Office of the Provincial Controller Division

2016-17 Public Accounts Planning

Briefing Deck for DMs

March 24, 2017

Purpose

- AG meeting with DMs (TBS/MOF) is expected to focus on reviewing the content of her Audit Planning Report for the 2016-17 Public Accounts Audit
- Other topics may include:
  - OPCD's proposal on accelerated Public Accounts schedule
  - Expectations for future years' audit timing
  - Key accounting Issues for 2016/17
  - CHIRP implementation and audit
  - PSAB accounting standards (future impacts)
  - Pre-Election Report (MOF to provide separate deck)

OPCD Audit Planning with OAG

Issue	Raised by	Communication with OAG	Status/Outcome
Early release of 2016-17 Public Accounts	OPCD	• Dec. 1, 2016 - OPCD discussed the potential early release of PA by end of July • Jan. 11, 2017 - OPCD provided formal proposal on early release to OAG including detailed timeline on key audit components	• Jan. 17, 2017 – at OPCD/AG Sr. Management and Staff meeting, ○ AG indicated that additional resources will be required to meet the early timeline. ○ AG's preferred approach is to get the tabling date and then work backwards on her sign-off date. • Feb. 21, 2017 - OAG formally communicated to DMs (TBS/MOF) that her expected sign-off date will be August 18, 2017 • Mar. 1, 2017 – OAG/OPCD planning meeting- OPCD acknowledges AG timing and advises of internal targets
OPCD initiatives to enabling early release	OPCD	• Engaging key stakeholders (OEP, CAOs, BPS sector ministries, OAG) to assess feasibility and key impacts, including approach to tax revenue auditing	• OPCD will work towards meeting the internal target completion of July 31, 2017 (as communicated to the OAG) and acknowledges that AG sign off date is at AG's discretion
OPCD's efforts to address OAG's concerns	OAG	• OPCD to coordinate collection of audit documentation centrally on behalf of OAG from all ministries, central agencies (PBC listing) • It would be inappropriate and not feasible for OPCD to complete a QA review of info on OAG's behalf	• OPCD has created central data collection tool using SharePoint on behalf of the OAG • OPCD has communicated plans and process to Ministries (March 21, 2017) • OPCD will monitor status of completeness of documents • OPCD is awaiting confirmed listing of required OAG documentation (including due dates) to initiate the process with the OPS financial community

Key Action Items: OPCD and OAG

Key Action Item	Responsibility	Communication	Status
Key audit risk assessment (re: early release scenario)	OPCD	• Risk assessments for CIP/PIT and hospital sector submissions were compiled and shared with the OAG	• Completed and well received by OAG, including draft memo from OEP on tax revenue and detailed statistical analysis on MOHLTC submissions
Pro forma 16/17 Consolidated Financial Statements and Notes	OPCD (provided) OAG (to respond)	• 1st draft version was provided to the OAG on Mar. 1st • Enhanced disclosure (see next slide)	• Pending comments from the OAG (target date: by end of March)
OAG request for OPCD coordination of audit requests	OAG & OPCD	• OPCD agreed to coordinate collection of audit documentation centrally, and advised OAG that cannot perform QA review • OPCD requested examples of requests – none forthcoming	• Initial list was shared with OPCD on Feb 17, 2017, but lacked required due dates; therefore, OPCD is not yet able to initiate any requests on behalf of the OAG • Pending revised list with due dates from OAG (expected by end of this week)
Draft audit planning report	OAG	• Initially expected by Feb. 24th (as per January 16 meeting) • Date changed to March 16 by OAG on March 1	• Nothing received yet as of March 21 making difficult to brief for DM/AG briefing on March 24

Pro-Forma Consolidated Financial Statements

TBS

- To ensure a more timely and efficient audit process and eliminate disclosure surprises late in the Public Accounts process, OPCD prepared Pro-Forma Consolidated Financial Statements (CFS) and shared with AG on March 1, 2017 for review/comments
- OAG is expected to provide comment on Pro-Forma CFS by end of March 2017
- In 2015/16, OPCD reviewed financial statement disclosure according to a checklist provided by the OAG
- In 2016-17, OPCD implemented a PSAB disclosure checklist from another source and identified a few additional areas to enhance reporting in the consolidated financial statements and related note, and to ensure that PSAB's presentation and disclosure requirements are met (additional details on next slide)

