April 18, 2018
Response v2

MM (G&M): Please let Ms. Veinot know that the story will explore her instruction to the IESO to consider changing its accounting policies. It's my understanding that at the time, Ms. Veinot was already involved with the team that was designing the Fair Hydro Plan's financial and accounting structure.

In January 2017, at one of the initial meetings that the Provincial Controller attended to discuss Ontario's Fair Hydro Plan (OFHP), she became aware of the accounting for the market accounts at the Independent Electricity System Operator (IESO). At that point she requested that IESO management review the accounting for these accounts. While no specific timeframe was discussed during the conversation, the intention was to have this review completed before the province's year-end of March 31, 2017.

At the time the request was made, the structure for the Global Adjustment Refinancing of OFHP had not been determined (the accounting for OFHP was finalized in January 2018).

The recognition of market accounts on IESO's books better reflects the financial position of the IESO-administered markets at year-end, and was supported by the IESO's audit committee, its independent external auditor (KPMG), and by the Office of the Provincial Controller. This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

The creation of the OFHP was not contingent on the IESO adopting the market accounts on its books.

MM (G&M): Ms. Veinot later signed the Statement of Responsibility on the Province's financial statements, notwithstanding the Auditor General's warnings that the IESO was using improper accounting that might result in future misstatements on Ontario's public accounts. We'll be reporting the government's assertions that the IESO's decision to change its accounting policies was unrelated to the Fair Hydro Plan, and noting that those accounting policies were put to immediate use with the Fair Hydro Plan, and that the Auditor General insists those two developments were directly related.

In developing OFHP, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. The impact of OFHP will be transparent; credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP. The province's financial statements are prepared in accordance with Public Sector Accounting Standards (PSAS) and will follow PSAS in accounting for the transactions resulting from OFHP **beginning in 2017-18,** and in following years.

Commented [TA(1]: OPG Response to G&M: OPG's accounting analysis for the Fair Hydro Plan commenced in early 2017 and continued throughout 2017 as the structure, program agreements, and financing strategy for the program developed. The ongoing effort to analyze accounting implications is typical for such a material and business transaction. The accounting was finalized in January 2018, shortly after the establishment of the Fair Hydro Trust and underlying program agreements in December 2017.

Commented [TA(2]: From: TBS response to G&M April 5 2018

PSAS are principle based – they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consults with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information. That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

The Province has the utmost respect for all independent officers of the legislature, and we value the important and necessary perspective they bring. Staff will continue to work closely and constructively with the Office of the Auditor General on a number of matters, including the preparation of Public Accounts. We will continue to work closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.