TBS

Office of the Provincial Controller

GCRA
- pre-spend
~~35~~ 325
+ ?

419
Helen Graham

Financial Reporting Risks

Toronto Atmospheric Fund.

December 9, 2016

Briefing to Secretary of Cabinet

- COO - not a fiscal impact

DRAFT

- Energy - Felix - Helen Graham.

Purpose

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- To highlight immediate (2016-17) and longer-term (2017-18 and 2018-19) fiscal/financial reporting issues

- Communicate options and recommendations to address immediate high risk items

Immediate Issues -- Summary

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	Issue	Fiscal impact in 2016-17	Reflected in FES	Multi-year impact
1	Pension accounting	$2.2 Billion	Yes	Yes
2	IFRS-US GAAP differences – OPG and H1	$1 Billion	No	Yes
3	Cap & trade proceeds	$478 Million	No	Likely not
4	Metrolinx MOU with City of Toronto	TBD	No	Yes
5	Year-end transfers	TBD	No	Yes
6	Changes to consolidation (how and what)	N/A	No	Yes
7	Follow up audit – contaminated sites	TBD	No	Yes
8	Other GBE issues (H1 sale; unrealized gains/losses)	TBD	No	Yes
9	Reduced materiality by AG	N/A	N/A	N/A
10	Implementation of Hyperion Financial Mgmt	N/A	N/A	N/A
11	Earlier release of Public Accounts	N/A	N/A	N/A
12	Implementation of new accounting standards	N/A	N/A	N/A

1. Net Pension Assets

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Risk:	High
Impact in 2016-17 (billions):	$ 2.2
Multi-year impact:	Yes
Impact included in FES:	Yes
Description of issue:	Accounting treatment for net pension assets of jointly sponsored and multi-employer pension plans -- OTPP, OPSEUPP, HOOPP and CAATPP
Current status:	Expert panel has met twice; current focus on OTPP; meeting scheduled with AG on Dec. 16; Panel working towards reporting by Dec. 31
Options under consideration:	(a) If Panel agrees with Province re: recognition of net asset, Province will use guidance from Panel on measurement and engage a firm to value the asset; need strategy to work with AG on accepting findings of Panel (b) If Panel does not agree with Province re: recognition of net asset, Province is assessing alternatives re: approaching OTF to meet the requirements set out by the Panel to recognize an asset (which may differ from the AG's interpretation).
Timing of expected resolution:	Panel report -- December 31, 2016; (a) Asset valuations -- January 31, 2017; (b) Agreement with OTB -- TBD
Province's ability to influence:	Province has ability to influence agreement with OTF should Panel not agree with Province's view.
Role of other ministries:	EDU -- working through alternatives re: approaching OTF (e.g. changes to funding management policy) Other ministries (e.g. Health, MAESD) not currently engaged (not sponsors of HOOPP or CAATPP)

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Nadine

2 IFRS-US GAAP differences – OPG and H1

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Risk:	High
Impact in 2016-17 (billions):	$ 1.0
Multi-year impact:	Yes – $
Impact included in FES:	No
Description of issue:	PSAB requires consolidation of OPG and H1 on an IFRS basis, whereas the Public Accounts reflects US GAAP consolidation on a US GAAP basis, consistent with OPG and H1 external reporting as allowed by Securities Regulators.
Current status/ Next Step	Estimated difference between IFRS and USGAAP for 16/17 is $1B. OPG to provide estimated impact of fiscal planning period in December/16. Difference to be reported on SUDS.
Options under consideration:	(a) Continue to report OPG and H1 on a US GAAP basis on the CFS (legislate accounting) (b) Approach PSAB for additional consideration (c) Report OPG and H1 on an IFRS basis on the CFS (d) Report OPG on IFRS and H1 on a US GAAP basis Consider also changes to the AG Act to require AG to issue audit opinion based on Province's accounting policies (PSAB & legislation)
Timing of expected resolution:	2017 Budget -Legislative changes could be considered as part of Spring Bill -Consider changes to basis of reporting for OPG/H1 to be reflected in Budget
Province's ability to influence:	Province is not able to influence PSAB or AG.
Role of other ministries:	Energy aware of ongoing considerations and stakeholdering with OPG and H1 OEFC involvement as necessary where potential impacts on f/s or audit opinion

