INTRODUCTORY REMARKS

INTRODUCTION

- Good afternoon and thank you to the members of the Committee for inviting us to be here.
- Before we begin, I'd like to take a moment to introduce my colleagues who are sitting beside me today:
  - Scott Thompson, Deputy Minister of Finance, and
  - Serge Imbrogno, Deputy Minister of Energy.
- My name is Helen Angus and I am the Deputy Minister of the Treasury Board Secretariat.
- At your invitation, we also have representatives here today from the Ontario Financing Authority, Ontario Power Generation, and the Independent Electricity System Operator.
- We also have other ministry officials, who are here also here to answer questions and would be pleased to join us at the table as needed.
- We welcome this opportunity to appear before the Committee to provide information and answer your questions regarding the consideration of chapter two, Public Accounts of the Province, of the Auditor General's 2017 Annual Report.
- As you know, Ontario's Public Accounts present the government's consolidated financial statements and give Ontarians a picture of how the province's finances were managed over the last fiscal year.
- Producing Public Accounts requires a great amount of teamwork and the collaboration of many stakeholders across Ontario's public sector.
- It is a complex undertaking and we're proud of the work that goes into producing this important accountability document.
- The Office of the Auditor General plays a critical role in auditing and reporting on the province's consolidated financial statements.

Commented [CV1]: Do these initial 5 bullets cover off the SoC, or is the intention not to mention him?

- This Committee, too, is integral in the process, playing an important role in providing legislative oversight and guidance.
- Within the Treasury Board Secretariat, the Office of the Provincial Controller Division, or OPCD, helps the province to ensure transparency and accountability in its financial reporting through preparing the Public Accounts..

Role of the Public Service

- I would like to take a moment to speak specifically about the role of the OPCD and that of the other ministry officials who appear before you today.
- As you know, we are members of the Ontario Public Service, or OPS, a professional, non-partisan body.
- Our role is to support and provide impartial advice to the government elected by the people of Ontario.
- As public servants, we carry out the decisions and policies of the elected government, and work to ensure that activities are conducted in an open, fair, and transparent manner.
- We fulfill our duties in accordance with the law, including the Public Service of Ontario Act, and in compliance with our Public Service Oath.
- Members of other professional associations, such as Chartered Professional Accountants employed by the OPS, are also required to comply with their professional codes of conduct.
- It is our role as public servants is to continuously conduct our due diligence, apply professional and impartial judgment, and provide our best, objective advice to the elected government to support its decision-making.

Preparation of Public Accounts

- The province's consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards, also referred to as PSAS.
- These standards are set by an independent standard-setting body in Canada focused specifically on the public sector – the Canadian Public Sector Accounting Board.

- These standards are used by all senior governments in the country, and support informed decision-making and accountability.
- It is important to highlight that Public Sector Accounting Standards are principle-based. They are not a set of specific prescriptive rules, and using them requires the application of professional judgment.
- Our professional staff exercise judgment in applying the standards and, as necessary, consult with external experts and advisors.
- Our professional staff provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

2016-17 Accounting Changes

- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted changes to further enhance accountability and transparency.
- These changes include:
    - The 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 energy sector government business enterprises, of which the Auditor General is also supportive.
    - Accounting for market accounts by Independent Electricity System Operator, also known as the IESO. The IESO is now recognizing its market accounts assets and liabilities in its financial results, and has adopted rate-regulated accounting.
    - And finally, reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards, as well as the recommendations of the independent Pension Asset Expert Advisory Panel.
- If you have any questions on these accounting changes, we have our Provincial Controller, Cindy Veinot, here with us today who would be happy to provide further information.

Open Data

- I would like to take a moment to note the digital tools that were enhanced this past year, to help make the province's finances easier to understand, access, and use.
- These include:
  - Interactive data visualization tools that graphically present details on asset and expense information contained in volume one of Public Accounts;
  - Fully sortable data tables that summarize the financial statements from volume two, and the detailed scheduled payments from volume three; and
  - Downloadable open data sets that provide the five-year trend for government revenue by source, revenue by sector, and statement of operations. This year's total number of open data downloads is 11, up from five in 2015-16.
- These data visualization tools help people to better understand the province's finances and part of the commitment to creating an open and transparent government.

