TBS

Office of the Provincial Controller Division

Accounting Updates

Briefing for the Secretary of Cabinet

June 2, 2017

Topics for Discussion

1. Accounting Issues Update
2. Update on Establishing an Audit Advisory Committee
3. Internal Control Framework

1. ACCOUNTING ISSUES UPDATE

Accounting Issues – Update

(key updates in bold)

	Issue	Update
1	**Pension accounting** **-- AG request for calculation re: asset ceiling test for OTPP and OPSEU** **-- Ongoing work on pension adjustments unrelated to net pension assets**	**-- Discussion on calculation scheduled between AG Staff and OPCD on May 31** **-- EY engaged to assist with analysis of adjustments related to (a) timing of Provincial contributions, (b) contributions made by other employers from consolidated agencies and non-consolidated agencies – probable impact to opening accumulated deficit and in year deficit**
2	**IFRS-US GAAP – OPG & H1** **- Decision to adopt IFRS announced** **- OPG 'preferred' approach will be used**	• **Expect specified procedures reports from auditors of OPG and H1 – expect to have final report by mid-June – expect an impact to opening accumulated deficit and net debt of $1.1B**
3	BPS line-by-line consolidation	• Restatement of prior year amounts and tables substantially complete; work on variance analysis underway
4	**Electricity Rate Mitigation**	• **Affordability Fund – analysis provided to AG May 4 – awaiting response; Overview briefing provided to AG on April 19; AG comment on May 5 that she would qualify opinion in 2016-17 for use of regulatory accounting by IESO**
5	Cap & trade proceeds -- Revenue from 1st auction to be reported in 17/18	• Auction certified on April 3rd, agreement with AG on year revenue is recognized – 2017/18
6	Metrolinx MOU with City of Toronto	• Agreement not signed before year-end
7	Year-end transfer payments	• Worked with ministries re: year-end transfers; in all cases that OPCD was consulted on, funds disbursed before year-end
8	**Contaminated sites – i. OAG follow-up audit, ii. New liabilities in 2016-17**	**i. Follow up audit – no additional requests received from OAG** **ii. MNDM -- $100M recorded in 2016-17 (inc. Essar); monitoring Grassy Narrows**
9	Other GBE issues (H1 sale; Brampton sale)	• Documentation provided to AG
10	**EDU Remedy**	• **Monitoring settlements – not expecting to change accrual in 2016-17**

2. UPDATE ON ESTABLISHING AN AUDIT ADVISORY COMMITTEE

Purpose

- To discuss an amendment to the Auditor General Act to establish an independent Advisory Audit Committee

Challenge

- There is no vehicle for an open discussion and sharing of opinions regarding significant areas of disagreement between government staff and the Auditor General (AG)

Opportunity

- Through amendments to the Auditor General Act, create an advisory body of independent experts with the intent to:
  1. Increase the openness and transparency of the AG's Public Accounts Audit (stage 1) and future Value for Money audits (stage 2)
  2. Enhance the ongoing working relationship between the government and the AG
  3. Have regular access to a group of experts in the areas of accountancy, financial reporting, and auditing

Advisory Audit Committee

- Could be comprised of up to seven Order in Council independent appointees
- Initial focus on Public Accounts (stage 1), with potential future expansion of responsibility to include Value for Money audits (stage 2)
- This would provide government staff and the AG:
  - Access to independent experts who could provide advice and wise counsel on the planning of the Public Accounts
  - A neutral space to discuss significant financial accounting and reporting issues where there might be disagreement
  - A forum where independent experts in the fields of accounting, financial reporting, and auditing could provide an appropriate challenge to either party
- Both government staff and the AG would retain the independence to make their own decisions

Best Practices

- Audit Committees represent best practice in helping public sector organizations achieve good governance
- Three provinces have established audit committee functions
  - Alberta has a long standing Audit Committee established under the Auditor General Act
  - Saskatchewan’s Provincial Audit Act stipulates the role and functions of an Audit Committee. There is currently no operating Audit Committee, but one is being established and they are seeking to appoint new members.
  - Newfoundland & Labrador have a non-legislated Audit Committee
- Both the UK and Australia have established Audit Committees though legislation