3. Cap & Trade Proceeds

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Risk:	High
Impact in 2016-17 (billions):	$.5
Multi-year impact:	No
Impact included in FES:	Risk not identified in the FES
Description of issue:	Assumptions regarding timing of revenue recognition for 2016 Budget in question. Revenue likely to be recognized once emission allowances have been transferred.
Current status:	OPCD accounting analysis to be shared with OAG in December to obtain preliminary feedback/concurrence for 2017 Budget
Options under consideration:	Per MOECC, transfers likely to occur by April 12/17. Revenue associated with transfers occurring post March-31 will be reported in the 17/18 fiscal period.
Timing of expected resolution:	Mid-January/17 for feedback from OAG
Province's ability to influence:	Thorough analysis and position paper prepared for OAG reflecting input from MOECC for design of C&T program
Role of other ministries:	MOECC a key stakeholder to provide background on C&T design, risks and rewards to the Province.

4. Metrolinx MOU with City of Toronto

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Risk:	High
Impact in 2016-17 (billions):	$ TBD
Multi-year impact:	No
Impact included in FES:	Yes
Description of issue:	Will envisioned agreement with City enable Province to retain planned 'control' over assets or result in control transfer to the City for accounting purposes?
Current status:	Agreement in principle achieved between the Province and the City, including reference to funding for City from transit revenues.
Options under consideration:	Metrolinx engaging with external auditor regarding possible accounting opinion confirming Mx control.
Timing of expected resolution:	January, 2017
Province's ability to influence:	No provincial influence anticipated. Sharing of Mx accounting opinion with AG envisioned to confirm AG acceptance for CFS. (If AG disagrees, can make adjustments at corporate level).
Role of other ministries:	MTO, CPD engaged in discussions with MX on aspects of MOU and to ensure consistent understanding of anticipated accounting

estimate CPD cashflow

Murrayanga => CPD

Dorothy

12/06/2016

5. Year-end transfers

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Risk:	Med
Impact in 2016-17 (billions):	$ TBD
Multi-year impact:	No
Impact included in FES:	Yes (what impact was included?)
Description of issue:	Evolving view of AG regarding aspects of government year-end commitments and characteristics required to enable liability recognition in advance of signed formal TP agreement.
Current status:	OPCD engaging with OAG to discuss experience and lessons learned in advance of 2017 Budget Process.
Options under consideration:	Potential advice to ministries to mitigate risk: 1. Signed TP agreements in place by year-end 2. Flow funds by year-end Open discussion with OPCD and OAG to derive new guidance to be shared with Ministries.
Timing of expected resolution:	January 30, 2017
Province's ability to influence:	Reference to 2008 negotiated accountability provisions will be relevant. Collaboration with OAG to seek to establish common understanding.
Role of other ministries:	MOECC, others depending on planned 4Qis.

Health

6. Changes to consolidation

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Risk:	Low
Impact in 2016-17 (billions):	N/A
Multi-year impact:	No
Impact included in FES:	Yes
Description of issue:	AG recommendation that CASs, BPS be consolidated on the Province's books. Individual universities under assessment.
Current status: Universities DAAs	Additional analysis required on impact if CASs were consolidated. No bottom line impact of line by line BPS consolidation, but revenues and expenses to change by amount of 3rd party revenue.
Options under consideration:	Under consideration for the 2017 Budget: - Consolidation of CASs - Consolidation of BPS sector (grossed up Rev/Expr) - Consolidation of single universities
Timing of expected resolution:	January/February
Province's ability to influence:	Provincial discretion as to whether to consolidate as requested by the AG.
Role of other ministries:	MOF (OFA) to be involved to manage communications risks regarding consolidation MCSYS to provide details on CASs Sector Miniseries to provide details for Hospitals, school boards and colleges as well as Q&A input TBS Commas for Q&A (ALL)

