TBS

Office of the Provincial Controller Division

Accounting Updates

Briefing for the Secretary of Cabinet

June 22, 2017

Topics for Discussion

1. Accounting Issues Update
2. Update of COSO 2013 Review

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 adjustments unrelated to pension assets**	**-- Advice from EY sought; letter provided to AG on June 13. on agenda for discussion with AG on June 21, 2017** **-- EY engaged to assist with analysis of adjustments related to (a) timing of Provincial contributions, (b) contributions made by other employers from consolidated and non-consolidated agencies –impact to opening accumulated deficit and in year deficit**
2	**IFRS-US GAAP – OPG & H1** **- Decision to adopt IFRS announced** **- OPG 'preferred' approach used**	• **Specified reports on IFRS-US GAAP differences both received and provided to OAG; impact to opening accumulated deficit and net debt of $1.1B from ARO; in-year impact is an increase to annual deficit of $x**
3	BPS line-by-line consolidation	• Restatement of prior year amounts and tables substantially complete; Work on variance analysis underway; • Restated medium-term expense outlook shows postsecondary and training sector average annual growth (3.4%) at a higher rate than health sector (3.2%) from 2015-16 to 2019-20
4	**Electricity Rate Mitigation**	• **Affordability Fund – analysis provided to AG May 4; request for additional information received June 12; OPCD in process of responding; 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; OAG briefed on June 20; will disclose ETFO decision to return to court re: amount of settlement**

2. UPDATE OF 2013 COSO REVIEW

2. UPDATE ON ESTABLISHING AN AUDIT ADVISORY COMMITTEE

Purpose

- To discuss an amendment to the Auditor General Act to establish a permanent 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 competitively 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: Public Appointments process**
    - Members appointed by Lieutenant Governor in Council based on recommendation of selection panel of government officials and political staff (Provincial Controller/ADM Audit, Human Resources professional, Chair Internal Audit Committee, political staff from MO /PO)
  - **Selection Panel Option 2: Auditor General involvement**
    - Members appointed by Lieutenant Governor in Council based on recommendation of selection panel above including Auditor General or AG Representative
  - **Selection Panel Option 3: Minister/Auditor General Selection**
    - Seven members (including three members recommended by Auditor General) appointed by Lieutenant Governor in Council based on recommendation of selection panel
    - Creates precedent in standard Public Appointments process

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

Appendix: Jurisdictional Review

A jurisdictional review was completed to examine what other governance/relationship models exist between the AG, the Standing Committee on Public Accounts (SCOPA), and governments.

- Each jurisdiction with the exception of Quebec has both a SCOPA or equivalent and an audit committee focussing on internal functions comparable to the Corporate Audit Committee in Ontario. (In Quebec only AG VFM audits are reviewed by committee)
- Two jurisdictions – Alberta and Saskatchewan also have external audit committees established through legislation
- Newfoundland & Labrador's internal audit committee is developing an external AG focus
- Other federal and national committees and organizations provide advice and support to either the SCOPAs or the AG:
    - The Canadian Council for Public Accounts Committees organizes an annual conference for legislators and staff from federal, provincial and territorial Public Accounts committees
    - CCAF-FCVI promotes and strengthens public sector performance audit, oversight and accountability in Canada and abroad through research, education and knowledge sharing, and also provides training and education to SCOPA members.
    - At the federal level, the Independent Accounting and Financial Auditing Advisory Committee provides advice to the federal AG

Appendix: Alberta Audit Committee

- Established under the authority of the Auditor General Act
  - Comprises of not more than 7 persons appointed though Order in Council
  - External recruitment of members based on a competencies model
  - Minister of Finance is a member but not Chair of Committee
  - Typically meets in person three times per year prior to AG report releases
  - AG must present reports to the Audit Committee before they are made public
- For Public Accounts, the Audit Committee focuses on whether the financial statements are clear and understandable
- For Performance Audits, the Audit Committee looks at draft reports with three questions in mind
  - is the report unduly sensational
  - is the scope of the report crossing the line into policy creation
  - is the report clear and understandable
- If there is a dispute between the AG and management on the contents in the draft reports, the Committee can also provide independent and unbiased advice. Committee statements are non binding and the AG determines the appropriate response to the feedback provided