TBS

Office of the Provincial Controller Division

Accounting Updates

Briefing for the Secretary of Cabinet

August 25, 2017

Topics for Discussion

1. Accounting Issues Update – 2016-17 Public Accounts
2. Certificate of Assurance Update
3. OPCD Internal Control Review

1. ACCOUNTING ISSUES UPDATE

Accounting Issues – Update

2016-17 Public Accounts

- Highlights of AG Audit Findings Report
  - Two qualifications in the audit opinion
    - Pension assets ($12.4 billion increase to net debt and accumulated deficit; $1.4 billion increase to deficit →$2.4 billion per AG)
      - Pension Panel identified as a "non-authoritative" source on PSAS application
    - IESO reporting of $1.6 billion market account assets and liabilities
      - no impact to annual deficit, net debt or accumulated deficit
  - Other matters paragraph in opinion – rate-regulated accounting not permitted under PSAS; future material misstatement resulting from "legislated accounting"; FSD&A does not reflect pension accounting or market accounts appropriately
  - Statement that combination of pension accounting, market accounts and rate regulated accounting may result in an adverse opinion

Accounting Issues – Update

2016-17 Public Accounts (continued)

- Highlights of AG Audit Findings Report
  - Accounting for Fair Hydro Plan
    - Alleges management ignored requests for information; letter to DM Angus referenced
    - “disconcerting” that accounting is legislated under *Fair Hydro Act*
    - Identifies that IESO adoption of rate-regulated accounting is directly related
    - Indicates that accounting “opinion shopping” from private-sector firms not appropriate
  - Summary of unadjusted differences (SUDs)
    - 15 items totaling $1.6 billion (including pensions) increase to deficit
      - » $191 million (excluding pension) increase to deficit – in-year only
      - » $136 million (excluding pension) decrease to deficit – including correction of prior year misstatements
    - Excluding pensions, SUDs within auditor performance materiality of $440 million
      - » Reference to performance materiality new this year; prior year only referenced planning materiality (set at $670M this year)

Accounting Issues – Update

2016-17 Summary of Unadjusted Differences

Issue – Incr/(decr) to in-year deficit	Description
Unadjusted differences to which there was no dispute – ($10 million)	- Subsequent year-end tax receipts (EHT, Gas, Tobacco, Fuel,etc.) – ($104 million) - Ontario Rebate for Electricity Consumers (OREC) over-accrual – ($29 million) - Ontario Works – late claims not accrued - $23 million - Drug rebate fiscalization – cutoff error (calendar versus fiscal year) - $100 million - Balance sheet classification of Ontario held debt – no deficit or net debt impact -- $8.8 billion - Consolidation of CCACs/CAS' – opening balance sheet impact (no deficit impact)
Unadjusted differences to which there was a disagreement between the AG and government accountants: $201 million	
• **Corporate tax fiscalization - $94 million**	• AG suggests a Q4 estimate based on 25% of the calendar year • OEP supports using 33% based on analysis; varying corporate tax year-end
• **Algonquin land claim - $200 million**	• AG established probability of settlement based on a sample of past claims; assessed reasonable estimate is determinable from documents (Agreement in principle) • OPCD cited other jurisdiction (BC) accounting treatment; ratification is not determinable; reasonable estimate is not determinable (despite federal accrual)
• **Remedy – ($160 million)**	• AG determined that lowest of three scenarios presented be accepted (accrual too high) • EDU supports the current remedy accrual pending final ruling given ETFO is returning to course – may have impacts on other settlements
• **Grassy Narrows - $85 million**	• AG cites minister's June statement confirming responsibility at the fiscal year end • MOECC/OPCD view is that government did not accept responsibility at the year-end; the June announcement was a 2017-18 event
• **Early Years / Child Care program - $58 million**	• AG cites Mandate letter and Budget announcements as establishing an obligation for a program that operates under a TP agreement on a calendar year with municipalities • EDU provides support that program enhancements don't come into effect until funding is approved and TP agreements are signed (July 2017)
• **Employee Life and Health Trusts – ($52 million)**	• AG indicates that as some trusts were not established at year end, expense is disallowed • EDU emphasizes that the trust is a vehicle to satisfy an obligation to employees which existed at the year-end based on the agreement signed between EDU and the unions
• **IESO rate-regulated accounting – ($24 million)**	• AG indicates that rate-regulated accounting is not permitted under PSAS • IESO received an unqualified opinion for use of rate-regulated accounting under PSAS

