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September XX, 2016

Ms. Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General of Ontario
20 Dundas Street West, Suite 1530
Toronto ON M5G 2C2

Dear Ms. Lysyk:

We are providing this letter of representation in connection with your audit of the consolidated financial statements of the Province of Ontario for the year ended March 31, 2016, for the purpose of expressing an opinion as to whether the consolidated financial statements present fairly, in all material respects, the financial position, results of operations, changes in net debt, changes in accumulated deficit and cash flow, in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada). We are providing representation until September XX, 2016, which is the date that those with the recognized authority have asserted that they have taken responsibility for those financial statements and the date of your audit opinion.

We make the following representations based on the best of our knowledge and belief and the representations provided to us by deputy ministers and senior officers of Crown Corporations, Agencies and other relevant organizations:

1. We acknowledge that we are responsible for the fair presentation of the financial statements and for the design and implementation of internal controls to prevent and detect fraud and error. The consolidated financial

statements and appended notes and schedules include all material disclosures necessary for the fair presentation of the financial position, results of operations, change in net debt, change in accumulated deficit and cash flow of the Province in accordance with the accounting principles for government recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada. These policies have been applied, in all material respects, on a basis consistent with that of the preceding year.

2. Proper books of account have been kept and Ministry financial information is in agreement with them. Adequate support exists for all adjustments made to these books of account in preparing the consolidated financial statements. We are not aware of any material accounts, transactions or agreements not appropriately described or reflected in the consolidated financial statements, notes, or schedules thereto.

3. All financial and accounting records and related data have been made available to you, as have all Treasury Board / Management Board of Cabinet minutes. We have provided you with unrestricted access to persons within the Province from whom you determined it necessary to obtain audit evidence.

4. We acknowledge management's responsibility to maintain systems of internal control adequate to safeguard the assets and liabilities of the Province and to permit the preparation of the financial statements in accordance with the disclosed accounting principles that are free from material misstatement, whether due to fraud or error.

5. Except as disclosed to you, to the best of our knowledge there has been no:

   a) Fraud or suspected fraud involving management or employees who have significant roles in the Province's internal control;

   b) Fraud or suspected fraud involving others that could have a material effect on the financial statements. We understand the term "fraud" to mean those matters described in the Canadian Auditing Standard 240 of the Chartered Professional Accountants of Canada (CPA Canada), The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements; and

   c) Violations or possible violations of laws or regulations whose effects are material and should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

We have disclosed to you the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have provided you with the results of the Certificate of Assurance significant findings that were reported on the cases of fraud during the year 2015-16 among the Ministries and conclude statements 5a) to c) above remain true.

6. We are not aware of any illegal or possibly illegal acts or irregularities involving management or employees acting on the Province's behalf, the consequences of which could result in a material misstatement of the financial statements.

7. We understand that your audit was planned and conducted in accordance with Canadian generally accepted auditing standards to enable you to express an opinion on the financial statements and accordingly included such audit testing as you considered necessary in the circumstances. We also understand, because of the inherent limitations of an audit, including the test nature of your audit procedures together with the inherent limitations in any system of internal control, there is an unavoidable risk that the audit may not detect some material misstatements in the consolidated financial statements due to error or fraud, even though the audit is properly planned and performed in accordance with Canadian generally accepted auditing standards.

8. The consolidated financial statements properly disclose the nature and extent of related party transactions and contain a description of the relationship with the related parties, the amounts due to or from related parties, and, if not otherwise apparent, the terms of settlement.

9. All material transactions of the Province have been within its statutory powers. The Province has adhered to all legislative requirements for these transactions, and all such transactions were recorded accurately in accordance with and within the authorized limits of the *Supply Act*, other government statutes, Treasury Board Orders, and Special Warrants. The books and records contain all the transactions of the Province and all such transactions are properly reported in the Public Accounts.

10. As at March 31, 2016, the Province, including its consolidated organizations, had satisfactory ownership of all of its recorded assets, and all liens,

encumbrances or security interests of significance on any such assets are disclosed in the notes to the financial statements or schedules thereto.

11. The accounts and loans receivable reflected in the Consolidated Statement of Financial Position represent all significant bona fide claims against debtors arising on or before March 31, 2016. The allowance for doubtful accounts is sufficient to provide for losses which may be sustained on realization of these receivables.

12. All liabilities, including debt issued for provincial purposes, Ontario Electricity Financial Corporation debt, debt of the consolidated hospitals, school boards and colleges, alternative financing and procurement obligations, other accounts payable and accrued liabilities, and transfer payment entitlements as at March 31, 2016 of which we are aware, are included on the Consolidated Statement of Financial Position. None of the Province's liabilities have been secured. All significant lawsuits outstanding, possible claims, pending litigation, or any other contingent liabilities including environmental liabilities and contingent provincial deficit guarantees, of which we are aware of are disclosed in the financial statements or notes thereto, whether or not discussed with legal counsel.

