2015-16 Public Accounts Pension Reporting

Technical Briefing

Date: October 3, 2016

What are Public Accounts?

- The Public Accounts support the Province's transparency in reporting its financial activities against the approved Budget plan and its accountability for financial resources.
- The Public Accounts compare the Province's actual financial results for the 2015-16 fiscal year to the Budget plan presented in April, 2015.
- The Public Accounts include consolidated financial statements that reflect the entire government's financial activities for the year as well as individual financial statements for consolidated organizations, ministry statements and details of payments made by ministries to vendors.

Highlights

2015-16 Actual Results					
$ Billions	**Budget**	**2015-16 Actual**	**2014-15 Actual**	**Change from Budget**	**%**
Revenues	124.4	**128.4**	118.5	4.0	3.2%
Expenses	131.9	**133.4** *	128.8	1.5	1.1%
Reserve	1.0	**-**	-	(1.0)	
Annual Deficit	(8.5)	**(5.0)**	(10.3)	3.5	-41.2%
Net Debt	(298.9)	**(305.2)** **	(284.6)	(6.3)	2.1%
Accumulated Deficit		**(202.7)**	(187.5)	na	na

* Expenses include $1.5B impact related to pension asset valuation allowance for 2015-16

**Net debt includes a $9.2 B pension asset valuation adjustment to opening accumulated deficit.

- In preparing the 2015–16 Public Accounts, a decision was made to implement legislation to reflect a change in the government's accounting policy for pension assets for jointly sponsored pension plans, which adjusted the Province's accumulated deficit and Net Debt by $10.7 billion.
- The legislated accounting change impacts the 2015/16 results only. The comparative results for 2014–15 have not been restated in the Annual Report which preserves the long-term comparability of year-over-year financial results and balances

What is PSAB?

- The Public Sector Accounting Board(PSAB) independently establishes accounting standards for the public sector in Canada.
- Ontario, and many senior Canadian governments have adopted PSAB standards as the basis for budgeting and reporting actual results.
- PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.
- The objective of PSAB standards is to meet the needs of users of financial statements by providing the information needed for accountability and decision making.

Pension Issue

- Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans which meet the definition of a joint benefit plan under S. 3250 of the Public Sector Accounting Handbook.
- The assets of OPSEUPP and OTPP are held in trust for the beneficiaries of the plans.
- Decisions regarding benefits and contributions require negotiation and agreement between the two sponsors.
- Financial reports prepared by the Plans themselves are based on accounting standards for pension plans in Part IV of the CPA Canada Handbook, which is a different accounting framework than the Province uses for its financial reporting and is also a different framework than is used to calculate the funding surplus or deficit of the plans.
- During the 2015-16 Public Accounts audit, the Auditor General raised an issue with regards to Ontario's past accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Province's Position

- Since 2001-02, pension assets reflected on the audited consolidated financial statements of the Province ~~have been~~ based on a policy considered to be appropriate and consistent with Public Sector Accounting Board (PSAB) Standards.
- The OPSEUPP and OTPP have both been in an asset position on the Province's consolidated financial statements for the past 14 years (since 2001-02)
- Existing PSAB standards related to accounting for retirement benefits have not changed since 2001.
- The Province has received clean audit opinions for the past 22 years, including the 2013-14 and 2014-15 Public Accounts which were audited by the current Auditor General (AG).
- The government has valued pension assets on its books in accordance with PSAB based on expected future benefits, as required by the accounting standards.
- Pension assets of OTPP and OPSEUPP were $10.7 billion as of March 31, 2016.

The Auditor General's Position

- During the 2015-16 Public Accounts audit, the Auditor General (AG) expressed a different interpretation of PSAB standards which would impact how the Province's accounting for pension assets of jointly sponsored pension plans (OTPP and OPSEUPP) would be reported on the Province's consolidated financial statements.
- The AG's view is that the government does not have legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the AG believes that the pension asset presented in the Province's consolidated financial statements should be removed from the Province's balance sheet.
- The AG has also stated that agreements to reduce future contributions would need to be in place with plan sponsors' as at each year end before an asset could be reported.
- Based on the AG's interpretation of the PSAB standards, the Province would need to take a full valuation allowance of the $10.7 billion pension assets currently reported for OTPP and OPSEUPP which would eliminate the value of these assets from the Province's consolidated financial statements.

Implications to the 2015-16 Public Accounts

- Given the differences in interpretation of the application of PSAB standards for OTPP and OPSEUPP pension assets, the Province filed a time-limited regulation which legislates the accounting for pension assets of jointly sponsored pension plans for the 2015-16 Public Accounts.

- The legislation requires a full valuation allowance be recorded against the pension assets for 2015-16, therefore writing off the value of the assets.