2. CERTIFICATE OF ASSURANCE UPDATE

Purpose

- To provide an update on the 2016 -17 Certificate of Assurance findings.

- To identify next steps for 2017-18 CoA process (in support of our June 2nd discussion on improvements to the OPS Internal Control Framework).

Certificate of Assurance (CoA)

Annual assurance to the Office of the Auditor General of Ontario (OAGO) that OPS has a strong internal control framework supporting the Public Accounts.

The CoA provides ministries with an opportunity to:

- Confirm that they are in substantial compliance with all applicable legislation, regulations, directives, and policies;
- Confirm that they have maintained an effective system of internal controls over government operations; and
- Confirm that they have established and maintained a system of internal controls that supports the integrity and reliability of the Consolidated Financial Statements for the year ended, March 31, 2017.

Components of CoA

Signing of Public Accounts by TBS/MOF Deputy Ministers & Provincial Controller
(Responsibility for integrity of Provincial Systems)

Certificate of Assurance (CoA)
(Issued to Provincial Controller by Ministries – Signed by Deputy Ministers)

Cascading Certificate
(Issued to Deputy Minister by Divisional Heads of Ministry Programs)

Board-Governed Agency Certification
(Issued to Minister by Board-Governed Agencies - Signed by Chair)

Certificate of Performance (CoP)
(Issued to Ministries by OSS, supported by SysTrust)

Certificate of Reliance (CoR)
(Issued to OSS by its IT Partners)

Certificate of Assurance is based on the following cascading processes:

Components:

- Cascading Certificate Program controls are in place & adhered to
- Board-governed Agency Certification
- Certificate of Performance (CoP)
- Certificate of Reliance (CoR)

Approval Process:

- Certificate of Assurance Attestation Memo is signed by Deputy Minister, CAO and Finance Director

Due Diligence

As part of the 2016-17 CoA process, OPCD has;

- Reviewed all ministry CoA exception reports, fraud awareness schedules and their responses to our related follow-up questions to identify significant risks of all exceptions.
- Analyzed and identified Reporting, Compliance and Operating common themes and emerging issues from CoA attestations, including related statistics and trend analysis for the Significant Findings Memo.
- Queried ministries on the financial impact of their reported items to the public accounts and the status of their action plans to address internal control gaps on all identified exceptions and fraud issues.
- Collaborated with the Corporate Financial Audit Assurance Service Team of the Ontario Internal Audit Division to assess whether ministries have disclosed all significant deficiencies identified during internal audit engagements carried out in the fiscal year.
- Reviewed all closed exceptions and queried ministries on actions taken in order to confirm that identified risks have been addressed appropriately.

