FW: Annual C.D. Howe Institute Transparency Report

From:	"Hosick, Sarah (TBS)" <sarah.hosick@ontario.ca>
To:	"Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>, "Donaldson, Mark (TBS)" <mark.donaldson@ontario.ca>
Date:	Tue, 01 May 2018 09:22:20 -0400
Attachments:	Commentary_511.pdf (686.11 kB)

Resending as my blackberry was acting up last night and not sending emails, apologies if you receive this twice.

CD Howe took some of our input and not others –see their comments below.

From: Inglis, Liane (MOF)
Sent: April 30, 2018 5:16 PM
To: Hosick, Sarah (TBS)
Cc: Rowe, Alana (MOF)
Subject: FW: Annual C.D. Howe Institute Transparency Report

FYI – CD Howe's response to our feedback. I expect we'll be pulling together a note/KM in short order. I'll flip it to you for input.

Liane

From: Ben Dachis [mailto:bdachis@cdhowe.org]
Sent: April 30, 2018 5:03 PM
To: Schuurman, Tim (MOF); Thompson, Scott (MOF); Inglis, Liane (MOF); Rowe, Alana (MOF); McLean, David (MOF)
Cc: Daniel Schwanen; Robson, William (TCU); Farah Omran; Kristine Gray
Subject: Annual C.D. Howe Institute Transparency Report

Hello, Scott, Tim, and team,

Please see attached an advance embargoed copy of the annual paper on fiscal accountability that the C.D. Howe Institute will be releasing tomorrow morning. As the attached is an advance copy provided to a select few ahead of the official release, we ask that you not share it until the official release at 6 AM tomorrow.

We have also compiled a response to your specific comments, which we reproduce below along with our response in red. We very much hope these help address any outstanding issues. As you will see, we have revised the paper in accordance with some of your suggestions. We look forward to working with you on this and many other topics in the future. Please do not hesitate to reach out if you have any questions.

- **Public Sector Accounting Standards (PSAS)**

  There are several references throughout the report that Ontario does not follow PSAS, which is incorrect as the province does follow PSAS. As evidence for this, the Auditor General's report for 2016-17 notes that the financial statements are in accordance with PSAS, although she qualifies the opinion on two items (a) the accounting for net pension assets of two jointly sponsored pension plans and (b) the recording of market accounts in one of the controlled entities (IESO). See the Auditor General's report for more details here .

  With respect to the net pension assets, the accounting under PSAS is supported by a variety of sources, including the report of an Expert Panel, comprised of highly qualified accountants, actuaries and lawyers. Read the Panel's report here .
  With respect to the accounting for the market accounts, the financial statements of the IESO for 2016 were prepared in accordance with PSAS and received an unqualified (or clean) opinion from KPMG stating that

the financial statements are in accordance with PSAS. See the IESO's financial statements for 2016 here .

We see the qualifications from the AG as fundamental enough to justify our call that Ontario does not follow PSAS. The treatments of pensions and of future electricity revenues are significant in the fiscal picture and in economic terms, and appear to us to be at the outer edge – or beyond the edge – of what ambiguities or gaps in PSAS can justify.

- **Legislated Accounting**

There are several references regarding Ontario legislating accounting, which are not accurate.
For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of PSAS. This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. This time-limited regulation was in place for one year only and was not in place for the 2016-17 consolidated financial statements.

With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. In addition, the only impacts of the Fair Hydro Plan on the 2016-17 consolidated financial statements of the Province were the 8% rebate on electricity bills that started in January 2018 and funds for a Low Income Affordability Fund. The rebate and the amount transferred to the fund were recorded as expenses of the government and there was no dispute with the Auditor General on these issues. The balance of the Fair Hydro Plan was implemented in July 2017. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.

We agree that the references to legislated accounting with respect to the 2016/17 financial statements were inappropriate. We have deleted them.

- **Date of Public Accounts release:**

There are references throughout the report about Ontario releasing its Public Accounts nine months after year end, which is not accurate. Ontario tabled and released the 2016-17 Public Accounts on September 7, 2017. Please see the news release from September 7, 2017 for more details.

We have revised the release date in our report card to 7 September 2017. We have done so reluctantly, however, since no paper or PDF version of a full Public Accounts document was available on that date, and the web page where the Public Accounts were posted had notes advising updates into November. The page reference for the consolidated revenue and spending figures is from the PDF released in December, which we note in the revised report.

Key Revenue and Spending Figures

- The chart indicates key revenue and expense figures are on page 23 of 142 in Ontario's Public Accounts, which is incorrect. The analysis table of 2016-17 results are on page 12 in the annual report (page 23 shows financial assets). See annual report here .

We use the page number of the total pdf document – the number of pages the reader has to flip through from the very top. We have chosen page "23" which is the page numbered 9 in the public accounts.

- Ontario has made strides in increasing transparency of its Public Accounts data. To help Ontarians better understand their government's finances, digital tools have been developed that present the Public Accounts data in innovative, visual formats. These tools make Ontario's finances easier to understand, access and use by members of the public.
  This year's tools are available at Ontario.ca/publicaccounts and include:

  - Interactive data visualization tools that graphically present details on asset and expense information contained in Volume 1;

  - Fully sortable data tables that summarize the financial statements from Volume 2, and the detailed scheduled payments from Volume 3; and

- Downloadable open data sets that provide the five-year trend for government revenue by source, revenue by sector, and statement of operations.

These are valuable tools. We do not include them in our rating because we do not have comparators for other senior governments in Canada. We will think about whether we can incorporate such measures in the future.

- **Qualifications**

There are some clarifications required regarding Ontario's qualified audit opinion. For example, on page 10, the report indicates "Ontario is guilty of legislating some aspects of PSAB accounting standards for some of its entities and it has received a qualified audit…"
The Auditor General's opinion on the 2016-17 consolidated financial statements was not qualified regarding legislating accounting standards. The Auditor General's qualified opinion is based on a different interpretation of PSAS for net pension assets and recognition of the Independent Electricity System Operator's market accounts. For more details on the qualifications please see the AG's Independent Audit Report here.

As noted above, we have corrected the references to legislated accounting, but feel the qualifications are serious enough to warrant the judgement that Ontario is not following PSAS.

- **Date the 2017 Budget was published**

The 2017 Budget was published on Thursday April 27, 2017 – within the first four weeks of the fiscal year (i.e., fewer than four weeks into the fiscal year, which would be before April 29).

We have checked our report card: our mark re budget date is correct for that timing.

- **Alignment of Budget and Estimates:**

Starting in the 2017 Budget, the presentation of Ministry expense numbers has been revised (p 240 and 241) to better enable the reader to crosswalk ministry totals between the Budget and Estimates.

We have complimented Ontario's relatively good Estimates in the past. As our focus on estimates across the senior governments has become more granular, we have discerned a need for the Main Estimates to reconcile with the budget – and not simply with an entry for a global dollar amount that precludes effective legislative scrutiny (a criticism we levelled at the federal government in this year's report). We would welcome further discussion on this point.

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