TBS
Communications Branch
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SCOPA
Ch 2: Public Accounts of the Province

Preliminary Discussions
January 8, 2018

Overview

The Standing Committee on Public Accounts (SCOPA) will meet on Wednesday February 28, 2018 for consideration of the Auditor General's 2017 Annual Report – Chapter 2, Public Accounts of the Province.

The Treasury Board Secretariat's (TBS) attendance, alongside officials from Cabinet Office, Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, Ontario Power Generation (OPG) and the Independent Electricity System Operator (IESO), has been requested to provide the Committee with a response to the Auditor General's report and to answer any questions Committee members may have.

The Auditor General's Annual Report, Chapter 2, makes ten recommendations regarding the Public Accounts of the Province. The recommendations largely reflect opinions that have been expressed in previous reports, including the Auditor General's audit opinion in the 2016-17 Public Accounts and the Special Report on the Fair Hydro Plan.

TBS disagrees with the characterization of the majority of the recommendations, and re-iterates its commitment to producing high-quality financial reports on a timely basis and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Following the release of the Auditor General's Annual Report on December 6, 2017, TBS-related issues were referenced in 41 per cent of articles, including specifically the "accounting disputes" between the Auditor General and the government, spending on government advertising, and the Auditor General's commitment to audit the IESO's consolidated financial statements. In the House, there were eight questions related to TBS issues: 50 per cent were related to the IESO/OPG "inappropriate expenses"; 25 per cent were related to government advertising; and the remaining two questions focused on the balanced budget narrative and the Pre-Election Report.

Overall, the focus on Public Accounts specifically has been limited in the media and the House alike: between September and December 2017, there were 12 mentions of Public Accounts. 50 per cent of mentions referenced "accounting rules" or the alleged existence of "multiple sets of books". Following the tabling of Public Accounts 2016-17, media coverage was limited and 80 per cent of coverage was neutral in tone.

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- Ontario Fair Hydro Plan (OFHP) Accounting
- Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)
- Pre-Election Report
- Province's debt burden

To support preparations for initial SCOPA discussions, see below for the following:

- Logistics: Agenda, invitee list, committee members
- Key Issues: including initial recommended strategy, responses, and evidence to support positions taken
- Proposed products to include in briefing binders
- List of TBS's recent SCOPA appearances

- Environmental scans: Auditor General's 2017 Annual Report (December 2017); TBS's November 2017 SCOPA appearance; September/October SCOE appearance; Public Accounts (September – December 2017)

SCOPA Agenda

Wednesday February 28, 2018
Committee Room 151, Main Legislative Building

SCOPA will begin meeting at 9:00am. TBS, and other representatives are expected to appear before SCOPA at 12:30pm for approximately 2.5 hours.

12:30pm – 3:00pm

- **Opening remarks** (20 minutes)
- **First round of questions** (60 minutes)
    - Each of the three political parties get 20 minutes of questions
- **Second round of questions** (50 minutes, approximately)
    - The remaining time until 2:45pm is split between the three political parties; approximately 15-17 minutes per party
- **Closed session** (15 minutes)
    - Committee members plus the Clerk, only; no audience or presenters
    - The Committee will discuss the outcome of the meeting and if they want to do a report
    - There are no closing statements from ministry officials

Invitees

Organization	**Position**	**Name**
Cabinet Office	Secretary of Cabinet	Steve Orsini
Treasury Board Secretariat	Deputy Minister	Helen Angus
Ministry of Finance	Deputy Minister	Scott Thompson
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ministry of Energy	Deputy Minister Assistant Deputy Minister	Serge Imbrogno Steen Hume

Ontario Power Generation	President and Chief Executive Officer Senior Vice President and Chief Financial Officer	Jeffrey Lyash Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer Vice President, Corporate Services and Chief Financial Officer	Peter Gregg Kimberly Marshall

