2015-16 Public Accounts
General Questions & Answers

Qs & As

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2015-16 ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

KEY MESSAGES

- The government has released its 2015-16 Annual Report and unaudited Consolidated Financial Statements to ensure transparency with respect to the province's financial position.

- To align with the Auditor General, a regulation has been filed to prescribe the accounting treatment for pension assets for the 2015-16 financial statements.

- The regulation resolves the outstanding accounting issue for this year in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

- This marks the seventh year in a row that Ontario has beaten its deficit target.

- Ontario remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

If pressed about why a regulation was needed:

- Based on their professional judgement, the Province's professional accounting staff could not agree with the Auditor General's interpretation of Public Sector Accounting Standards as it relates to jointly-sponsored pension plans.

- A regulation was required to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements.

- The Province has applied consistent accounting treatment for these plans for the past 14 years, and has consistently received unqualified, or clean audit opinions from the Auditor General, without exception.

- To remain clear and transparent, we have reflected the Auditor General's view of the issue for this year. In order to do so, the government regulated the treatment of the pension assets for 2015-16.

- This is an accounting issue. However the government remains optimistic that by studying the issue further and gathering third-party professional opinions, we will be able to reach an agreement on the treatment with the Auditor General in the coming months.

TOP QUESTIONS

Q1. It sounds to me like the government is yet again fighting with the Auditor General. What do you say to this?

A1. This is not true from the government’s perspective. And let me explain why: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. And in this case for this set of final accounts, while one specific issue is being sorted through, we actually are agreeing with the Auditor General’s numbers.

Given these differences of opinion, the Province filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

The government believes that this accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The government will ensure that the task force is made aware of this area of difference in interpretation.

In addition, the government will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The government will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Q2. Why did the government release its financial statements without the Auditor approving them?

A2. This year, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to an accounting issue – the treatment of pension assets.

Ontario has followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years, resulting in unqualified – or clean audit opinions. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In preparing the Annual Report and Consolidated Financial Statements, the Province’s professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province’s professional accounting staff and the Auditor General continue to have difference interpretations.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The government released its financial statements to ensure transparency with respect to province's financial position.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Q3. If the Public Sector Accounting Board is studying this issue, are other Canadian jurisdictions dealing with this as well?

A3. No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

British Columbia

Pension assets for BC's jointly sponsored pension plans are not reported on British Columbia's consolidated financial statements. The governance framework in BC is different than Ontario's and would appear to justify different accounting treatment under PSAB standards.

Specifically, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to use ongoing surpluses through the amendment of the Plan rules governing contributions and benefits, so long as the amendment of the Plan rules:

- Does not result in an increased contribution rate for employees or employers
- Does not create or increase an unfunded liability in the Plan, and
- Is otherwise compliant with applicable legislation and the Trustees' fiduciary obligations.

In contrast, the governance arrangements with respect to the Ontario Teachers' Pension (OTPP) provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may use ongoing surpluses as they believe appropriate, subject only to the Ontario *Pension Benefits Act.* The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses.

The OPTrust governing documents also stipulate that it is the Sponsors of the OPTrust, being the Province of Ontario and OPSEU, who have the authority to utilize ongoing Plan surpluses. OPTrust's Board of Trustees, being the OPTrust administrator for purposes of the Ontario PBA, has no authority to utilize ongoing Plan surpluses.

New Brunswick

As we understand it, New Brunswick converted four of its pension plans into what it refers to as target plans.

In the prior year, New Brunswick accounted for these plans as defined contribution plans, meaning it expensed the contributions to the plan and did not reflect its share of the net asset or net liability of the plan in its financial statements. The Auditor General of New Brunswick issued a qualified opinion on those financial statements.

In the 2015-16 fiscal year, New Brunswick changed its accounting for those plans to account for them as defined benefit plans and the Auditor General of New Brunswick issued a clean opinion.

Ontario has always accounted for its share of its jointly sponsored plans as defined benefit plans.

Q4. What is the professional judgment that exists out there to interpreting jointly-sponsored pensions?

A4. A key consideration in exercising professional judgment is if the resulting financial information is both relevant and reliable and gives a fair presentation of the transaction.

This area of pension accounting is particularly complex, and it is important to consider the specific facts and circumstances when assessing the appropriate accounting treatment.

In this regard, the government has assessed the appropriate accounting treatments based on the governance frameworks applicable to Ontario’s jointly-sponsored pension plans. It would be inappropriate to assume that the governance frameworks of plans in other jurisdictions would necessarily result in the same accounting treatment.

Q5. Is the Auditor General misinterpreting Public Sector Accounting Board standards?

A5. The Auditor General’s responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion on the interpretation of accounting standards is not unique to this situation. Other jurisdictions have also experienced differences of opinion between preparers and auditors on complex accounting matters.

Over the coming months the government will undertake activities to further assess the application of PSAB standards to Ontario’s accounting for jointly-sponsored pension plans. In the meantime, it remains the professional judgment of the professional staff that the accounting treatment in place since 2001 continues to be appropriate.

Q6. If the Auditor General had agreed with you, what would the differences have been in the deficit or net debt?

A6. According to the Province’s interpretation of PSAB, the annual deficit would be $1.5 billion lower (at $3.5 billion), and net debt would be $10.7 billion lower.

Q7. The province has been treating pensions the same way since 2001. When did the Auditor General tell you about this new accounting treatment?

A7. The government only learned that the Auditor General was challenging the accounting treatment of the past 14 years very late in the audit. On September 13th the Auditor General communicated her position that the Province should write off the entire pension asset amount of $10.7 billion from the balance sheet.

Q8. If the government things its right, why would the government change the numbers?

A8. To clarify, the 2015-16 results are based on legislation and PSAB. Although they reflect the same fiscal results which would be presented according to the Auditor General's proposed interpretation of the standards, the results as presented do not represent our professional staff's interpretation of PSAB standards for jointly sponsored pension plans.

By adopting the Auditor General's interpretation, the financial statements could be finalized and signed off in order to complete the financial reporting process and enable Public Accounts to be completed. Unfortunately, the Auditor General's audit opinion remains outstanding at this time so the Public Accounts have yet to be finalized.

Q9. Was there something wrong with the accounting rules that the government was using before?

A9. No.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

That said, the Province believes that this complex accounting area would benefit from additional discussion and analysis. Over the coming months, efforts will be made to engage experts to assist with further analysis of the application of PSAB to accounting for jointly-sponsored pension plans on the Province's books.

Q10. Why hasn't the Auditor General raised this with you in the past two years?

A10. I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

Q11. So what happens next? When will you table the actual Public Accounts?

A11. The government will continue to work with the Auditor General to complete tabling of the 2015-16 Public Accounts.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Q12. Does the change in accounting regarding the assets of the Teachers' or OPSEU pensions plans mean those plans might be financially threatened?

A12. Absolutely not. This issue relates solely to the Province's reported financial results and the Province's historical practices of reporting pension assets.

The two pension plans in the Ontario Public Service – which are of the defined benefit type – are healthy and well-funded.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Ontario Teachers' Pension Plan has a funding surplus of $13.2 billion.