TBS

Office of the Provincial Controller Division

2016-17 Public Accounts

Management Representation Letter

Management representation letter

- Purpose of the management representation letter:
  a) Obtain confirmation from management that they have fulfilled their responsibility for the preparation of the financial statements and for the completeness of the information provided to the auditor
     - Covered through COA process
  b) To support other audit evidence relevant to the financial statements or specific assertions in the financial statements by means of written representations if determined necessary
     - Covered through review of issues and changes to the letter requested below

- Signed by Deputies of Finance and Treasury Board Secretariat and Provincial Controller; dated the same date as the audit opinion

- Changes from last year
  - Additions:
    1. Certain representations in this letter are described as being limited to matters that are material. An item is considered material, regardless of its monetary value, if it is probable that its omission from or misstatement in the financial statements would influence the decision of a reasonable person relying on the financial statements.
       - » AG staff commented that this was in the prior year letter, but it was not; it is not required based on the Canadian Auditing Standards

Management representation letter

TBS

- Changes from last year (continued)
  - Additions:
    2. The discount rate used to measure OPG's asset retirement obligation under International Financial Reporting Standards (IFRS) was determined using the current discount rate. This method is acceptable accounting policy with respect to the discount rate for asset retirement obligation remeasurement under IFRS.   We understand that you will utilize this basis for purposes of evaluating the fairness of the Government's consolidated financial statements going forward.
       - » We are confirming language with OPG
    3. We have consolidated on a line by line basis, an "other government organization" called the Independent Electricity System Operator (IESO) that has for the first time recorded a regulatory asset, using rate regulated accounting. Rate regulated assets have been recorded in the province's consolidated financial statements in accordance with PSAS. The impact on the annual deficit, accumulated deficit and net debt is an increase of $82 million.
       - » We are suggesting an additional sentence (in blue) and are confirming the language with IESO
    4. We have provided you with all information related to the implications to the 2016-17consolidated financial statements of the Fair Hydro Act, 2017, to allow you to evaluate the fiscal and accounting impact on the province's 2016-17 consolidated financial statements.
       - » We are suggesting adding the phrases in blue as the only analysis complete at this time is that which relates to the 2016-17 financial statements

Summary of Unadjusted Differences

Unadjusted Differences - explanations

1. Tax revenues – subsequent receipts
   - Local tax receipts and refunds received after year-end that were not accrued
2. CIT fiscalization
   - Application of a straight-line vs. weighted Q4 revenue based on corporate year-end
3. IESO – rate regulated accounts
   - Change in accounting commencing April 1, 2016
4. Algonquin land claim
   - Existence of contingent liability based on agreement-in-principle to negotiate
5. Drug rebate fiscalization
   - Correction to match up manufacturer rebates with fiscal year vs. calendar year
6. EDU Remedy
   - Adjustment to lower the accrual based on possible outcomes of court process
7. CCAC/CAS consolidation
   - Historical impact (accumulated surplus) of consolidation
8. Contaminated sites – Grassy Narrows
   - Minister announcement in June 2016 deemed to be a liability at the year-end
9. Early Years / Child Care
   - Government commitment for 2017-18 to fund municipal services under a TPA effective Jan 1

Unadjusted Differences - explanations

10. EHLT Trust (school boards)
    - Negotiated reserve for claims fluctuations for health costs to be administered through trusts
11. OREC
    - Additional “uncontrollable factors” buffer accrual included
12. Ontario Works
    - Unaccrued expense due to lag time of settlement process with municipalities (2 months)
13. Pension allowance
    - End to one-year regulated accounting; accepted recommendation of Expert Panel
14. Classification of Ontario investments
    - Own investments held by Ontario are grossed up (investments, debt) resulting in overstatement

Purpose of CoA

Annual assurance to the Office of the Auditor General of Ontario (OAGO) that OPS has a strong internal control framework supporting the Public Accounts.

The CoA provides ministries with an opportunity to:

- Confirm that they are in substantial compliance with all applicable legislation, regulations, directives, and policies;
- Confirm that they have maintained an effective system of internal controls over government operations; and
- Confirm that they have established and maintained a system of internal controls that supports the integrity and reliability of the Consolidated Financial Statements for the year ended, March 31, 2017.

Components of CoA

Signing of Public Accounts by TBS/MOF Deputy Ministers & Provincial Controller
(Responsibility for integrity of Provincial Systems)

Certificate of Assurance (CoA)
(Issued to Provincial Controller by Ministries – Signed by Deputy Ministers)

Cascading Certificate
(Issued to Deputy Minister by Divisional Heads of Ministry Programs)

Board-Governed Agency Certification
(Issued to Minister by Board-Governed Agencies - Signed by Chair)

Certificate of Performance (CoP)
(Issued to Ministries by OSS, supported by SysTrust)

Certificate of Reliance (CoR)
(Issued to OSS by its IT Partners)

Certificate of Assurance is based on the following cascading processes:

Components:

- Cascading Certificate Program controls are in place & adhered to
- Board-governed Agency Certification
- Certificate of Performance (CoP)
- Certificate of Reliance (CoR)

Approval Process:

- Certificate of Assurance Attestation Memo is signed by Deputy Minister, CAO and Finance Director