Committee Members

Party	**Position/Riding**	**Name**
PC	Chair Oxford - Critic, Municipal Affairs & Housing -	Ernie Hardeman
PC	Vice-Chair Nepean-Carleton - Critic, Treasury Board -	Lisa MacLeod
PC	Member Lanark-Frontenac-Lennox & Addington - Critic, Attorney General -	Randy Hillier
LIB	Member Mississauga-Streetsville - PA, Minister of Infrastructure -	Bob Delaney
LIB	Member Brampton West - PA, Minister of Gov. & Cons. Services -	Vic Dhillon
LIB	Member Trinity-Spadina - PA, Minister of Adv. Edu. & Skills Dev -	Han Dong
LIB	Member Ottawa South - PA, Minister of Health & Long-Term Care -	John Fraser
LIB	Member York Centre - PA, Minister of International Trade -	Monte Kwinter
NDP	Member Windsor-Tecumseh - Critic, Housing & Municipal Affairs -	Percy Hatfield
--	Clerk	Katch Koch

Potential Substitutions*:

PC	Critic, Finance	Vic Fedeli
PC	Critic, Energy	Todd Smith
NDP	Critic, Treasury Board; Finance	John Vanthof
NDP	Critic, Energy	Peter Tabuns

*Committee members can substitute members of their party without advance notice.

Key Issues

Issue/Consideration	Strategy	Response	Evidence
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.	• Pension Asset Expert Advisory Panel • Opinion from Deloitte LLP • Analysis Completed by EY
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. IESO's recent accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial	Opinion supported by: • IESO audit committee • Independent external auditor (unqualified opinion) • OPCD • Same method used by Ontario Power Authority previously

		Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.	
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making, and that the accounting structure is still being finalized. Refuse to speculate about AG's potential audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.	• PSAS Guidance • CPA professional code of conduct • External advisors • Other jurisdictions
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-	• Highlight how the government has been working with the Office of the Auditor General (stated by Minister Sandals in a Dec 16, 2017 Toronto Sun article)

		Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.	
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.	• C4SE study • MOF
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.	• Example of single use of legislated accounting (Public Accounts 15-16)
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.	• CPA professional code of conduct

Proposed Briefing Binder Table of Contents

1. **Auditor General 2017 Annual Report: Chapter 2: Public Accounts of the Province**
    a. Full Chapter
    b. Summary
    c. News Release
2. **Summary Status Table in Response to AG's Annual Report***
3. **Scope/Organization Responsibility Outline**
    a. Including key messages/responses
4. **Logistics Briefing Note for SCOPA**
5. **Speaking Points**
    a. Secretary Steve Orsini
    b. Deputy Helen Angus
    c. Deputy Scott Thomson
    d. Deputy Serge Imbrogno
6. **Questions and Answers**
    a. Long-form member questions
    b. Questions and Answers by Ministry, Topic
        i. Treasury Board Secretariat
            1. Relationship with the Auditor General
            2. Pension Asset Accounting
            3. IESO Market Accounts
            4. IESO Rate-Regulated Accounting
            5. Ontario Fair Hydro Plan Accounting
            6. Pre-Election Report on Ontario's Finances
            7. Province's Debt Burden
            8. External Advisors
            9. 'Legislated' Accounting
            10. Arm's Length Trusts
            11. Timeline of Finalization of Financial Statements
        ii. Ministry of Finance
        iii. Ministry of Energy
7. **Technical Questions and Answers/Supporting Materials**
    a. Government Response to AG's 2017 Annual Report (December 2017)
        i. Backgrounder – Management Response
        ii. Complete Management Response Table
        iii. TBS Minister's Statement
    b. Public Accounts (September 2017)
        i. Backgrounder

    ii. Technical Briefing Deck
  c. Ontario Fair Hydro Plan (November 2017)
    i. Technical QAs (MOE)
    ii. Technical Briefing Deck (MOE)
    iii. TBS-specific QAs
  d. Other MOF/MOE Briefing Materials
    i. E.g. balanced budget, FES, etc.
  e. House Book Notes
    i. Public Accounts
    ii. Fair Hydro Plan Accounting
    iii. Pension Asset Accounting
    iv. Balanced Budget
    v. Etc.