13. The Province uses derivative products to hedge exposure to currency and interest rate fluctuations and has adequate policies and procedures in place to limit risk exposure. The netting arrangements the Province has in place with derivative counter parties provide for a single net settlement of derivative contracts in the event of default by the counter party on its contractual obligations. The Province's derivatives activities have been properly accounted for and recorded in the financial statements in accordance with the stated accounting policies and the nature and risk associated with its derivatives activities has been properly disclosed in the notes to the financial statements.

14. Employee future benefit obligations, costs and assets are determined, accounted for and disclosed in accordance with the requirements of PS 3250, *Retirement Benefits* (PS 3250) and PS 3255, *Post-employment Benefits, Compensated Absences and Termination Benefits* (PS 3255).

    In particular:

    - The Province is applying PS 3250 and PS 3255 accurately and completely in the consolidated financial statements.
    - Each of the best estimate assumptions used reflects management's judgment of the most likely outcomes of future events.

- The best estimate assumptions used are, as a whole, internally consistent, and consistent with the asset valuation method adopted.
- The discount rate used to determine the accrued benefit obligation was determined by reference to the expected rate of return on pension assets based on the Government's best estimate.
- The economic assumptions included in the actuarial valuation are those that management provided to the pension plan boards (i.e. Ontario Pension Board, OPSEU Pension Trust, Ontario Teachers' Pension Plan Board, Healthcare of Ontario Pension Plan and Colleges of Applied Arts & Technology Pension Plan) in a letter requesting actuarial and financial information, to use in computing amounts to be used by management in determining pension costs and obligations and in making required disclosures in the above-named financial statements, in accordance with PS 3250.
- The data provided to the actuaries for non-pension post retirement benefits, severance pay and other post-employment benefits was sufficient for the purpose of the valuation.
- All changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension costs and obligations and as such have been communicated to you as well as to the actuaries.
- The extrapolations are accurate and properly reflect the effects of changes and events that occurred subsequent to the most recent valuation and that had a material effect on the extrapolation.
- We agree with the findings of Mercer as management's expert in evaluating the valuation of employee future benefits and have adequately considered the qualifications of the expert in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the experts.

Alternative 1: Unqualified Opinion

- We agree that all relevant information has been provided to you in determining whether a valuation allowance should be recorded in accordance with PS3250 for the net pension asset related to the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan of Ontario

- As at March 31, 2016, there were no agreements in place with the respective pension plans' joint sponsors to establish a unilateral legal right for the Province to use all or a portion of this asset to reduce future minimum contributions or withdraw any pension plan surplus.

Commented [PF1]: This is legal question and will leave this up to you on whether this statement is accurate.

<u>Alternative 2: Qualified Opinion</u>

- We agree that all relevant information has been provided to you in determining whether a valuation allowance should be recorded in accordance with PS3250 for the net pension asset related to the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan of Ontario.

15. **<u>Alternative 1: UnQualified Opinion</u>**

We agree that the error regarding the pension asset and 2014-15 comparatives has been correctly adjusted in the current year financial statements. Specifically, the error correction increases 2014-15 pensions and other employee future benefits liability by $9.2billion, increases 2014-15 opening net debt and accumulated deficit at the beginning of the 2014-15 year by $8.2 billion and adjusts the 2014-15 accumulated deficit by a further $1.0billion to reflect the impact in the 2014-15 annual change to the pension asset. The 2015-16 annual impact of $1.5 billion has also been reflected in 2015-16 statement of operations.

<u>Alternative 2: Qualified Opinion</u>

We acknowledge that you have determined that the net pension asset is impaired as there were no agreements in place with the respective pension plans joint sponsors for the Province to use all or a portion of the asset to reduce future minimum contributions or withdraw any pension plan surplus. We do not agree with your determination. We assert that the Province will fully benefit from the net pension asset of $10.7 billion in the future and as such, no adjustment is required to the value of the net pension asset reported in the financial statements. We acknowledge that this difference in opinion will result in a qualification in your independent auditor's report.

Commented [PF2]: This is legal question and will leave this up to you on whether this statement is accurate.

16. All significant government agencies have been included in the Province's reporting entity. These significant agencies have been appropriately classified as organizations, enterprises, or trusts, and reflected in the financial statements via line by line consolidation, modified equity treatment, or disclosure of trust balances, respectively.

The financial position and results of operations of the Workplace Safety and Insurance Board (WSIB) have not been incorporated in the Province's financial position and results of operations because under the terms of its incorporating legislation, the government is not entitled to its net assets and is not responsible for its liabilities. However, the government acknowledges that the continued exclusion of the WSIB from the government reporting entity is partly dependent on government decisions and WSIB's actions to address the unfunded liability.

The financial results of operations of Children's Aid Societies (CAS's) and Community Care Access Centres (CCAC's) have not been incorporated in the Province's financial position and results of operations. Although these have been assessed by Treasury Board Secretariat to be controlled entities and thereby meet the Public Sector Accounting Board (PSAB) criteria to be included in the Government Reporting Entity (GRE), they have not been consolidated in the Province's consolidated financial statements as there is no material difference between the current accounting practice of recognizing the in-year transfer payment expenses to the CAS's and CCAC's, and the impact of consolidating these entities in the Province's consolidated financial statements. We recognize the Auditor General recommends that CASs be consolidated in the Province's March 31, 2017 consolidated financial statements and due to the anticipated restructuring of CCAC's no change in accounting is required.

