Notes from Presentation at CD Howe (April 25, 2017)
Topic: Release of CD Howe Research Report: *Numbers You Can Trust, the Fiscal Accountability of Canada's Senior Governments, 2017*

Moderator's note: Session 12:30 – 1:30 is 'off the record'.
Introductory Remarks by Bill Robson – nothing significant to note
Remarks by Mike Ferguson (Federal Auditor General)

- Suggested that qualified audit opinions should result in much lower marks (specific references made to BC which received an A rating, and ON which received a B+)
- Said that anyone not receiving an A or A+ is 'not trying'
- Suggested that CD Howe Institute has to be harder hitting on its ratings system and not just hold the governments to a low 'elementary school' ranking system, but to graduate to a high school rating system
- Said that Federal gov't got an A despite the fact that they still don't align their estimates with the Budget and that the reason given for not adopting is that an aligned (accrual based) Estimates process wouldn't be understood. Mike commented that in NB they were able to implement it fine, and that the Feds should have done it by now.

Remarks by Ontario's AG:

- Reminded that the session was 'off the record'
- Devoted most of her time (majority of the Panel's time) discussing the qualified audit opinion in Ontario and presenting only 'her version of the facts'
- Said that the independence of her staff had been challenged (didn't say by who)
- Said that if a private sector firm had been subject to what they had, it would have likely resigned, but that she can't (made reference to the release of the unaudited f/s and all of the hard work that her team had been subject to).
- Said that only when the unaudited f/s were released did she finally known what the government's position was and so was able to finalize her opinion.
- Noted that on the morning of the release she had met with the Ministers, Chiefs of Staff and both DMs and that they hadn't disclosed their plans to release the unaudited f/s. She was very surprised and taken aback.
- Made reference to the 'experts' that she uses, including National firm partners, and Canadian Standard Setters. She 'knows that she is right' and her accounting treatment is supported by the same accounting by BC and NB, as well as the TTC.
- Said that the assets reported by the Province do not meet the definition of an asset, and that the Panel's reference to IFRS was inappropriate and not relevant.
- Said that an accounting firm was not able to support the pension asset valuation
- Said that ON finally reached the proper accounting treatment but by legislation, and that she qualified on the basis that the historical f/s not being restated.
- She challenged the 'independence' of the panel, observing that her own experts <u>are</u> independent.
- Commented on the province's lack of a debt retirement plan and referenced the important Debt/GDP indicator.

- Slides included a specific reference to the Fair Hydro Plan as well – with reference to the Debt/GDP ratio, said that some are finding ways under existing accounting standards to offset debt with assets to manage the Debt/GDP ratio, and that they are committing future governments (by including poison pills).
- Suggested that accounting standards will eventually ‘catch up’ to ensure fair reporting.
- Directed a question towards CPA Canada staff, asking them to contemplate how the standard setting process is impacted by government decision making processes and influence. Observed that PSAB has ‘vested stakeholders at the table with PSAB and that their presence and influence reduces the Board’s impartiality’.   Said that in ON in particular has a strong stakeholder influence on the standard setters.
- Further comments on the pension issue included reference to teachers who receive statements from the OTPP that do not reflect a surplus, but rather a deficit. Said that the OTPP uses a rate of 3.5% under IFRS, but that under PSAB the government is able to and has chosen to use a rate of 6.5% which creates a surplus. Said that the government’s portion of the surplus is only ½ of $11B.
- Referenced accounting by NB which doesn’t record the asset but just note discloses it.
- Recapped annual impacts over a 5 year period ($1.5, $2.2,etc.), commenting that that the government will have to try to find $11B over next 5 years to make up for the shortfall caused by pension accounting in order to achieve balanced budget.
- In response to a question by Ian MacDonald (former DM of Finance for ON) as to what has changed in the relationship between the government and the AG, she said that likely motivation for the behavior is to try to achieve a balanced budget.

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Date: April 25, 2017