***** There is a request to provide the Summary Status Report in electronic and hard copies to the Clerk by Wednesday February 14, 2018. If material is provided after this date, 20 hard copies must be brought to the meeting on Wednesday February 28, 2018.
** Committee members can request copies of any documents brought into the room.

Recent TBS SCOPA Appearances

November 15, 2017
2016 Annual Report, Auditor General
Consideration of chapter 5, Review of Government Advertising

May 31, 2017
2016 Annual Report, Auditor General
Consideration of section 4.03, Information and Information Technology General Controls

October 5, 2016
2015 Annual Report, Auditor General
Consideration of chapter 2, Public Accounts of the Province
- **Report published on May 17, 2017**

April 13, 2016
2015 Annual Report, Auditor General
Consideration of chapter 5, "Toward Better Accountability"
- **Report published on December 5, 2016**

Environmental Scan: Auditor General Annual Report (Dec 2017)

<u>Hansard Analysis</u>

Following the release of the Auditor General's 2017 Annual Report:

- There were eight questions relating to TBS issues
  - 50% **(4/8 were related to OPG/ IESO "inappropriate expenses)**
  - 25% (2/8) on government advertising
  - 25% referenced the FAO - one on balanced budget, one on the **pre-election report**

Auditor General Annual Report Media Events

- **Auditor General**
  - Overall, **TBS-related issues represented 28% of the Auditor General's remarks**.
  - **Media questions on TBS-related issues represented 28% of all questions asked** (7 out of 25)– including on the planned audit of IESO's financial statements, government numbers vs. AG numbers being used for the PC's platform, and concerns regarding pre-election reports.

- **Government Response**
  - Overall, **TBS-related issues represented approximately 20% of the discussion.**
  - **Media questions on TBS-related issues represented 20.8% of all questions asked** (5 out of 24) – questions focused on government advertising and on comments made by the Auditor General to "address significant issues without fear of push-back and reprisal."

  → **QUESTIONS FOR MINISTER SANDALS**
    - There were five questions posed to Minister Sandals:
      - Three were on government advertising
      - One was on the government's **relationship with the Auditor General**

Q. Smith Cross: Minister Sandals, the auditor says it takes fortitude for her to address significant issues without fear of push-back and reprisal. **Has there been push-back and reprisal for the auditor general?**	Sandals: Absolutely not. I mean certainly at Treasury Board Secretariat, we work with her very closely. There are all sorts of projects that we've worked on together. For example, if you were to read through the fine print in the fall economic bill that's before the House right now, you would see that the first report she did on agency annual reports, we actually have in that legislation the follow up on all the recommendations that she made on that report back in 2015. **So my office does work with her quite closely.**

- The last question was inaudible, but the answer referenced **Public Accounts**

Q. Smith Cross: (Inaudible)	Sandals: Well, I...you'll have to ask her that because I...that's that's not something I can speak to. I mean, I think it's clear that there are some issues where we have some **differences in accounting.** Those have been discussed, you know, extensively previously in public venues. A lot of you have written about pensions and fair hydro accounting and various issues. **So those are ongoing discussions that we have with the auditor.** I don't

	think there's any particularly new information in her chapter 2 on public accounts. **Those are issues that you are already all aware of previously, as were we**. Actually, the think that is really new and interesting about the public accounts isn't so much in the auditor's report, **as it was in the PC platform that came out, where the PCs seem to have adopted our accounting. They agree we have a balanced budget. They've used our pension accounting. They've assumed our accounting for the hydro sector.** And, in case you think I made this up, Kevin Page who is the former federal budget officer, who reviewed the Conservative platform, says that he believes that using the economic and fiscal assumptions from the Ontario fall economic statement is a reasonable starting point for costing an election platform. **So he's acknowledging the fact that our accounting, in the fall economic statement is, in fact, the accounting that has been adopted by the Conservative Party.**

- **PC Response**
  - Introductory remarks focused generally on waste and mismanagement.
  - **Media questions on TBS-related issues represented 17% of all questions asked** (2 out of 12) – questions focused on the PC's use of the government's numbers in their "People's Guarantee" platform; a response from MPP MacLeod highlighted the increase in government advertising spending.

