Ontario

2016-17 Public Accounts

Technical Briefing

September 7, 2017

Purpose of today's briefing

1. Provide an overview of the results for fiscal 2016-17
2. Provide an overview of the issues on which the Auditor General has qualified her opinion
   a. Pension accounting
   b. Change in accounting for the market accounts of Independent Electricity System Operator (IESO)
3. Provide the professional staff's interpretation of Public Sector Accounting Standards on the issues noted in #2

Preparation of the Financial Statements

- The consolidated financial statements are prepared by the Government of Ontario in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB).
- PSAB independently establishes accounting standards for the public sector in Canada.
- 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.
- PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.
- PSAB recognizes that their standards cannot address every potential situation, and that it may be necessary to refer to other sources of guidance.

Summary 2016-17 Results

2015-16 Actual Results

$ Billions		2015-16 Budget	2015-16 Actual	2014-15 Actual	Change from Budget	% Change
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			**(305.2)**	(284.6)		
Accumulated Deficit			**(202.7)**	(187.5)		

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Pension Accounting

- Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.
- The plans are funded on a 50/50 basis, co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.
- Since 2001-02, the Province's share of pension assets reflected on the audited consolidated financial statements of the Province has been based on a policy considered to be appropriate and consistent with PSAB standards related to accounting for retirement benefits, which have not changed since their inception in 2001.
- Under PSAB, an asset arises when the government's total contributions to a plan, including interest earned thereon, are greater than the pension expense recognized since the start of the plan.

Auditor General's Qualification on Pension Accounting

- The Auditor General has qualified her opinion on the 2016-17 consolidated financial statements regarding the Province's accounting for the net pension assets of OTPP and OPSEUPP
- The Auditor General's position is that a full valuation allowance should have been recorded in 2016-17 (and prior years) to reduce the net pension assets of OTPP and OPSEUPP to NIL.
- The Auditor General states that the Government does not have the unilateral right to use this asset because its ability to reduce future minimum contributions or withdraw any pension plan surplus is subject to agreement with the respective pension plan's joint sponsors.
- The Auditor General notes that Canadian Public Sector Accounting Standards require the Government to record a valuation allowance against this asset

Impact of Auditor General's Qualification on Pension Accounting

($ Millions)	Professional Staff's Interpretation	Auditor General Adjustment	Auditor General's Interpretation
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 Debt	327,413	-	327,413
Net Debt	(294,565)	(10,668)	(305,233)
Accumulated Deficit	(192,029)	(10,668)	(202,697)

Province's Position

- Based on professional staff's interpretation of PSAB standards, the government believes that pension assets for OPSEUPP and OTPP should be reported in order to fairly present the Province's financial position.
- The professional staff does not agree with the Auditor General's interpretation of PSAB standards that the Province must have a unilateral right to reduce contributions in order to record an asset.
- The professional staff does not believe that the Government has the right to withdraw any surplus from the plan.
- On the basis of its own research and analysis as well as the work completed by the Pension Asset Expert Advisory Panel and other advisors, the Government has recorded the pension assets for OTPP and OPSEUPP in its 2016-17 consolidated financial statements and has restated the 2015-16 consolidated financial statements to recognize the pension assets.

Province's Position

- The professional staff's interpretation of PSAB standards is supported by their own research and analysis as well as:
  - The report of the Pension Asset Expert Advisory Panel released on xxx, which can be found at xxxxxx.xxx stating that the Government should record an asset for its share of the surplus reported in the accounting valuations for each plan and that no valuation allowance is required.
  - An opinion from Deloitte LLP on OTPP, a summary of which is included in Appendix A, supporting the ability to recognize a pension asset in the absence of having a unilateral right to reduce contributions to the plan.
  - Analysis completed by Ernst & Young LLP as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. Ernst & Young LLP confirmed no valuation allowance was required for either plan.

Auditor General's Qualification on IESO Market Accounts

- The Auditor General has qualified her opinion on the 2016-17 consolidated financial statements regarding the change the Independent Electricity System Operator's accounting for the "market accounts".
- The "market accounts" are amounts to entities that generate electricity (e.g. power generators) and due from entities that consume electricity (e.g. local distribution companies on behalf of their consumers).
- The Auditor General's position is that the market accounts are not assets and liabilities of the Province.
- The Auditor General notes that the Government has no access or discretion to use the market account assets for their own benefit, nor does the Government have an obligation to settle the market account liabilities in the event of default by market participants.

Impact of Auditor General's Qualification on IESO's Market Accounts

($ Millions)	Balance before Legislated Adjustment	Adjustment in accordance with Legislation	2015-16 Annual Report
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 Debt	327,413	-	327,413
Net Debt	(294,565)	(10,668)	(305,233)
Accumulated Deficit	(192,029)	(10,668)	(202,697)

Appendix A – Deloitte summary of accounting opinion issued re: pension accounting

Deloitte was engaged to provide a report ("Deloitte Report") on the application of accounting standards by the Ontario Treasury Board Secretariat. Our report, which was issued on October 2, 2016, was prepared under professional standards for such reports set out by CPA Canada.

The subject of this report was the application of Public Sector Accounting Standards (PSAS), as established by CPA Canada, in the recognition of a pension asset in the Province of Ontario's financial statements. Pension accounting is subject to professional judgement and interpretation, and involves significant accounting estimates. The Deloitte Report focused on a specific aspect of this complex area as it relates to the Province of Ontario's accounting for the Ontario Teachers' Pension Plan (OTPP).

OTPP is a pension plan that is jointly sponsored by the Ontario government (or the Province) and the Ontario Teachers' Federation (OTF). Based on the Province's application of PSAS, OTPP is in a plan surplus position. We accepted this aspect of the Province's application of PSAS as a matter of fact in developing our report.

The Deloitte Report addressed the question of whether it was possible to record a pension asset related to the plan surplus in the Province's financial statements, given that the plan is jointly sponsored. We concluded that, based on the information provided to us by the Province and our professional judgement, that it was permissible under PSAS to record a pension plan asset, even though the Province's ability to benefit from any plan surplus, through future contribution reductions for example, would need to be negotiated with and agreed between the Province and OTF.

It is to be noted that even if a pension asset is recorded, PSAS would also require that consideration should be given to limiting the recorded amount of this pension asset to an amount that would be less than the calculated amount of the pension surplus. The Deloitte Report did not express a view on whether any limit to the recorded amount of the asset is needed in the case of the Province's accounting for the pension asset related to OTPP. Therefore, our report did not express a view on the amount of the pension asset that should be recorded in the Province's financial statements as at March 31, 2016 or at any other date.

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