7. Follow up audit – contaminated sites

TDS

OPG H1 FN

Risk:	High
Impact in 2016-17 (billions):	No specific risk identified
Multi-year impact:	No
Impact included in FES:	Yes
Description of issue:	Expecting follow-up by AG on audit of implementation of contaminated sites standard. Any increases/decreases in liability will impact 2016/17 directly.
Current status:	OPCD communicating OAG planned review of contaminated sites. Draft policy under development.
Options under consideration:	Line and sector ministry readiness for AG review. OPCD policy guidance (format, timing, stakeholdering)
Timing of expected resolution:	Early January (post review by external firm)
Province's ability to influence:	Yes, own policy.
Role of other ministries:	MOECC input and direction to ministries in line with OAG audit findings from 2015. CPD role in supporting ministry estimates of ongoing costs.

Conferred Benefit

$ 135M

17-18

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8. Other GBE issues (H1 sale; unrealized gains/losses)

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Risk:	Med
Impact in 2016-17 (billions):	TBD
Multi-year impact:	No
Impact included in FES:	Yes
Description of issue:	OPCD to engage with OAG on appropriate accounting and estimated errors (for SUDs)
Current status:	Draft accounting for H1 sale to be reviewed by external firm (already provided). Accounting for unrealized gains/losses to be discussed with OAG.
Options under consideration:	Report all sales of H1 as revenue, ignoring inter-org transactions.
Timing of expected resolution:	Panel report -- December 31, 2016; (a) Asset valuations -- January 31, 2017; (b) Agreement with OTB -- TBD
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Role of other ministries:	EDU -- working through alternatives re: approaching OTF (e.g. changes to funding management policy) Other ministries (e.g. Health, MAESD) not currently engaged (not sponsors of HOOPP or CAATPP)

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9. Reduced materiality by AG

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Multi-year impact:	N/A
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Role of other ministries:	EDU -- working through alternatives re: approaching OTF (e.g. changes to funding management policy) Other ministries (e.g. Health, MAESD) not currently engaged (not sponsors of HOOPP or CAATPP)

10. Earlier Release of Public Accounts

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Risk:	High
Impact in 2016-17 (billions):	N/A
Multi-year impact:	N/A
Impact included in FES:	N/A
Description of issue:	Potentially earlier release date (end of July/16)
Current status:	Assessment underway on key tasks/milestones to deliver by end of July
Options under consideration:	1. Deliver Annual Report and Volumes by end of July 2. Deliver Annual Report only by end of July, to be followed by Volumes in August/September. 3. Impact on Data visualization and open data 4. Process enhancements – in OPCD as well as OAG (needed to complete audit in time to support earlier release, especially in regards to tax estimation.
Timing of expected resolution:	Mid-January
Province's ability to influence:	Dependent on AG's ability to complete her audit and provide copy of audit opinion,
Role of other ministries:	MOF/TBS

11. CHIRP

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Risk:	High
Impact in 2016-17 (billions):	N/A
Multi-year impact:	N/A
Impact included in FES:	N/A
Description of issue:	Implementation of Corporate Hyperion Information Reporting Portal in parallel with early release of Public Accounts.
Current status:	CHIRP related considerations integral to discussions on early release date.
Options under consideration:	(Originally planned to rely on CHIRP for 16/17 Public Accounts. Implementation strategy revised pending early release of Public Accounts.
Timing of expected resolution:	N/A
Province's ability to influence:	N/A
Role of other ministries:	OAG to audit controls during 2016/17 public accounts audit. Line and sector ministries to learn how to bet use new system.