- **NDP Response**
  - **TBS-related issues related to 8% of the third party leader's remarks**, particularly on government advertising
  - No direct mention of TBS-led chapters, however 38% of questions (3 out of 8) focused on IESO expenditures

__Media Coverage__

Coverage on December 6, 2017

- There were approximately **17 stories** focusing on the Auditor Generals' 2017 Annual Report
  - **41% of articles referenced TBS-related issues**
- Overall key themes included: teacher sick days, social housing, emergency planning, alleged waste in healthcare, waste in the energy sector ("ineligible generator expenditures"), and the government's relationship with the Auditor General
- **Key themes related to TBS issues include: "accounting disputes" between the AG and the government – and the effect it has on the balanced budget narrative, spending on government advertising, and the AG's statement that she will audit the IESO's financial statements.**

Top Tweets from December 6, 2017:
Search term: "@OntarioAuditor":

- **21% (4/19) of "top Tweets" focused on TBS-related issues**
  - 25% on pre-election report

- 25% on the AG's assertion that the province's financial statements are unreliable
- 25% highlighting that the PC's are using government numbers for their party platform
- 25% on government advertising spending

Search term: "auditor general Ontario":

- **17% (5/30) of "top Tweets" focused on TBS-related issues**
  - 60% on government advertising spending
  - 20% on the AG's assertion that the province's financial statements are unreliable
  - 20% on savings that should be found by the government

Recent articles on Auditor General's Annual Report

- Lorrie Goldstein: **"Clock ticking for Liberals as pre-election finance report deadline looms"** (Toronto Sun, December 16, 2017)

  - **Minister Sandals spokesperson quoted:** "A spokesperson for Treasury Board President Liz Sandals told the Sun in an email that **Sandals and Lysyk have, "spoken at length about the Pre-Election Report process, and agree that the past format and process won't work during the 2017 election cycle, given the proximity of the spring budget season to the early summer election date."**

    The email added: "In conversation with the Auditor, Minister Sandals has emphasized her commitment, and the commitment of our government, to openness and transparency. We will continue to work collaboratively with the Office of the Auditor General to determine how we can best ensure that this commitment is fulfilled."

- Jim Warren: **"The role of auditor general is shifting in troubling ways"** (Toronto Sun, December 16, 2017)

  - "However, the role of the auditor general today has increasingly become one that embarrasses government and serves to point a finger of blame rather than show a new direction for the better. **This new role is actually further eroding trust in government and making matters worse.**

    We saw this trend alive and well last week in Ontario as provincial Auditor General Bonnie Lysyk released her annual report and held a media availability on Ontario Premier Kathleen Wynne's Liberal government.

    Lysyk identified some areas that the government must act and provided some useful information for the pubic. **But in some specific areas, she pushed the boundaries of what is an independent audit versus what should be kept in the political arena.**

    This continues a trend in Ontario that former ombudsman Andre Marin started when he took his role as an independent officer of the legislature and made it political. Marin was accused of crossing the boundary from independent officer of the legislature into partisan politics. When he eventually ran as a Progressive Conservative against the Liberal government he criticized, Marin lost."

- Lorrie Goldstein: **“Grit numbers don't add up; Independent financial officers say Wynne government's books can't be trusted”** (Ottawa Sun, December 17, 2017)
  - “Both the Auditor General and the Financial Accountability Office (FAO) say that despite claims by Wynne and Finance Minister Charles Sousa that the government's books are now balanced and will be for at least the next two years, **the reality is the Liberals are running multi-billion-dollar deficits that will only get bigger over time.**

    While the government predicted a balanced budget for the current 2017-18 fiscal year in its April 28 budget speech, FAO Chief Economist David West and Auditor General Bonnie Lysyk predict the actual deficit this year will be in the range of $4 billion to $4.5 billion.”