Appointee Selection

- Order In Council appointments
  - Selected through a competitive process by a Selection Panel based on pre -defined competency framework, i.e. appropriate professional and/or academic credentials, and relevant experience and skills. Appointees to include private/public sector and academic experts
  - Selection Panel Option 1: No AG involvement
    - Provincial Controller
    - Human Resources professional
    - Senior government executive
  - Selection Panel Option 2: Includes AG involvement
    - AG involved in selection or provides pre-defined input, e.g. three members
    - Member of AG's Panel of Senior Advisors on Selection Panel, e.g. Sheila Fraser

Stakeholder Reactions

Reaction	Response
• The AG is likely to oppose any changes to the Auditor General Act	• Establishing an Advisory Audit Committee is in line with Best Governance practices
• An Advisory Audit Committee may be seen as usurping the AG's authority and an attempt to hamper her independence	• There is no requirement that the AG must follow the Advisory Audit Committee's advice; the AG retains independence to make her own decisions
• The AG's recently established Panel of Senior Advisors obviates the need for an Advisory Audit Committee	• The Panel discussions and deliberations are confidential to the AG • The Panel does not provide a forum to discuss and resolve issues where there might be disagreement between the AG and government staff.

Next Steps

- Introduce changes in Fall Bill
  - Establish TB/MB and LRC timing
  - Prepare draft legislation
  - Obtain Treasury/Management Board of Cabinet approval

3. INTERNAL CONTROL FRAMEWORK

Purpose

To identify work currently underway to enhance ministry’s internal control systems in support of the Deputy Minister Certificate of Assurance attestations.

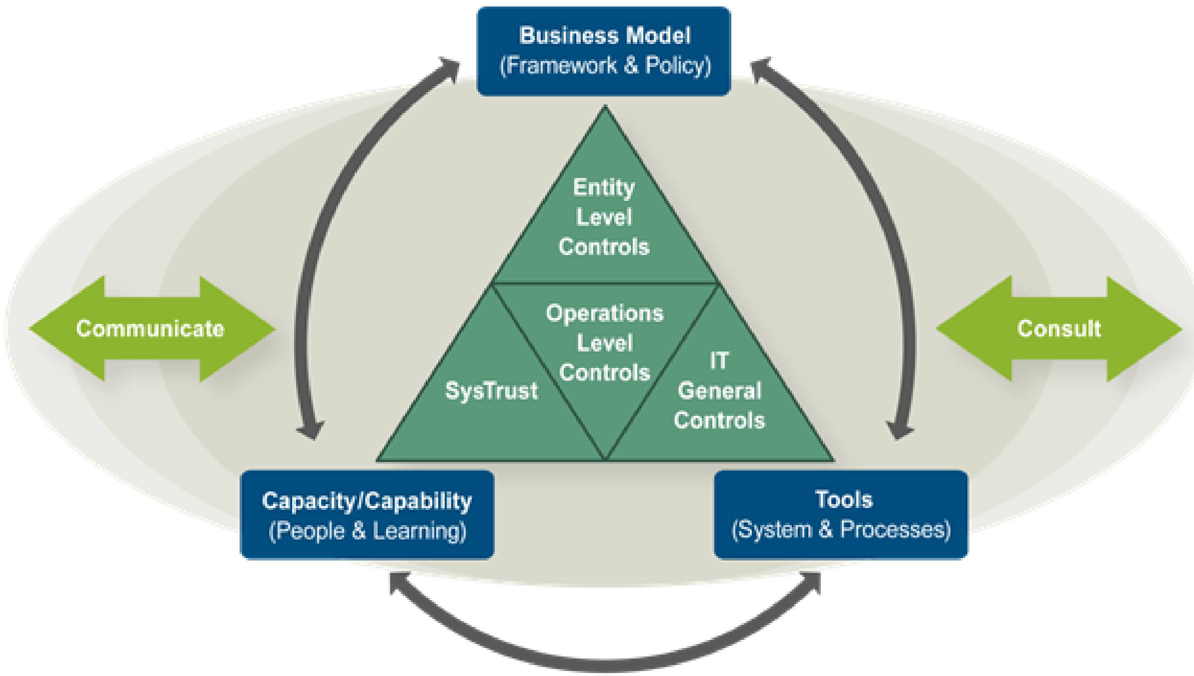
Opportunity in Change

The OPS Internal Control Framework was updated to:

- Improve a ministry's ability to effectively address the Auditor General's control audit requirements for Public Accounts;
- Align OPS control activities with best practices and established standards;
- Operationalize the broader Enterprise Risk Management (ERM) Framework, focusing on operational effectiveness and efficiency, reporting, and compliance with applicable laws and regulations.
- Ensure consistency between the annual Certificate of Assurance attestation with the Auditor General's Management Representation Letter.