17. The consolidated financial statements include the financial position and the results of operations of the Ontario Northland Transportation Commission (Commission) as reported in its March 31, 2016 consolidated financial statements. The Commission's financial statements were prepared on a going concern basis, and no government decisions have been made at the date of the representation letter that would result in any material change in the Commission's operating results and financial position that should be reflected in the Province's March 31, 2016 consolidated financial statements.

18. Our analysis of what the financial results would have been under IFRS as provided by Ontario Power Generation Inc (OPG) and Hydro One Inc.(HOI) is complete and accurate. If the Province had reflected the results of OPG and HOI on an IFRS, the differences between US GAAP and IFRS on the Province's March 31, 2016 Statement of Operations and Statement of Financial Position would not have been material. This amount is disclosed in the note to the Consolidated Financial Statements.

19. Consistent with the prior year, the discount rate used to measure Ontario Power Generation (OPG)'s asset retirement obligation under International Financial Reporting Standards (IFRS) was determined by applying a 20-year rolling average rate of the Ontario 30-year bond index (consisting of 15 years of historical and 5 years of forecasted data).
We understand that you will utilize this basis for purposes of evaluating the fairness of the government's consolidated financial statements

If the Province decides to consolidate OPG on an IFRS basis, we will review this accounting policy for implementation going forward.

Commented [BP3]: This sentence will lock us for rolling avg. rate.

20. All transactions and fiscal impacts of the Hydro One share sales in 2015-16 through an initial public offering (IPO) have been disclosed to you and properly reflected in the consolidated financial statements.

All transactions and fiscal impacts of the Hydro One Brampton transfer in 2015-16 have been disclosed to you and properly reflected in the consolidated financial statements.

21. Given the government's long-term objectives with respect to the Decommissioning Fund and Used Fuel Fund (Funds) established under the Ontario Nuclear Funds Agreement, for purposes of the consolidated financial statement we confirm that all realized gains earned by the Funds in fiscal 2015-16 have been recognized in the Province's 2015-16 annual surplus, and that all unrealized gains recorded by the Funds in fiscal 2015-16 have been recorded as an adjustment to the Province's accumulated deficit. We confirm that this accounting is consistent with prior years, and that we intend to continue to account for the Funds on this basis until such time as we have had an opportunity to evaluate Public Sector Accounting Board's financial instruments accounting standard which is effective for fiscal years starting April 1, 2019.

22. Reasonable systems and procedures required to collect reliable and accurate information on the Broader Public Sector (consolidated hospitals, school boards and colleges) have been established. The reliability and accuracy of the information received from the Broader Public Sector organizations has been reviewed. This information has been used to reconcile all inter-organizational balances and transactions and to eliminate inter-organizational gains and losses from the province's reporting entity. The books of account properly record all balances and transactions of the Broader Public Sector in accordance with the stated accounting policies regarding the consolidation of the Broader Public Sector.

23. Reasonable efforts have been made to identify all of the Province's land, buildings and transportation infrastructure, leased assets, information technology infrastructure and systems, vehicles and equipment. The assigned values for these assets represent the government's best estimate of their historical cost.

24. Reasonable efforts have been made to identify all contaminated sites in Ontario for which the government is financially responsible for or which it may potentially be financially responsible. The recorded liability for remediating the contaminated sites for which the government is financially responsible for represents the government's best estimate.

25. The extent of measurement uncertainty relating to amounts recognized in the financial statements where it is reasonably possible that the amounts could change by a material amount in the near term have been appropriately disclosed in the financial statements.

26. Significant assumptions used by us in making accounting estimates (including those measured at fair value) are reasonable.

27. The remedy accrual recorded as a result of the litigation related to Bill 115, Putting Students First Act, 2012 reflects the government's best estimate and is properly disclosed in Note 13 Contingent Liability.

28. There have been no material events since March 31, 2016 that have not been reflected or disclosed in the financial statements or notes thereto which are of such significance as to make the financial statements not present fairly the financial position or operations of the Province.

29. We acknowledge that we have received a copy of the schedule of unadjusted differences. We believe that the effects of the uncorrected financial statement misstatements identified by you during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

30. We are not aware of any material event not disclosed to you which could affect your opinion on the financial statements. However, if a materially significant event occurs prior to the issuance of the financial statements that could have an impact on your opinion, we will immediately notify you.

We are aware that a lawsuit is expected from the Canadian Union of Public Employees related to the sale of Hydro One. An estimate of the financial impact if any, cannot be made.

31. The information contained in the Financial Statement and Discussion is accurate and reflects the financial results in 2015/16.

32. We have included budgetary data in our financial statements, which is relevant to the users of financial statements and consistent with that originally planned and approved through the Government's established budgetary processes. Planned results and amounts were presented for the same scope of activities and on a basis consistent with that used for actual result.

Yours sincerely,

Scott Thompson
Deputy Minister
Ministry of Finance

Greg Orencsak
Deputy Minister
Treasury Board Secretariat

Nadine Petsche
Director Accounting Policy and Financial Reporting Branch
Treasury Board Secretariat