Pro-Forma (Enhanced Presentation and Disclosures)

Enhanced Presentation Disclosures	Comments
Net Debt	• Net debt presentation excludes – Pre-paid and Inventory for consumptions (Non Financial Assets) – increase in net debt • Net Debt Budget presentation – Added budget net debt
Schedule-9	• Separate disclosure and presentation for H1-non controlling interest • Additional disclosures on GBE’s inter-company assets/liabilities and debt repayment schedule
Pension	• Accepted the EAP recommendation on OTTP and OPSEU pension assets and re-stated the comparative financials. • Added disclosures on Market Related Asset Values
Expanded disclosure	• Revenue • Interest capitalized • Trust • Loan recognition basis and valuation allowance • SB sinking fund balance • Cash and cash equivalent
Work in Progress Items for 2016-17 PA and aim to include in second version of Pro-Forma CFS	• BPS line by line • Contaminated sites (disclosures)

Key Audit Topics

1. Tax revenue estimates
2. Pension asset accounting
3. Education Life and Health Trust (ELHT) reporting
4. Accounting for other GBE transactions
5. Cap and Trade accounting
6. OPG/H1 IFRS reporting and audit requirements
7. Line by line reporting for BPS
8. Accounting for transit assets
9. EDU Remedy
10. Contaminated sites

Other Issues

11. Electricity rate mitigation
12. CHIRP implementation
13. New PSAB standards
14. External accounting advisors

1. Tax Revenue Estimates

- The Office of the Provincial Controller has consulted with the Office of Economic Policy (OEP) regarding the implications of an earlier Public Accounts release on accuracy of major taxation revenue estimates.
- These include 3 major taxes:
  - Harmonized Sales Tax (HST),
  - Personal Income Tax (PIT, which includes the Ontario Health Premium); and
  - Corporate Income Tax (CIT)
- OEP's analysis suggests that, of the 3 major taxes, only the PIT revenue estimate clearly suffers from reduced accuracy as a result of the earlier reporting dates. Because of AG's planned release date, June data will be available to share with the OAG in the last week of July.
- OEP confirms that for CIT revenues, the earlier submission would not reduce the accuracy of public accounts estimate under the current methodology for estimating CIT revenues.
- OEP confirms that for HST revenue, any loss in accuracy related to using an earlier estimate is limited.
- OPCD shared OEP's draft memo on Risk Analysis for Tax Revenue Accruals with AG on March 1, 2017.

- Note – OPCD has not yet discussed the PIT risk re: prior year tax planning that was raised by MOF last week.

2. Pension Asset Accounting

OTPP and OPSEUPP

- Fiscal impact originally included in FES for valuation allowances was based on AG's position ($2.2 Billion in 2016-17, higher amounts in out-years)
- Expert Panel recommendations on OTPP and OPSEUPP were adopted in Q3 update and the valuation allowances recorded in 2015-16 were reversed
- Technical briefing on Panel's recommendations was held on February 13, 2017
- AG briefing in response to Panel's report held February 16 confirmed continued disagreement
- FAO implied during discussion on March 17/17 that he would present impact of both views

HOOPP and CAATPP

- Panel has completed work on HOOPP and CAATPP and will recommend a valuation allowance be taken based on the current governance structure; DM and MO briefing on March 20, 2017
- Full valuation allowance for 2016/17: HOOPP – NIL, CAATPP - $14M
- For PRRT, full valuation allowances for 2017-18; HOOPP - $102M, CAATPP - $25M; significantly increases in out years (2018-19 -- $765M, 2019-20 - $914M)
- Exploring potential changes in governance structure to align accounting for HOOPP and CAATPP with other joint sponsored pension plans

All Plans

- OPCD provided updated estimates of pension liability and expense in February
- External actuarial advisor engaged to complete valuation allowance assessment on on all plans

3. ELHT Reporting

- Creation of ELHTs (in total 6 trusts) was agreed during the 2014-17 agreement to streamline the 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
  - Trusts are effective once the trust agreements are signed.
  - 4 trusts established during 2016-17 already received funding
  - Remaining funding will be paid in 2017-18 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 not yet final

4. Accounting for Other GBE Transactions

(H1 Sale, Brampton Hydro Sale, etc.)