OPS Internal Control Framework

- The Framework has been refreshed based on COSO 2013 Internal Control Integrated Framework, worldwide accepted standard for defining internal controls.



Implementation Strategy

A multi-year, top-down, risk based approach has been deployed to implement the Framework's requirements. This approach will prevent staff and management from spending unnecessary time and effort on insignificant, low risk areas.

Top-Down

- Create alignment between OPS Internal Control Framework, SysTrust Criteria and Auditor General's audit standards
- Build organization-wide policies and tools to establish a consistent control environment
- Focus on entity level controls to ensure management directives are carried out

Risk-Based

- Prioritize high profile business processes and IT systems that have a significant impact on achieving a ministry's objectives
- Special consideration is given to processes:
  - Considered significant to delivering the annual Public Accounts;
  - Related to the organization's primary sources of funding, supporting critical government initiatives; and
  - Related to compliance with applicable laws and regulations

Stakeholder Engagement & Consultation

- The risk-based approach was leveraged in a number of pilots over fiscal 2016-17, assisting ministries in prioritizing high profile business process that have a significant impact on achieving a ministry’s goals and objectives.

- The following ministries were in-scope of this pilot; MTO, MOF, OMAFRA, MOECC, MCSS/MCYS, MGCS, MOL, MMA/MHO, MAG and MCI/MIT/MTCS.

- Ministries should develop a plan with timelines for remediation of controls that have been identified as controls gaps/inconclusive and retain the relevant control related documentation to be better prepared for the 2017-18 Certificate of Assurance. Please refer to Appendix A for ministry results.

Certificate of Assurance: 2017-18

- A key component of the OPS Internal Control Framework is the annual Certificate of Assurance process, followed by all ministries.

- The 2017-18 CoA Certification Memo was updated to support TBS/MOF Deputy Ministers’ and the Provincial Controller’s sign-off of the Statement of Responsibility for Public Accounts and Management’s Representation Letter.

- OPCD engaged OPS ministries in a consultation process (November 2016 – April 2017), in order to solicit feedback and acceptance of the updated CoA Certification Memo.

- As part of the Certificate of Assurance annual process, a phased-in approach will be deployed for the successful implementation of the Framework’s requirements [March 31, 2018 – March 31, 2020].

Value Proposition

What does this mean for the Deputy Ministers?

- Continuous improvement

  Ability for the organization and executive management to understand, communicate and improve internal control systems;

- Contribute meaningfully to the achievement of business objectives

  Through effective internal controls, produce business outcomes with reasonable assurance that objectives are met; and

- Effectively address Auditor General's audits

  Provides an opportunity for the Office of the Auditor General of Ontario to leverage results of control assessments completed by Ontario Internal Audit Division to reduce audit work and improve the efficiency of the overall public accounts process.

Appendix A: Key Findings

Phase 1

Ministry of Finance

	Total # of Controls Tested	Total # of Control Design Weaknesses	Control Design Effectiveness Gap	Control Design Effectiveness Inconclusive	Opportunity for Improvement
ELCs	56	4	3	0	1
OLCs	32	3	1	0	2
ITGCs	21	1	1	0	0

Ministry of Transporation

	Total # of Controls Tested	Total # of Control Design Weaknesses	Control Design Effectiveness Gap	Control Design Effectiveness Inconclusive	Opportunity for Improvement
ELCs	56	19	8	11	0
OLCs	34	16	1	13	2
ITGCs	21	6	3	0	3

OPS Corporate

	Total # of Controls Tested	Total # of Control Design Weaknesses	Control Design Effectiveness Gap	Control Design Effectiveness Inconclusive	Opportunity for Improvement
ELCs	25	1	1	0	0
OLCs	N/A	0	N/A	N/A	N/A
ITGCs	N/A	0	N/A	N/A	N/A