12. Implementation of new standards TBS

Risk:	High
Impact in 2016-17 (billions):	N/A
Multi-year impact:	N/A
Impact included in FES:	N/A
Description of issue:	New standard on related parties and contractual rights to be implemented in 2017/18 requiring planning to ensure that appropriate data available for disclosure.
Current status:	OPCD engagement with OAG on-going to ensure key questions discussed and implementation guidance robust.
Options under consideration:	(XX
Timing of expected resolution:	February, 2017
Province's ability to influence:	Unique to each Province, depending on relative interpretations of PSAB.
Role of other ministries:	TBS – OIAD LSB – restrictions on disclosure for RPT and contractual rights.

Key issues

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Immediate

1. Pension Asset Accounting
   - AG interpretation of fiscal impact included in FES ($2.2 Billion in 2016-17)
   - Panel in progress (2nd full day of Panel meeting today)
   - Exploring options should Panel agree with AG

2. Consolidation reporting basis for H1 and OPG (US GAAP vs. IFRS)
   - Differences between US GAAP and IFRS could be up to $1 Billion (increased deficit); not reflected in FES; most of impact is related to OPG and the accounting differences related to its asset retirement obligations
   - Working with OPG to further refine estimates
   - Assessing options – legislation, conversion to IFRS, approaching PSAB

3. Cap and Trade accounting (accounting for proceeds from auction)
   - Auction proceeds of $478 million included in FES
   - First auction scheduled for March 22, 2016; Emission Allowances (EAs) transferred to participant account several weeks later (likely in fiscal 2017-18); preliminary accounting assessment – revenue is recognized when EAs are transferred to participant accounts

Key issues (continued)

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4. Metrolinx MOU with City of Toronto
   - Accounting risk – accounting for underlying assets -- do they continue to be accounted for as a capital asset on the Province's books and amortized over the useful life or has the Province substantively transferred the assets to the City?
   - Metrolinx exploring obtaining accounting opinion on transaction from their external auditor (PwC)
   - Fiscal risk TBD

5. Year-end (4th quarter) transfers
   - Change in application guidance from AG in 2015-16 – impacted accounting for GIF
   - No known transactions impacted in 2016-17 at this time
   - Communicated change to financial community

6. Consolidation (presentation – e.g. BPS and what is consolidated – e.g. CASs)
   - Not expected to be a significant fiscal impact re: deficit
   - Change in presentation will impact key performance indicators (e.g. IOD)
   - Working through alternatives re: timing of changes

Key issues (continued)

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7. Increased AG focus on governance and accounting re: contaminated sites
   - Expecting follow-up by AG on audit of implementation of contaminated sites standard
   - No specific fiscal risks identified (and none found in 2016-17 audit of Public Accounts)

8. Other GBE transactions (Hydro One sale, recognition of unrealized gains/losses)
   - Tranche 2 of Hydro One sale – included sale of shares to OPG (related party) – gain on sale of those shares will be deferred
   - Accounting for unrealized gains/losses on financial instruments – recognized in income of GBEs and deferred in statements of Province; currently included in error summary by AG, but has requested impact be recorded in the financial statements
   - Process begun to document issues and work through accounting with AG

9. Expected reduction in AG materiality used for Public Accounts
   - AG has communicated that materiality will be reduced – expecting additional testing (more samples; lower thresholds for investigation) and lower threshold for error accumulation

Key Issues – Processes

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10. Implementation of Hyperion Financial Management (parallel run)
    - New system for consolidation of broader public sector organizations and other government organizations

11. Timing for release of 2016/17 Public Accounts – goal of an earlier release date (July 31)
    - Evaluating ability to release Public Accounts earlier to improve accountability

12. Working through accounting implications of a number of new accounting standards required to be implemented in fiscal 2017-18
    - Related party transactions
    - New standards on assets – Assets, Contractual Rights and Contingent Assets
    - Additional disclosure will be required; preliminary evaluation – not expecting a fiscal impact