Office of the Provincial Controller

Financial Accounting and Reporting Risks

January 9, 2017

Briefing to TBS SMT

Purpose

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

- Communicate options and recommendations to address immediate high risk items

Summary

	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 transfer payments	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

Key issues

1. Pension Asset Accounting
   - AG interpretation of fiscal impact included in FES ($2.2 Billion in 2016-17, higher amounts in out-years)
   - Panel has completed its meetings and is drafting report on OTPP and OPSEUPP; report on HOOPP and CAATPP to follow
   - Work streams in place re: valuation of assets, communication plan following Panel's completion of report

2. Consolidation reporting basis for Hydro One and Ontario Power Generation (US GAAP vs. IFRS)
   - Both H1 and OPG report using US GAAP for the stand-alone financial statements (f/s); those f/s are used for both securities and regulatory filings; Province has historically consolidated the results using US GAAP
   - Public Sector Accounting Standards (PSAS) requires these entities to be consolidated using IFRS; the differences have been immaterial historically
   - The difference in 2016-17 could be $1Billion (increase to deficit) – the most significant difference relates to the accounting for the costs to decommission the nuclear plants and dispose of nuclear waste (OPG)
   - OPCD is working with OPG to refine estimates
   - Assessing options – conversion to IFRS, legislating accounting, approaching PSAB

Key issues (continued)

3. Cap and Trade accounting (accounting for proceeds from auction)
   - Auction proceeds of $478 million included in FES for fiscal 2016-17
   - First auction scheduled for March 22, 2017; 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, meaning revenue recognized in fiscal 2017-18
   - Consultation with AG on accounting policy underway

4. Metrolinx MOU with City of Toronto (template for arrangements with other regions)
   - 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?
   - Working team of Metrolinx, MTO, PwC (Metrolinx's external auditor) and OPCD formed to review draft agreements and identify risks; Metrolinx may engage PwC to issue and accounting opinion once agreements are executed

Key issues (continued)

5. Year-end (4th quarter) transfer payments
   - Change in application guidance from AG in 2015-16 – impacted accounting for Green Investment Fund
   - No known transactions impacted in 2016-17 at this time
   - Ongoing communication of change to financial community; policy update underway

6. Consolidation (presentation – e.g. Broader Public Sector 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 for both issues

Key issues (continued)

7. Increased AG focus on governance and accounting re: contaminated sites
    - Expecting follow-up audit by AG on contaminated sites standard
    - No specific fiscal risks identified (and none found in 2015-16 audit of Public Accounts)
    - Requested CFAAST complete their follow up audit in time to provide assurance re: completeness of liabilities as of March 31, 2017

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

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