TBS

Office of the Provincial Controller

Financial Reporting Risks

December 9, 2016

Briefing to Secretary of Cabinet

DRAFT

Purpose

- To highlight immediate (2016-17) and longer-term (2017-18 and 2018-19) fiscal/financial reporting issues

- Communicate options and recommendations to address immediate high risk items

Immediate Issues -- Summary

	Issue	Fiscal impact in 2016-17	Reflected in FES	Multi-year impact
1	Pension accounting	$2.2 Billion	Yes	Yes
2	IFRS-US GAAP differences – OPG and H1	$1 Billion	No	Yes
3	Cap & trade proceeds	$478 Million	No	Likely not
4	Metrolinx MOU with City of Toronto	TBD	No	Yes
5	Year-end transfers	TBD	No	Yes
6	Changes to consolidation (how and what)	N/A	No	Yes
7	Follow up audit – contaminated sites	TBD	No	Yes
8	Other GBE issues (H1 sale; unrealized gains/losses)	TBD	No	Yes
9	Reduced materiality by AG	N/A	N/A	N/A
10	Implementation of Hyperion Financial Mgmt	N/A	N/A	N/A
11	Earlier release of Public Accounts	N/A	N/A	N/A
12	Implementation of new accounting standards	N/A	N/A	N/A

Key issues

Immediate

1. Pension Asset Accounting
   - AG interpretation of fiscal impact included in FES ($2.2 Billion in 2016-17)
   - Panel in progress (2nd full day of Panel meeting today)
   - Exploring options should Panel agree with AG

2. Consolidation reporting basis for H1 and OPG (US GAAP vs. IFRS)
   - Differences between US GAAP and IFRS could be up to $1 Billion (increased deficit); not reflected in FES; most of impact is related to OPG and the accounting differences related to its asset retirement obligations
   - Working with OPG to further refine estimates
   - Assessing options – legislation, conversion to IFRS, approaching PSAB

3. Cap and Trade accounting (accounting for proceeds from auction)
   - Auction proceeds of $478 million included in FES
   - First auction scheduled for March 22, 2016; Emission Allowances (EAs) transferred to participant account several weeks later (likely in fiscal 2017-18); preliminary accounting assessment – revenue is recognized when EAs are transferred to participant accounts

Key issues (continued)

4. Metrolinx MOU with City of Toronto
   - Accounting risk – accounting for underlying assets -- do they continue to be accounted for as a capital asset on the Province's books and amortized over the useful life or has the Province substantively transferred the assets to the City?
   - Metrolinx exploring obtaining accounting opinion on transaction from their external auditor (PwC)
   - Fiscal risk TBD

5. Year-end (4th quarter) transfers
   - Change in application guidance from AG in 2015-16 – impacted accounting for GIF
   - No known transactions impacted in 2016-17 at this time
   - Communicated change to financial community

6. Consolidation (presentation – e.g. BPS and what is consolidated – e.g. CASs)
   - Not expected to be a significant fiscal impact re: deficit
   - Change in presentation will impact key performance indicators (e.g. IOD)
   - Working through alternatives re: timing of changes

Key issues (continued)

7. Increased AG focus on governance and accounting re: contaminated sites
   - Expecting follow-up by AG on audit of implementation of contaminated sites standard
   - No specific fiscal risks identified (and none found in 2016-17 audit of Public Accounts)

8. Other GBE transactions (Hydro One sale, recognition of unrealized gains/losses)
   - Tranche 2 of Hydro One sale – included sale of shares to OPG (related party) – gain on sale of those shares will be deferred
   - Accounting for unrealized gains/losses on financial instruments – recognized in income of GBEs and deferred in statements of Province; currently included in error summary by AG, but has requested impact be recorded in the financial statements
   - Process begun to document issues and work through accounting with AG

9. Expected reduction in AG materiality used for Public Accounts
   - AG has communicated that materiality will be reduced – expecting additional testing (more samples; lower thresholds for investigation) and lower threshold for error accumulation

Key Issues – Processes

10. Implementation of Hyperion Financial Management (parallel run)
    - New system for consolidation of broader public sector organizations and other government organizations

11. Timing for release of 2016/17 Public Accounts – goal of an earlier release date (July 31)
    - Evaluating ability to release Public Accounts earlier to improve accountability

12. Working through accounting implications of a number of new accounting standards required to be implemented in fiscal 2017-18
    - Related party transactions
    - New standards on assets – Assets, Contractual Rights and Contingent Assets
    - Additional disclosure will be required; preliminary evaluation – not expecting a fiscal impact