FW: AG report - QP Briefing - Accounting spat undermines AG and Net Debt-to-GDP ratio

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Coverage of the AG Report below. From a quick skim nothing we weren't anticipating.

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November 30, 2016

AG Report 2016: Accounting spat could be seen as effort to 'undermine' auditor general

By Geoff Zochodne

The auditor general's 2016 annual report was tabled Wednesday, and it's full of unflattering bits about the government.

The relationship between the Liberals and the province's auditor general has reached a point where the legislative officer is actively wondering if the government is trying to "undermine" her.

Auditor General **Bonnie Lysyk** tabled her latest volume of value-for-money reviews of government programs and practices Wednesday – and, as per usual, no punches are pulled in the annual report.

From the get-go, Lysyk says that in October the government gave her office just 50 minutes notice – via email, no less – that it was going public with the province's unaudited financial statements. The statements were unaudited because the government and the AG's office could not agree on how public sector pension assets should show up on the province's books.

"Despite meeting earlier in the day to discuss the financial statements, there was no indication from the government that it planned to release these statements later that day," states the AG. "In fact, the Chief of Staff of the Minister of Treasury Board Secretariat notified the Auditor General in an email of the decision to release the statements, only 50 minutes before their technical briefing to the media."

And with that, the AG's 2016 annual report was off and running. Here are our other stories:

- * Patients waiting too long for beds and surgeries[1]
- * Ad rule change enabled Liberals to spend millions of taxpayers' dollars on self-love-fest[2]
- * Ontario businesses could spend $2.2B on foreign cap-and-trade credits – and it may not count[3]
- * Physician overbilling, underworking going unchecked[4]

Because of the accounting kerfuffle, the auditor general's annual opinion on the province's financial statements is a "qualified" one – meaning all's mostly well, except for one item. This, the AG says, is due to the "error" over incorporating the assets of the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan, which the auditor says the government does not have unilateral access to and cannot solely control.

Ultimately, the government decided it would stomach the accounting change and add $1.5 billion to the province's deficit for 2015-16, as well as add $10.7 billion to Ontario's net debt.

However, this was not before it went public with the unaudited financial statements – and right after meeting the AG's office.

"The actions taken by the Government in releasing the consolidated financial statements late and without the audit opinion of the Auditor General, while also publicly disagreeing with an accounting issue before providing the Auditor General with information needed for her to issue an audit opinion, could be perceived by some as an attempt to undermine the role of the Office of the Auditor General," says the AG's report. "We note that materials were likely already printed, and a plan was likely already in place to publicly release the consolidated financial statements without the Auditor General's opinion, when we met with the Ministers of Treasury Board and Finance, their Chiefs of Staff and their Deputy Ministers on the morning of October 3, 2016, to further discuss the pension asset accounting issue."

Moreover, despite the government updating its books for the 2015-16 fiscal year, it did not do so for the year prior, meaning it was not done "correctly," the AG says.

The government doesn't have the right to slash contributions to those pension plans without signing a deal with the other sponsors of the plan, the AG says. The auditor recommended in her report that the Treasury Board and the Ministry of Finance firm up their position on the "pension asset issue."

The government, meanwhile, notes it has called in an expert advisory panel to issue a ruling on the accounting clash.

"The Panel's recommendations will inform the Province's final position paper on accounting for net pension assets, which will be shared with the Office of the Auditor General," reads the response.

As for the government's actual books, the AG says the "Province is still increasing its annual borrowings to finance these deficits, replace maturing debt and to fund infrastructure."

The province's net debt will top $326.8 billion by 2018-19, nearly double the $169.6 billion in 2008-09.

"In other words, it would cost every Ontarian $23,400 to eliminate the Province's net debt," notes the AG.

Ontario's net-debt-to-GDP ratio has improved somewhat, the auditor says, and at around 40.9 per cent in 2015-16 it is still below the 60 per cent mark that indicates a country is headed for fiscal calamity. The government is forecasting this to decline, and is shooting for a 27 per cent net-to-GDP-ratio.

However, the debt load could punish the government down the road if interest rates rise or if the province's credit rating is downgraded, which could both hike borrowing costs and crowd out spending on other things, like education and health care.

The government says it will balance the budget next year and that its investments in infrastructure – estimated at $160 billion over 12 years – will return more revenue to it than it spends.

The AG is also asking for copies of the contracts the government signs with external expert advisers, which the government says it will do, if those documents are what's required under "professional standards."

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