Commented [TA(2]: Program area: Was the AG supportive of this?

Commented [DM(3]: Not sure there was any opinion – will confirm

AUDITOR GENERAL ANNUAL REPORT

- Let's move to what we are here for today: consideration of chapter two, Public Accounts of the Province, of the Auditor General's 2017 Annual Report.
- As mentioned, the Office of the Auditor General is an integral part of the Public Accounts process.
- In addition to the audit opinion, which can be found on page 49-52 of Public Accounts, the Auditor's annual report provides a closer look at the province's finances and processes.
- In the 2017 Annual Report, the Office of the Auditor General makes ten recommendations regarding Public Accounts.
- The government has provided a summary of responses, including any next steps where applicable, in the Summary Status Table that was submitted to the Committee to support our appearance today.

Commented [DM(4]: Also in Chapter 2 (pp 36-39)

- This table includes more detail than you may have previously seen in chapter two of the Annual Report.
- It outlines the process and rationale as to why the government chose to either continue, or adopt changes to accounting treatments.
- As you know, a number of these recommendations and responses represent an area of disagreement between the Office of the Auditor General and the government, particularly regarding the interpretation and application of Public Sector Accounting Standards.
- At this point I would like to reiterate the role of the public servant: to provide our best objective advice to the elected government, and to comply with codes of conduct, including for our CPAs, the CPA Ontario Code of Professional Conduct.
- One of the rules for CPAs is that they not be associated with false or misleading information.
- This means that, if the professional accountants within the public service do not agree with the Office of the Auditor General, it is not as simple as just agreeing to accept the Auditor General's interpretation, if they believe that this interpretation would result in false or misleading financial statements.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything.
- As such, the province remains committed to working with the Office of the Auditor General so that it may continue to provide its independent views to the legislature.
- I want to emphasize, that for all points I will outline shortly, we remain open to continuing the discussions with the Office of the Auditor General, in the hopes of resolution.

Commented [TA(5]: Program area to confirm
Commented [HS(6R6]: Fine with wording

Management Response

- I'd like to take a moment to speak to the rationale for the government's responses to the Auditor General's recommendations, and provide some updates on next steps where applicable.

Pension Asset Accounting

- On the point of pension asset accounting: During 2016-17, the province's professional staff conducted additional research and analysis following the issuance of a qualified audit opinion from the Auditor General in 2015-16.
- It was determined that Public Sector Accounting Standards do not require a valuation allowance on either of the jointly sponsored pension plans in question, the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan.
- I will leave the details to Cindy, our Provincial Controller.
- In the meantime, I would like to highlight that this conclusion was reached not only a result of the province's internal professional judgment, but was also supported by:
    - Conclusions reached by an independent Pension Asset Expert Advisory Panel, comprised of accredited accounting, actuarial, and legal professionals with extensive background in pension accounting and plan governance;
    - An independent opinion from Deloitte LLP, on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. and;
  - Independent analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.
    -
- On this point, while we disagree with the Office of the Auditor General, as always we will continue to evaluate the need for a valuation allowance on an annual basis, as required by Public Sector Accounting Standards.

Commented [HS(7]: Note to Comms: we need to keep these exactly as worded in our response if we are to reference them. Since this is being read into record, this is what the firms have given us permission to say.

IESO Accounting

- With regards to IESO accounting: like the Province, the IESO prepares its financial statements in accordance with PSAS.
- On its 2016 financial statements, which are accessible to the public online, the IESO received an unqualified, or clean, audit opinion from its third-party independent external auditor.
- IESO's accounting change to include market account assets and liabilities in its financial statements provides enhanced reporting and greater transparency.
- This was supported by the IESO's Board of Directors, its Audit Committee, its external auditor, and finally by the Office of the Provincial Controller.
- On the point of rate-regulated accounting – We agree with the IESO's view that this better reflects the economic substance of certain types of IESO expenses, and is in line with accounting practices followed by six out of eight other independent system operators in North America, including:
  - The Alberta Electric System Operator;
  - ISO New England;
  - New York Independent System Operator;
  - The Midcontinent Independent System Operator;
  - PJM Interconnection LLC, and;
  - Electric Reliability Council of Texas.