- The effect of the legislation is to reflect the fiscal impact of the AG's position until further review and discussion with the Auditor General can be completed over the coming months.

- The full amount of the asset that was built up over time has been added to opening Net Debt and Accumulated Deficit for 2015-16 and the increase in the asset during the year has been written off to increase the 2015-16 deficit.

Financial Impact on 2015-16 Public Accounts

- Impact of legislated accounting 2015-16 consolidated financial statements:
  - Increase in **opening accumulated deficit** by $9.2 billion (audited value of OTPP and OPSEUPP pension assets at March 31, 2015)
  - Increase in **annual deficit** by $1.5 billion (from $3.5 billion to $5.0 billion)
  - Increase in ending **net debt**, **accumulated deficit** and **pension liabilities** by $10.7 billion (value of OTPP and OPSEUPP pension assets at March 31, 2016)

Impact on Borrowing Program

- The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has **no** impact on the Province's borrowing requirements.
- Total **debt** remains **unchanged** by the pension adjustment.

Unaudited vs Audited Financial Statements

- In practice, there should be no difference between audited and unaudited results.
- However, an independent audit of an entity's financial results provides assurance by an independent party that the results of the entity present 'fairly', in all material respects, the financial position of the entity and the results of its operations in accordance with generally accepted accounting principles.

- The Province's unaudited financial statements includes a Statement of Responsibility which describes the basis upon which the financial statements are prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.
- The government also attests to its responsibility for maintaining systems of internal control which support the integrity and completeness of the financial information reported.

Independent Auditor's Report

- An auditor communicates the results of the audit through a report
- A "**clean**" or **unqualified** audit report communicates that the auditor believes the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting standards, which in the case of the Province, is Public Sector Accounting Standards
- The Province has received **clean** audit opinions for the past XX years
- If an auditor determines that a clean audit opinion cannot be issued, an auditor issues:
  - A qualified opinion,
  - An adverse opinion, or
  - A disclaimer of opinion

Meaning of a Qualified Audit Opinion

- A "qualified opinion" indicates an auditor's concerns with
  - the entity's reporting in accordance with public sector accounting standards (PSAB), or
  - the availability of sufficient and appropriate information for users to make an informed decision.
- In determining whether a qualification is necessary, an auditor considers the materiality of the misstated items, individually and collectively, in relation to the financial statements as a whole.
- To issue a qualified opinion, the auditor concludes that the error or possible error is material to the financial statements, but not pervasive
- The opinion states that **except for** the item noted, the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting standards
- When the qualification relates to an accounting issue, the amount of the impact is quantified in the opinion

Meaning of an Adverse Opinion

- An auditor issues an adverse opinion when the auditor:
  - has sufficient and appropriate audit evidence, and
  - concludes that the errors in the financial statements are both material and pervasive

- The opinion paragraph of the auditor’s report states that the financial statements do not present fairly in accordance with the accounting standards used

Meaning of a Disclaimer of Opinion

- An auditor disclaims an opinion when the auditor:
  - has not been able to obtain sufficient and appropriate audit evidence to form an opinion, and
  - the auditor determines that the possible errors may be material and pervasive

- The auditor's report explains the reason for the disclaimer of opinion and expresses no opinion on the financial statements

Review Objectives

- The intended purpose of the review will be to undertake a more in-depth review of the application of PSAB's pension accounting standards to Ontario's jointly sponsored pensioned plans.
- Group participants may consist of individuals with a range of backgrounds and experience, including preparers, actuaries, joint sponsors and auditors of public sector financial reports prepared in accordance with the PSA Handbook.
- To support an informed discussion, members would have an in-depth knowledge of the PSA Handbook as related to pension accounting and/or be aware of the specifics of the OTPP and OPSEUPP joint sponsor arrangements.

Actions to Enhance Transparency and Accountability

- Expanded comparison of current year’s results to prior year(s) including expanded trend analysis over a five-year period
- Enhanced descriptions of the Province’s capital assets
- A description of key risks that could impact the Province's financial results
- Discussion of key financial indicators

APPENDIX

Impact of Legislated Accounting on 2015-16 Public Accounts

($ Millions)	Balance before Legislated Adjustment	Adjustment in accordance with Legislation	2015-16 Public Accounts
Consolidated Statement of Operations			
Total Expenses	131,892	1,514	133,406
Annual Deficit	(3,515)	(1,514)	(5,029)
Consolidated Statement of Financial Position			
Pensions and Other Employee Future Benefits	1,439	10,668	12,107
Total Liabilities	378,042	10,668	388,710
Net Debt	(294,565)	(10,668)	(305,233)
Accumulated Deficit	(192,029)	(10,668)	(202,697)

- Placeholder for timeline