- Gain from second tranche of Hydro One sale to be recognized in 16/17, excluding gain on sale of shares to OPG (related party) which will be deferred.
- Accounting analysis for Brampton Hydro sale drafted by OPCD (est. gain $180M) in 16/17 to be shared with the OAG in April.
- Status:
  - OPCD analysis of various energy sector transactions shared with OAG as completed, following review by external advisors.
  - Control analysis on Hydro One HoldCo to be undertaken based on anticipated future transactions (no impact on 2016/17).

5. Cap and Trade Accounting
(for 1st Auction Proceeds)

- Accounting analysis on recognition of proceeds from March 2017 auction shared with OAG
- Revenue from first auction (March 22, 2017) will be reported in 2017-18 under either the Province's or AG's accounting approach
- Province's accounting policy -- revenue should be recorded in the period when the Province transfers emission allowances to purchasers, including both current and future vintages
- Status:
  - AG and OPCD disagree on revenue recognition point; however, difference would have no impact on the 2016/17 Public Accounts as it would be recognized in 2017/18 under either approach
  - AG believes revenue should be recognized on the date of auction certification
  - Based on anticipated future timelines, future timing of auction is not expected to result in any difference, but monitoring will be required

6. OPG/H1 IFRS Reporting and Audit Requirements

- FES reflected US GAAP based results for OPG and H1
- Q3 announced the adoption of IFRS-based consolidation of OPG and H1 results effective with the 2016/17 Public Accounts
- AG was notified prior to the Q3 release
- The net impact of adopting IFRS (IFRS14) for the Public Accounts will reflect OPG's preferred method of valuing its nuclear asset retirement obligation
- Status
  - Updated estimate of impact from OPG is expected before the end of March to update estimated 2016/17 impact and out years
  - OPCD working with OAG, OPG and H1 on supplementary audit requirements
  - OCI will remained as part of AG's error summary (b/s only)
  - OAG has confirmed that OPG's supplementary audit information requirements can focus only on the 'preferred method' of accounting under IFRS for asset retirement obligations (AROs) but continues to require that procedures be performed to statutory level of materiality that would be required as if OPG"s f/s were being audited

7. Line-by-Line Reporting for BPS

- AG preference for line by line consolidation of hospitals, school boards and colleges on statement of operations, as well as consolidation of Children's Aid Societies
- Status:
  - Hospitals, school boards and colleges to be implemented on line by line basis beginning with the 2016/17 Public Accounts, including restated 5-year historical trend analysis
  - Plans for change communicated to OAG
  - Discussions held with sector ministry stakeholders and formal notification of decision provided
  - Impact of potential consolidation for CAS has been initiated which is being considered for future years

8. Accounting for Transit Assets
(Metrolinx MOU with City of Toronto)

- FES reflects assets will be Provincially controlled (TCA, depreciation impacts vs. transfer payments)
- Accounting risk – if assets assessed as **not being controlled by the Province**, assets would be written off of Province's balance sheet and considered transfers to the City of Toronto
- Status:
  - OPCD engaged with Metrolinx and MTO in early 2017
  - Discussions expanded to also include PwC (Metrolinx's external auditor)
  - Metrolinx responsibility to identify potential accounting risks clarified
  - Metrolinx has engaged PwC to issue an accounting opinion based on binding Agreement in Principle between Province and City
    - No certainty that agreement will be signed by March 31, 2017

9. EDU Remedy

- A $500M accrual for the education sector was included as an expense in the consolidated financial statements of the Province for 2015-16
- A contingent liability arose from a constitutional challenge by the sector on being legislated back to work with a defined labour agreement.
- The judgement of fault was given before the completion of the Public Accounts which confirmed the liability for 2015-16, but did not provide a cost. The judgement directed the Province and the claimants to negotiate a remedy.
- Based on the savings achieved from the legislation, the Ministry substantiated the $500M estimate which they considered the best estimate available on the cost of the remedy.
- Ministry of Education advised that:
  - Negotiations are on-going with the unions.
  - Negotiations for four unions are completed but represent a small number of members therefore estimation via extrapolation is not advised.
  - Also, remedies solution may differ among the unions.
- If information becomes available that would inform a better estimate of the expense before the end of the audit, the government would need to update the accrual resulting in an additional cost or a recovery.