Commented [CV8]: Mark – have you checked this against the KPMG table?

- We have representatives from IESO here today who would be pleased to provide the Committee with more details about why they have made these accounting changes.

Fair Hydro Plan Accounting

- Shifting to accounting for the Ontario Fair Hydro Plan, I would like to re-iterate that the province has, and will continue, to prepare its financial statements in accordance with Public Sector Accounting Standards.
- Where the standards are silent, PSAS recommends consulting other accounting standards, which has been the case for the development of the accounting framework for the Fair Hydro Plan.

- The proposed accounting for the planreflects the economic substance of the transactions of the plan, by differentiating costs borne by taxpayers versus those borne by ratepayers.
- In addition to the Summary Status Table, you can also refer to appendix five of the Auditor General's Special Report on the Fair Hydro Plan from October for more details outlining the rationale for the province's response.
- We also have Deputy Imbrogno and representatives from the Ministry of Energy here who would be pleased to provide additional context and information on this topic.

Use of External Advisors

- On the topic of external advisors – The Treasury Board Secretariat uses external expertise for accounting and financial reporting matters to supplement our own resources, particularly on complex or emerging accounting and reporting matters.
- This is part of our role as public servants in conducting due diligence and providing our best, objective advice to the government.
- I would like to emphasize that external advisors are used to *supplement* our own internal analysis.
- We are committed to proactively working with the Office of the Auditor General to discuss issues, once our professional staff have completed their analysis.
- We believe that frequent communication with the Office of the Auditor General is important, and, to that end, requested additional meetings with the Office of the Auditor General during the 2016-17 audit of the Public Accounts
- Where required by the CPA Ontario Code of Professional Conduct, our staff have, and will continue, to advice the Office of the Auditor General, of external advisor involvement.

"Legislated Accounting"

- Regarding legislation and accounting treatments – The province will continue to prepare financial statements in accordance with Public Sector Accounting Standards.

- Accounting was legislated once, during the 2015-16 Public Accounts.
- At this time, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on the Public Accounts, reflecting an accounting interpretation consistent with the Auditor General's
- In the context of the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in the legislation that prescribe the accounting treatment that the province must follow.

Province's Debt

- Moving to the recommendation regarding the province's debt, I have Deputy Minister of Finance, Scott Thompson, here beside me.
- Deputy Thompson would be happy to provide more details about the province's plan to address the debt, should the Committee wish.
- The 2017 Budget and 2017 Fall Economic Statement provide context on how the province plans to meet its targets, including maintaining a balanced budget, making strategic infrastructure investments, and continuing to follow Public Sector Accounting Standards in all instances.

Earlier Finalization of Financial Statements

- On the point of earlier finalization of the province's consolidated financial statements I am pleased to say that planning has already begun between the Office of the Provincial Controller and the Office of the Auditor General for the 2017-18 fiscal year.
- The Office of Economic Policy has also been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.
- We will continue to collaborate in order to support the timely and transparent delivery of Public Accounts.

Arm's Length Trusts

- With regards to the Annual Report's recommendation on Arm's Length Trusts – We will continue to assess the most appropriate vehicle for meeting policy objectives, which include appropriate oversight and ensuring good value for money with respect to how transfer payments are spent.

Pre-Election Report

- And finally, speaking to the Pre-Election Report – We remain committed to meeting any legislative requirements, and as always, we remain committed to working constructively with the Office of the Auditor General.

CONCLUSION

- In summary, I want to emphasize that we, as public servants, remain committed to following Public Sector Accounting Standards and providing high-quality financial reporting for the province.
- We exercise our due diligence and where necessary look to other accounting frameworks, external expert analysis to supplement our own, and to other government jurisdictions.
- As public servants, it is our role to provide our best, objective advice to support decision making.
- We are pleased to provide explanations in response to questions regarding policy matters, but it would not be appropriate for us to engage in speculation about government intentions or debate policy alternatives.
- Finally, as professionals, as public servants, we have a deep respect for the Office of the Auditor General and the legislature, and we are committed to continuing to work together constructively.
- I want to thank the Committee for your time, and we'd be pleased to answer your questions.
- Thank you.