Environmental Scan: TBS at the Standing Committee on Public Accounts (Nov 2017)

Hansard Analysis

The top three themes at TBS’s appearance at the Standing Committee on Public Accounts (SCOPA):

- Spending on government advertising
- Partisan election ads
- Changes to the Government Advertising Act

After SCOPA, there were three questions on government advertising in the House:

- Nov 29 petition on government advertising (also raised in September)
- November 30 – Question on partisan advertising, AG oversight
- December 7 – Two questions on government advertising following the AG’s annual report

Environmental Scan: TBS at the Standing Committee on Estimates (Sept – Oct 2017)

Hansard Analysis

The top three themes at TBS’s appearance at the Standing Committee on Estimates (SCOE):

- Information Technology
- Collective Bargaining
- Bulk Media Buy/Advertising

According to the Hansard analysis, there were no significant impacts of TBS’s appearance at SCOE on question period/House proceedings.

Environmental Scan: Public Accounts (Sept – Dec 2017)

Hansard Analysis

Public Accounts were mentioned in the House at least 12 times between September and December 2017:

- Mentioned 12 times
- 50% mention some form of "accounting rules" / two sets of books
- 42% (5/12) related to infrastructure spending
- 25% (3/12) mention FAO and AG together
- 25% re: FHP accounting
- One reference to pre-election finance report, on December 12

Media Coverage: September 2017

- Media coverage was short-term (24-hours), with **80% of media coverage neutral in tone** (compared to 26% in 2016)
- Government key messages were picked up 100% of the time
- Balanced budget key messages were picked up in 60% of the coverage
- The Communications product – "Comprehensive Media Qs&As" –identified and provided suggested responses for the Ministers for 83% (5 of 6) of questions posed during the media event

Key Themes

Top themes in the first 24 hours of media coverage of Public Accounts 2016-17:

- **Disagreement between the government and auditor general**
  - "Lysyk disputes the government's figures and says "the statements were not prepared following Canadian Public Sector Accounting Standards." (Shawn Jeffords, "Ontario says 2016 deficit was $991 million, beating target by $3.3 billion," The Canadian Press, Sept. 7, 2017)
  - "Lysyk and the ministers have been volleying back and forth for a couple of years now over how to count assets on the government books." (David Reevely, "Ontario government's rosy financials grow in a bed of BS," Ottawa Citizen, Sept. 7, 2017)
  - **"Sandals maintains the government is following established accounting practices and people don't care about the on-going squabble."** (Shawn Jeffords, "Ontario says 2016 deficit was $991 million, beating target by $3.3 billion," The Canadian Press, Sept. 7, 2017)

- **Ontario's fiscal position: government debt and deficit**
  - Canadian Press coverage focused on Minister Sandals' quote from the media event: "The public wants to know, are you managing your deficit?" she said. **"Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."** (Shawn Jeffords, "Ontario says 2016 deficit was $991 million, beating target by $3.3 billion," The Canadian Press, Sept. 7, 2017)
  - "Conservative finance critic Vic Fedeli says it is clear that the provincial debt is "out of control." He said in a statement Thursday that the Liberals are thumbing their nose at the legislature's independent experts and presenting their own version of the province's public accounts." Shawn Jeffords, "Ontario says 2016 deficit was $991M, auditor general says government 'understating' deficit," The Canadian Press, Sept. 7, 2017)

- **The government's alleged continued dismissal of watchdogs**
  - "Auditor general Bonnie Lysyk said Thursday the government "significantly understated" its deficit - $1.4 billion in her view - while the Financial Accountability office this week called the Liberal plan to reduce the debt burden "unlikely."" (Christopher Reynolds, "Ontario's deficit drops to $1 billion, though fiscal watchdogs have a bone to pick," Queen's Park Briefing, Sept. 7, 2017)