Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

August 1, 2017

Ms. Helen Angus
Deputy Minister, Treasury Board
Secretary of Treasury Board and
Management Board of Cabinet
Deputy Minister's Office
Whitney Block, Room 5320
99 Wellesley Street West
Toronto, Ontario
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Mr. Scott Thompson
Deputy Minister
Ministry of Finance
Frost Bldg S., 7th Floor
7 Queen's Park Crescent
Toronto, Ontario
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Dear Ms. Angus and Mr. Thompson:

Thank-you for providing us with your responses in your letter dated July 10, 2017 regarding the 2016/17 Public Accounts Audit Planning Report. I appreciate receiving your comments on the Audit Planning Report including your confirmation that you agree on the roles and responsibilities and the written responses provided to the Matters for Discussion.

We continue to work towards the timelines outlined in Section 6.0 of the Audit Planning Report. We will bring to your attention any areas that pose risk to the achievement of the timelines as soon as we become aware of them. We are supportive of your goal of an earlier release date of the Public Accounts and I will continue to encourage my staff to work with the Office of the Provincial Controller Division to achieve this goal.

I recognize your attestations regarding the Roles and Responsibilities of those Charged with Governance is based on information that is available to you at this time. I agree that the sign-off of the Management Letter of Representation will need to take into account other relevant information obtained over the course of the audit such as the Certificate of Assurance reporting results. I will provide you with a copy of a draft of the management representation letter as we move closer to the final stages of the audit.

I appreciate that you have confirmed you will share advice received from external advisors in formulating an accounting position as part of the audit once government direction is clear and the analysis is substantially completed. However, in reference to the Hydro Rate Relief Initiatives (Fair Hydro Plan) raised in your letter, I am concerned that my initial request in early 2017 for Fair Hydro Plan transaction details was not provided in a timely manner. Based on my review of the Cabinet Submissions and other relevant documentation since provided to me, I believe that the government direction on the accounting for the Fair Hydro Plan at the time I requested the information was sufficiently strategized and developed. I believe the Office of the Treasury Board (TBS) was in a position to review the transaction and the accounting with my Office. However, this was intentionally not done.

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This is especially concerning in light of CPA Canada's standards regarding the use of rate-regulated accounting in financial statements prepared under Public Sector Accounting Standards (PSAS). We became aware that the Independent Electricity Sector Operator (IESO) chose to use rate regulated accounting in preparing its December 31, 2016 financial statements. However, PSAS does not allow the recording of rate regulated assets and liabilities in the financial statements of an "Other Government Organization" that prepares its financial statements using PSAS.

Your letter notes that the Hydro Rate Relief Initiatives will not have a material financial impact on the 2016/17 Public Accounts. However, the Fair Hydro Plan transaction details and the anticipated accounting has been sufficiently developed clearly indicating it will have a material financial impact on the province's March 31, 2018 consolidated financial statements. This places my Office in a difficult situation because you did not engage us earlier to review the Fair Hydro Plan transaction and the related accounting before legislation related to the Fair Hydro Plan was finalized based on an incorrect accounting application. We have significant concerns over the proposed accounting treatment.

Moving forward, the interests of the Office of the Treasury Board and the Office of the Auditor General will be best served when all significant matters, impacting not only the current year's, but future years' consolidated financial statements of the province, are brought to our attention to be discussed and resolved on a timely basis.

Please call me if you wish to discuss my response further at (416) 327-1326.

Sincerely,

Bonnie Lysyk
Auditor General

c. Ms. Karen Hughes, Associate Deputy Minister, Treasury Board Secretariat
Ms. Cindy Veinot, Assistant Deputy Minister & Provincial Controller, Treasury Board Secretariat