

Corrections Submitted to the Standing Committee on Public Accounts
Re: Report on Public Accounts of the Province (Chapter 2, 2017 Annual Report of the Office of the Auditor General)

Statements in question from the SCOPA report	Rationale for why correction is requested	Evidence	Requested correction
p. 3: The Treasury Board said it made several accounting changes in 2016/17, including accounting for market accounts and adopting the rate-regulated accounting used by the Independent Electricity System Operator (IESO), and reporting pension assets for jointly sponsored pension plans.	In its 2016 financial statements, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results and adopted rate-regulated accounting. As an agency, IESO's financial statements are consolidated onto the province's financial statements. The province did not make these accounting changes – rather they accepted the changes made by IESO.	<u>SCOPA Feb 28, 2018 Transcript:</u> Ms. Helen Angus: In 2016-17, we made some accounting changes. In preparation for the 2016-17 public accounts, our professional accounting staff adopted a number of changes to further enhance accountability and transparency in financial reporting. These changes include: —presentation of third-party revenues for hospitals, school boards and colleges. The Office of the Auditor General is supportive of this change; —the adoption of International Financial Reporting Standards as the basis for accounting for government business enterprises in the energy sector, of which the Auditor General, I understand, is also supportive; —accounting for market accounts by the Independent Electricity System Operator, also known as IESO. The IESO is now recognizing market	Suggested revision: The Treasury Board said it made several accounting changes in 2016/17, including accepting the Independent Electricity System Operator's (IESO) recognition of market accounts and use of rate-regulated accounting on the province's consolidated financial statements, and reporting pension assets for jointly sponsored pension plans.

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		account assets and liabilities in its financial results and has adopted rate-regulated accounting; and finally, —reporting pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards as well as the recommendations [...] With regard to IESO accounting, like the province, the IESO prepares its financial statements in accordance with PSAS. We have representatives here from the IESO who would be pleased to provide the committee with more details on why they opted to make accounting changes in their 2016 financial statements.”	
p. 4: The Controller for the Province of Ontario noted earlier that she asked the IESO to consider whether or not rate-regulated accounting was appropriate accounting treatment when she first learnt that the IESO had a second set of market accounts that were not reflected in the IESO’s financial statements.	Provincial Controller, Cindy Veinot, asked the IESO to consider the issues of market accounts – not rate-regulated accounting.	<u>SCOPA Feb 28, 2018 Transcript:</u> Ms. Cindy Veinot: Maybe I’ll start, and then I’ll ask Kim Marshall to come up. There are two different issues. One is the reflection of market accounts in the financial statements of the IESO. As the provincial controller, I actually	Suggested revision: The Controller for the Province of Ontario noted earlier that she asked the IESO to consider whether or not the recognition of market accounts was the appropriate accounting treatment when she first learnt that the IESO had a second set of accounts

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		asked the IESO to look at that issue. When I first heard about the fact that the IESO had a second set of accounts that was not reflected in their financial statements, I asked them to consider whether or not that was the appropriate accounting treatment. The accounting for the IESO in terms of reflecting those market accounts I think better reflects their role as the settler of the transactions between those that produce energy and those that use energy. It's really very similar to the role that the Toronto Stock Exchange plays in terms of settling amounts between people who buy stock and people who sell stock. They account for it in the same manner.	that were not reflected in the IESO's financial statements.
p. 4: The IESO noted there is a "disagreement" between the IESO and Auditor General on which type of accounting treatment is most appropriate for the IESO. The IESO stated that rate-regulated accounting is the most appropriate way of representing its financials. The audit	The recognition of market accounts and rate-regulated accounting are two separate issues. Yes, the IESO stated that rate-regulated accounting is the most appropriate way of representing its financials.	<u>SCOPA Feb 28, 2018 Transcript:</u> Mr. Peter Gregg: We use our judgment based on our own professional expertise, but also based on expert advice. Where we have landed is the use of rate-regulated accounting under PSAS through that	Suggested revision: The IESO noted there is a "disagreement" between the IESO and Auditor General on which type of accounting treatment is most appropriate for the IESO. The IESO stated that rate-regulated accounting

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noted that the Market Accounts do not meet the criteria for recognition as assets and liabilities in the Province's consolidated financial statements.	The Auditor General noted that the "rate regulated accounting is not permitted in an "other government organization" under Canadian public sector accounting standards and therefore, the regulated assets recognized by the IESO should not be recognized." The Auditor General's report then notes that "market accounts, as recorded on the financial statements are not assets and liabilities of the IESO."	advice that we have gotten. We feel that is the most appropriate way of representing our financials. We think that it has the added advantage of giving better visibility to the \$17 billion from market activity that happens on an annual basis, and it is in line with six of the other eight independent system operators across North America that also use rate-regulated accounting. Mr. John Vanthof: I apologize for getting frustrated. I understand your position. You are answerable to your board. That's not the question that I'm asking. I'm asking, is it possible? Because, quite frankly, the people of Ontario are actually over the board. The Auditor General is the representative of the independent auditing process of the people of Ontario. If her office is asking for the books to be presented in a different way, I'm asking if it is possible. Mr. Peter Gregg: The short answer to that is there are options here. It's possible. Based on management's	is the most appropriate way of representing its financials. The audit of the province's consolidated financial statements noted that the regulated assets recognized by the IESO in the province's statements should not be recognized as they do not meet the criteria under PSAS according to the Auditor General.

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		judgment and based on board oversight, we have selected what we believe is the most appropriate for the organization. It's no disrespect to the Auditor General and the Auditor General's office. It's just a disagreement that we have. But we do stand behind our judgment on this and we've taken this issue exceptionally seriously and have given it appropriate management attention and board oversight and engaged professionals to assist us on it. <u>Independent Auditor's Report</u>, page 2: IESO is consider an "other government organization" under Canadian public sector accounting standards. Rate regulated accounting is not permitted in an "other government organization" under Canadian public sector accounting standards and therefore, the regulated assets recognized by the IESO should not be recognized. The market accounts recognized track mainly buy	

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		and sell transactions between electricity market participants (electricity power generators and power distributors). These market accounts, as recorded on the financial statements are not assets and liabilities of the IESO. Under the current Market Rules, the IESO has no access or discretion to use the market account assets for its own benefit, nor does the IESO have an obligation to settle the market account liabilities in the event of default by market participants.	