per Diems				40,000
		Travel Budget: 10% per diem per meeting				16.000
		ODOE Costs: 15% of per diems				6,000
		Total Budget: Chair and Members				**62,000**
Additional OPS Staff Costs – 2.0 FTE						
AFA21	Salary & Wages (mid-point scale)				94,000	
	Employee Benefits at 15%				14,000	
						108,000
	ODOE at 15%					16,000
OAG11	Salary & Wages (mid-point scale)				56,000	
	Employee Benefits at 19%				11,000	
						67,000
	ODOE at 15%					10,000
Procurement Costs						150,000
		Total Estimated Annual Costs				**413,000**

Appendix C: Risks and Mitigating Strategies

TBS

Risks	Mitigating Strategies
• Establishing the Advisory Agency would be seen as an increase in bureaucracy and costs to the Province	• In line with Best Governance practices (private sector, Alberta), and costs would be managed within the government's existing budget
• The Advisory Agency may be seen as usurping authority	• There is no requirement that the AG must follow the Advisory Agency's advice; the AG retains independence to make its own decisions
• AG may not be supportive, and may see it as an attempt to hamper independence	• May be possible to leverage support from both the controller and AG in Alberta to provide Ontario AG with a basis to support the creation of the Advisory Agency

Appendix D: AG's Senior Advisory Panel

- The Auditor General recently established a panel of Senior Advisors to provide strategic advice and recommendations concerning her Office's work.
- Specific issues for the Panel's consideration and advice will include:
  - The overall state of Ontario's public sector and broader public sector with particular emphasis on current or potential issues and trends
  - Emerging issues that the AG should consider in the selection of audits and the conduct of her work
  - The AG's relevance to stakeholders and areas that may be appropriate for growth or new strategies
  - Opinions on the findings that the AG should report to the Legislature, and
  - Other topics, as requested by the Auditor General.
- The Panel will meet at least twice per year at the call of the AG. Panel members must take an Oath of Office and Secrecy, and complete the Conflict on Interest Disclosure.
- The powers of the Panel are limited to providing non-binding advice and recommending lines of action. The final decision will rest with the AGO.
- There are eight Panel members representing a broad cross-section of prominent individuals in the sectors of accounting, public service and law. Members include:
  - Tim Beauchamp, Former Director, Public Sector Accounting Board
  - Sheila Fraser, Former Auditor General of Canada