Appendix A: Key Findings

Phase 2

ELC Results:

Ministry	Total # of ELC Tested	Total # of Control Design Weaknesses	Control design effectiveness gap	Control design effectiveness inconclusive	Opportunity for improvement
Ministry of Attorney General (MAG)	56	33	3	30	0
Ministry of Government and Consumer Services (MGCS)	56	24	4	20	0
Ministry of Citizenship and Immigration (MCI)	56	19	8	11	0
Ministry of Municipal Affairs and Ministry of Housing (MMA/MHO)	56	18	9	9	0
Ministry of Community and Social Services (MCSS)	56	15	6	5	4
Ministry of the Environment and Climate Change (MOECC)	56	14	6	5	3
Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA)	56	12	4	7	1
Ministry of Labour (MOL)	56	4	2	2	0

Appendix B: Common Themes

Entity Level Controls

COMMON THEMES	MAG	MCI	MTO	MOF	MGCS	MCSS	MMA/MHO	MOECC	OMAFRA	MOL
Lack of evidence for new hire requirements	X	X	X		X			X		
Lack of evidence for instances of conflict of interest and related outcomes	X	X	X		X		X			
Lack of evidence around the job posting and hiring processes	X		X		X					
Lack of appropriate and timely approvals	X	X	X		X	X	X	X		
Lack of evidence for risk assessment activities	X	X	X		X		X	X	X	X
Lack of formal fraud risk assessment	X	X	X	X	X	X	X	X	X	X
Lack of evidence for ministry policies	X	X	X		X	X	X	X	X	
Other ELC Themes										
Ministries were unable to evidence the communication of the Internal Control Framework to ministry employees.	X	X			X	X	X	X		
Ministries did not have or were unable to evidence the existence of formalized diagrams of their IT systems with linkages to IFIS that map significant accounts, risks and mitigating controls.	X		X	X	X		X		X	

Appendix B: Common Themes

IT General Controls

Ministries do not have a formalized process for review of user access to systems and applications

Ministry	System	# of Control Gaps	# of Inconclusive Controls
MOF	OntTax	1	-
MTO	1. Capital Improvement Delivery (CID) 2. Payment Preparation Services (PPS)	3	-

Detailed Breakdown of Control Design Gaps

Ministry	Control Activity # / Description	Control Design Gap
MOF	2.0 OntTax monthly security reports are produced listing all active users including their last login date. These reports are reviewed by business managers and access is removed for those users no longer requiring it.	Control Design Gap
MTO	1.1 Access grant, change, suspension and revocation are executed in a timely fashion and formally documented in an enrollment form. Access grants are approved by the respective pre-authorized business custodians for each application.	Control Design Gap
MTO	1.3 Controls relating to appropriate segregation of duties are in place and enforced. Application logic and the enrollment process ensures that one user cannot have multiple roles in a given payment stream.	Control Design Gap
MTO	2.0 User application access reviews are performed periodically to ensure that privileges a user has remains appropriate for their job role.	Control Design Gap

Appendix B: Common Themes

Operational Level Controls

Ministry	Total # of Controls Tested	# of Control Gaps	# of Inconclusive Controls
MOF	32	1	-
MTO	34	1	13

Detailed Breakdown of Control Design Gaps

Ministry	Control Activity # / Description	Control Design Gap
MOF	On a monthly basis, the Senior Financial Analyst review 10% of all completed accounts for quality assurance through a random selection. The review is documented on a detailed work review template. If a quality related issue is detected, the Analyst or Manager, Write-off unit would advise the staff member of the error. If an update is required in the system, the staff member would make the necessary updates.	Lack of a formally documented process to review completed accounts (i.e., specific percentage of accounts to be reviewed cannot be evidenced and the review is not performed in a timely manner).
MTO	Engineering Design Procurements approval is obtained per project and in accordance with the ministry's Financial Delegation of Authority Framework (FDAF).	Approval of the sample procurement contract bid was not in accordance with the ministry's FDAF. The bid was approved by the Assistant Deputy Minister (ADM), whereas it should have been approved by the Deputy Minister (DM) as per the ministry's FDAF.