10. Contaminated Sites

i. AG Follow-up audit on VFM audit for contaminated sites
   - OPCD, OIAD and ministries collaborated on an updated status of responses to the AG's 2015 VFM recommendations
   - Initial information provided to AG on March 21, 2017
   - OIAD is also engaged to undertake a review of contaminated sites accruals in advance of OAG fieldwork; steps being taken to optimize OAG reliance on OIAD work

ii. New contaminated sites for 16/17
   - Additional liabilities of approx. $54.1M identified in 2016-17.
   - Grassy Narrows -- potential liability based on actions taken by government (constructive obligation). OPCD is working with the MOECC to confirm the accounting treatment
     – Internal legal opinion from MOECC – moderately low risk that court would find Ontario is legally required to expend funds based on statements made

11. Electricity Rate Mitigation

- Accounting for Global Adjustment (GA) deferral mechanism and the Affordability Fund are particularly complex
- MOE, MOF/OFA, TBS, OPG, H1, IESO and external advisors have collaborated on transaction structures and fiscal implications over the past several weeks. Details are not yet final.
- Affordability Fund:
  - OPCD is reviewing draft trust documents and transfer payment agreements which anticipate an initial transfer of funds will be made prior to the 2016-17 year end ($100M)
- GA deferral mechanism -- If all requirements can be met, an accounting analysis is expected to support: (1) increase in provincial borrowing (2) no increase in net debt, and (3) no impact on annual surplus/deficit, but depending on funding to OPG/Trust from Province, an increase in interest on debt and an increase in income from OPG (to offset IOD increase) will result.
  - Draft legislation and financing structure critical to informing accounting analysis
  - High audit risk re: intended accounting treatment, including:
    - Rate regulated accounting on IESO books
    - OPG's role in structure re: transparency
  - Complexity of structure and length of deferral/recovery increase risk
  - IESO Board has approved changes to reporting for December 31, 2016 financial statements and obtain external accounting opinion supporting rate regulated accounting
  - OPG to obtain external accounting opinion on accounting for OPG Trust
- Auditor General requested briefing – scheduled for April 19, 2017 (TBC)

12. CHIRP Implementation

13. New PSAB Standards

- Pro-Forma CFS disclosed and discussed on future changes in accounting standards. The Province is currently assessing the impact of these new standards on its consolidated financial statements.

  List of PSAB future changes in accounting standards and standards in progress:

PSAB Future Accounting Standards	Impacting - Fiscal Period/Status
Related Party Disclosures	2017-18
Inter-Entity Transactions	2017-18
Assets, Contingent Assets and Contractual Rights	2017-18
Restructuring Transactions	2018-19
Financial Instruments & Foreign Currency	2019-20
Standards - Work in Progress	
Conceptual Framework	SOP- Expected in Q4-2017
Asset Retirement Obligations	ED- Expected in Q1-2017
Revenue	ED- Expected in Q2-2017
P3 project.	SOP- Expected in Q2-2017
Employee Future Benefits (Pensions)	IOC-Province working on response to PSAB

14. External Accounting Advisor

- During 2016/17, OPCD issued an RFS to procure an external accounting firm to provide assistance in assessing complex accounting matters throughout the reporting period.
- The process was initiated at the suggestion of the former ADM and Provincial Controller as a means to ensure timely availability of resources to support OPCD on complex matters, and reduce the time and effort required by both OPCD resources as well as external advisory service firms to engage in the procurement process on a frequent basis.
- An external firm was engaged through a competitive procurement process and has been used over the past several months to review and advise on a number of OPCD projects, including:
  - Review of the draft accounting policy and guidelines for contaminated sites reporting
  - Accounting for a HoldCo as a GBE
  - GBE dilution of shares
  - Accounting for conservation costs
  - Review of OPCD analysis of the Brampton Hydro transaction

Historical Audit Sign-off and Release Dates

PUBLIC ACCOUNTS		
YEAR	RELEASE DATE	AUDIT SIGN-OFF DATE
2015-16	6-Oct-16	5-Oct-16
2014-15	28-Sep-15	21-Aug-15
2013-14	22-Sep-14	19-Aug-14
2012-13	10-Sep-13	14-Aug-13
2011-12	13-Sep-12	6-Sep-12
2010-11	23-Aug-11	8-Aug-11
2009-10	23-Aug-10	30-Jul-10
2008-09	25-Sep-09	31-Jul-09
2007-08	25-Aug-08	1-Aug-08
2006-07	17-Aug-07	23-Jul-07
2005-06	24-Aug-06	2-Aug-06