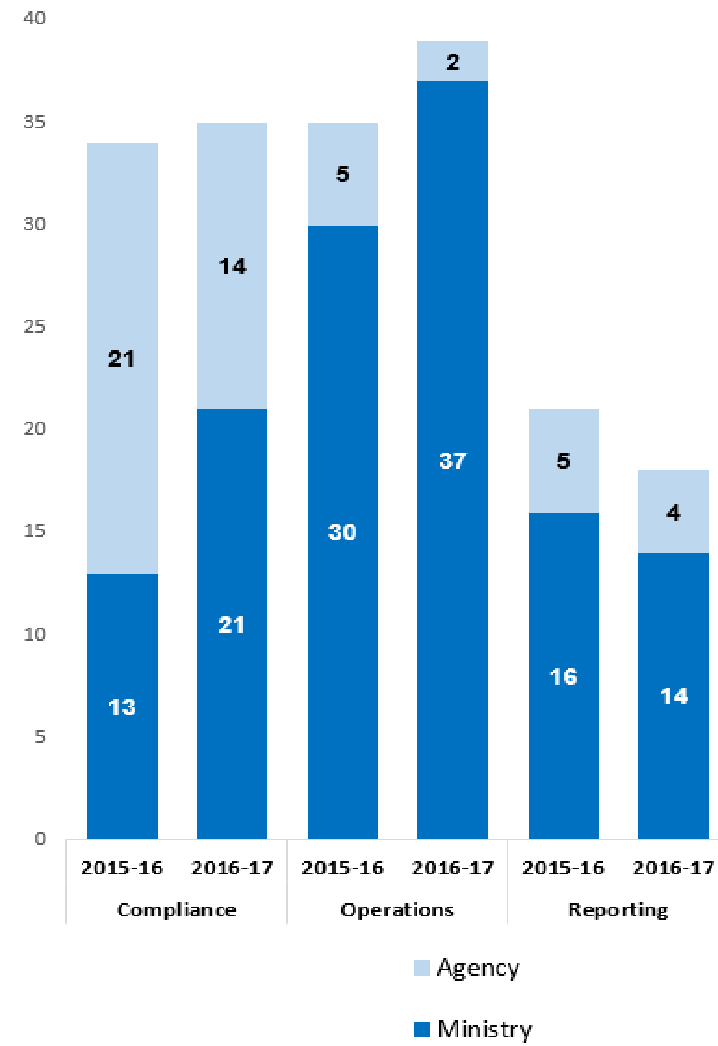
2016-17 Statistics

- The total number of exceptions has remained relatively consistent with prior year. This year, there are a total of 92 (90 in 2015-16).

- Reported exceptions are related to the three following categories;

  - Reporting [**18** Exceptions]
  - Non-compliance with OPS directives and policies [**35** Exceptions]; and
  - Effective internal controls over government operations [**39** Exceptions]

- Appropriate remediation plans have been identified by ministries to close control weaknesses.



Common Themes

- Similar to previous years, the key areas where ministries continue to report exceptions are Internal Controls, compliance with the Transfer Payment Accountability Directive, Agencies & Appointment Directive and financial reporting related to Appropriate Asset Recording & Reporting.

Conclusion

- Based on our review of the CoA reporting to date, we note that while exceptions and opportunities for improvement have been identified across the organization, we are unaware of any significant or material matters that would contradict the management representations of the 2016-17 Public Accounts made to the Office of the Auditor General of Ontario.

- CoA process is contributing to enhanced awareness and response regarding financial reporting risk and control issues.

- We have observed continued strengthening in general knowledge and understanding of the purpose and importance of the CoA.

Next Steps: CoA 2017- 18

- Supported by consultations with ministries the 2017-18 CoA Certification Memo has been 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,
  - Support the revised Internal Control Framework (ICF) based on International standards - COSO 2013 and OPS Enterprise Risk Management Framework.

- To inform and support ministry compliance with the revised memo and framework throughout 2016-17 and continuing this fiscal a number of ICF risk and compliance review pilots/projects are being completed with Ministries.

- Based on the pilot results and feedback received, OPCD has introduced a phased-in three year (March 31, 2020) approach for the successful implementation of the ICF/CoA requirements.

- Chief Administrative Officers will be required to sign-off a Progress Report, demonstrating ministry's commitment to effectively implement the ICF/CoA requirements in accordance with the established timelines.

- Pilot results and future CoA improvements will be presented to DMC in September (per June 2 discussion).

3. OPCD INTERNAL CONTROL REVIEW

Purpose

To provide an update on the work currently underway to enhance OPCD internal control systems in support of the production of Public Accounts.

Current Situation

- In July OPCD issued a request For Services to
  1. Confirm the alignment of OPS Internal Control Framework with International Standards, and;
  2. Review and assess OPCD controls over financial reporting.

- Three vendors have submitted proposals.

- Project start is on track for the week of September 4.