Due Diligence

As part of the 2016-17 CoA process, OPCD has;

- Reviewed all ministry CoA exception reports, fraud awareness schedules and their responses to our related follow-up questions to identify significant risks of all exceptions.
- Analyzed and identified Reporting, Compliance and Operating common themes and emerging issues from CoA attestations, including related statistics and trend analysis for the Significant Findings Memo.
- Queried ministries on the financial impact of their reported items to the public accounts and the status of their action plans to address internal control gaps on all identified exceptions and fraud issues.
- Collaborated with the Corporate Financial Audit Assurance Service Team of the Ontario Internal Audit Division to assess whether ministries have disclosed all significant deficiencies identified during internal audit engagements carried out in the fiscal year.
- Reviewed all closed exceptions and queried ministries on actions taken in order to confirm that identified risks have been addressed appropriately.

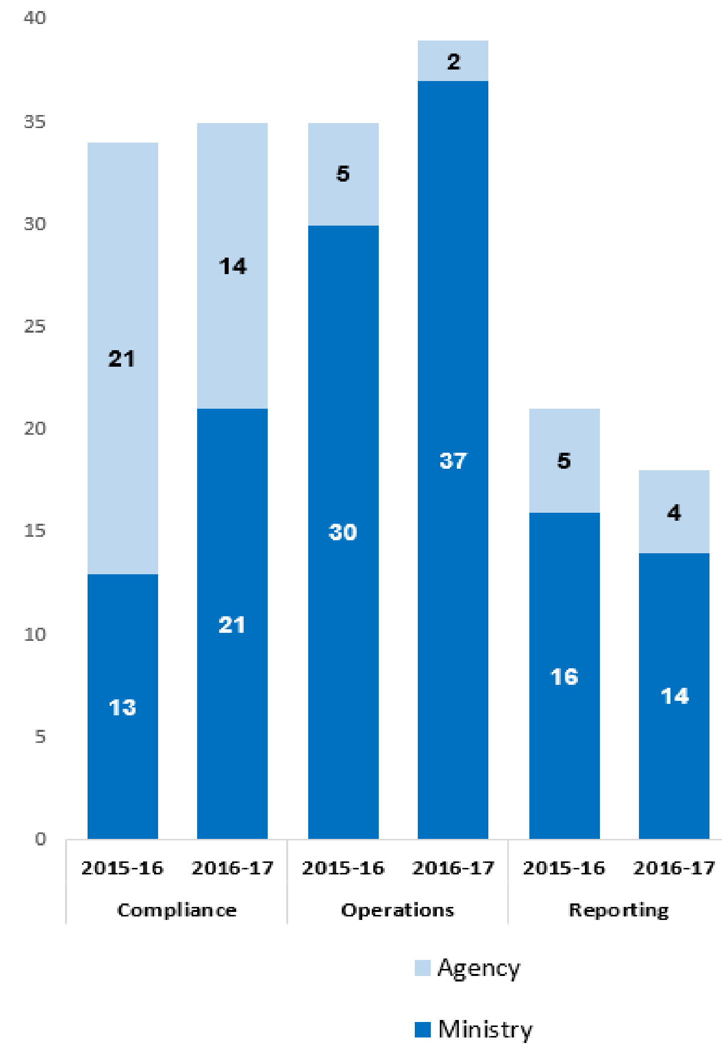
2016-17 Statistic

- The total number of exceptions has remained relatively consistent with prior year. This year, there are a total of 92 (90 in 2015-16).

- Reported exceptions are related to the three following categories;

    - Reporting [**18** Exceptions]
    - Non-compliance with OPS directives and policies [**35** Exceptions]; and
    - Effective internal controls over government operations [**39** Exceptions]

- Appropriate remediation plans have been identified by ministries to close control weaknesses.



Common Themes

- Similar to previous years, the key areas where ministries continue to report exceptions are Internal Controls, compliance with the Transfer Payment Accountability Directive, Agencies & Appointment Directive and financial reporting related to Appropriate Asset Recording & Reporting.

Key Ministry Exceptions

The following were key exceptions reported by ministries / agencies:

- **MAG:** The transfer of Ontario Racing Commission's assets, liabilities, rights and obligations to Alcohol and Gaming Commission of Ontario (AGCO) was not recorded in the Ministry's books on April 1, 2016. AGCO incurred additional expenses in 2016-17 without sufficient appropriation.

- **MCSS:** Lack of clear interpretation of "deemed Crown debt" has resulted in the non-reporting of accounts receivables/revenues related Ontario Works overpayment debt.

- **MCSS:** Sponsorship debt and write-offs are not captured in the ministry provincial database, Social Assistance Management System or Public Accounts.

- **Energy:** Existing accountability and oversight processes (i.e. periodic report back of financial or non-financial reports) of Brampton Distribution Holdco Inc. are not optimal.

Conclusion

- Based on our review of the CoA reporting to date, we note that while exceptions and opportunities for improvement have been identified across the organization, we are unaware of any significant or material matters that would contradict the management representations of the 2016-17 Public Accounts made to the Office of the Auditor General of Ontario.

- CoA process is contributing to enhanced awareness and response regarding financial reporting risk and control issues.

- We have observed continued strengthening in general knowledge and understanding of the purpose and importance of the CoA.