Implementation Note: Public Accounts / Auditor General's Opinion

Commitment: [placeholder]

Context: The Province prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS), issued by the Public Sector Accounting Board. All provinces in Canada prepare their annual financial statements in accordance with PSAS.

The audit opinion on the Province's 2016-17 consolidated financial statements included two qualifications by the Auditor General related to pension accounting and reporting the market accounts of the Independent Electricity System Operator (IESO). A qualified opinion means that the auditor agrees that the financial statements are fairly presented, except for those items noted (e.g. pension accounting and recording market accounts for the IESO). Additionally, as a result of proposed reporting of the Global Adjustment Refinancing, a component of the plan to reduce current electricity prices, in the 2017-18 Public Accounts, the Auditor General has indicated that she may issue an adverse opinion on the 2017-18 financial statements. An adverse opinion means the auditor believes that the misstatements in the financial statements are both material and pervasive, and are not fairly stated.

Implementation Requirements: Resolution of one or more of these issues will require policy and/or legislative amendments to alter the transactions to facilitate a reassessment of the accounting. To align with the legislative release date of the Public Accounts, any changes that would result in updates to the accounting for the 2017-18 consolidated financial statements must be in effect prior to the release of the Public Accounts. The Public Accounts are required to be released within 180 days of the fiscal year end, (i.e., on or before September 27, 2018).

Implementation Plan:

Net Pension Assets
The Public Accounts currently recognize a net pension asset from the net surplus for accounting purposes of the jointly-sponsored pension plans -- Ontario Teachers' Pension Plan (OTPP) and the OPSEU Pension Plan (OPSEUPP). The accounting for these plans has been consistent since 2001, and was without qualification by the Auditor General until 2016. A discussion with the Office of the Auditor General (OAG) is planned to re-examine the OPSEUPP before the issuance of Public Accounts in an effort to resolve this issue, however, the more significant component of this issue is related to OTPP.

Resolution regarding OTPP would require the government to commence dialogue with the Ontario Teachers' Federation on changes to the governance of the pension plan. These discussions could take the form of:

- Allocating any surplus in the plan to the co-sponsors and provide for independence with respect to decision making on the surplus (similar to OPSEUPP);
- Working with OTF to proceed with an additional reduction in contributions if plan performance supports such action (as of January 1, 2018, contributions were reduced by 1.1%); or
- Amend the governance of the OTPP to remove the government's ability to participate in decision-making regarding the use of any surplus in the plan (e.g. decisions regarding contributions and benefits.)

The first two options would seek to address concerns issued by the AG regarding the current treatment of the net pension asset in the government's financial statements, although neither may impact the AG's view. The third option would remove the net pension asset and any in-year surplus/(deficit) impact for the change in the net asset value, by significantly reducing the decision making power of the co-sponsors to the plan.

Market Accounts / Global Adjustment Refinancing

The Auditor General is requiring that all debt, interest expense and timing differences related to the collection from electricity consumers and payments of power generation contracts be reported in the Debt line and surplus/deficit of the financial statements. The difference between the Province's accounting for the Global Adjustment Refinancing and that of the Auditor General is based on differing opinions on the application of rate-regulated accounting under PSAS. When PSAS is silent on an issue, professional judgment is applied in determining the appropriate financial statement presentation. Resolution of these accounting issues will require more than one action.

In reviewing any change in policy direction, some of the accounting considerations to resolve the reporting of the market accounts include:

- the adoption of a provincial accounting policy to adjust the IESO financial statements and remove the market accounts (and any rate-regulated) balances from the consolidation financial statements;
- the review of the accounting classification of the IESO; assessing if it can be classified as a Government Business Entity or a Trust Under Administration (reported under IFRS), which would change the reporting of the IESO.

The following policy decisions would impact the accounting for the Global Adjustment Refinancing:

- amend *Ontario Fair Hydro Plan Act* to remove the debt recovery from future ratepayers through the Clean Energy Adjustment, thus providing a permanent rather than temporary reduction. The lack of a recovery mechanism would result in the impact of the reduction from the Global Adjustment Refinancing being recorded as an increase to the annual deficit;

- amend the terms of the trust agreements with the Financial Services Manager of the Fair Hydro Plan Trust (currently OPG) to bring the Fair Hydro Plan Trust under the direct control of the Province requiring the debt to be consolidated as a government organization (line-by-line); however, this option does not change the accounting by the IESO re: rate-regulated accounting.

The government may wish to create an Audit Committee composed of senior independent experts, senior officials and the Auditor General to discuss emerging accounting issues and their impact on the Public Accounts. The purpose of this non-binding committee would be to bring forward items identified through the Public Accounts (and throughout the year) for a broader discussion of objectives and clarification in the government's reporting.