Reasons for Taking Action

Q: Why are you doing this?

A: On September 29th the Auditor General indicated she may not provide an audit opinion on the province's financial statements. She reiterated this again this morning, when she met with Ministers Sandals and Sousa.

Releasing the financial statements now ensures that there is transparency and accountability by government on the Province's financial position. This is in the public interest.

We are also being transparent that there remains a disagreement with the AG regarding the interpretation of the accounting standards. By legislating the accounting for 2015-16, the government can table its financial statements in a manner that the financial results are consistent with the fiscal impact of the AG's interpretation.

While there is no disagreement over the fiscal impact, we recognize that this issue needs to be looked at further. Therefore, the Province will initiate a review of the application of PSAB's pension accounting standards to Ontario's JSPPs and will conduct a valuation review of the pension assets.

This will be an expert review, where independent advice will be sought from a range of experts with in-depth knowledge of the complex issues that need to continue to inform best advice. The results of the review would be made available publicly.

This is a cautious approach on the part of government, which ensures no disagreement about the numbers, which is also in the public interest while a review is undertaken. That's especially so since the AG's view on this matter was only recently known to us, and we have had less than three weeks to try to resolve such a complex accounting matter.

Q: Why are you legislating the accounting treatment? If you disagree with the Auditor General, why don't you just go with your own numbers?

A: This is a particularly complex accounting matter. That's why government is taking a cautious approach to the issue.

By legislating the accounting for 2015-16, the government can table its financial statements in a manner that the financial results are consistent with the fiscal impact of the AG's interpretation. This will ensure that there is no disagreement about the numbers, which is in the public interest while a review is undertaken. That's especially so since the AG's view on this matter was only recently known to us, and we have had less than three weeks to try to resolve such a complex accounting matter.

Q: If you are doing this now because you care about timeliness, why didn't you do this a week earlier to meet the deadline?

A: We made every effort to resolve this issue with the Auditor General since she identified her view on September 13 that $10.7 billion worth of assets should be written off, two weeks before the tabling deadline.

As you will imagine, and especially in light of the consistent interpretation of the standards for the last 14 years – including by the current AG – we needed to be absolutely certain that we can accept the AG's new interpretation of the standard. That's why the government will initiate an independent review..

In the meantime, it is important to release information in a timely way, which we are doing. To quote the C.D. Howe Institute's financial accountability report of Canada's senior governments:

> *Finally, we underline the importance of timely publication of results. The importance of knowing where you are, in figuring out where you are going, is a truism: every organization needs recent results to make its financial plans. In addition, timely public accounts will promote accuracy in the preliminary prior-year figures in budgets.*

Audit Opinion

Q: Why won't the Auditor General provide an audit opinion?

A: We understand from recent discussions with the Auditor General that she may not issue an opinion as she is of the view that professional standards prevent her from issuing an opinion as a result of the use of legislation.

It's important to point out that the Province's financial statements have noted that they were prepared in accordance with legislation and PSAS since 2011-12, including both years for which the AG signed a clean audit reports.

By legislating the accounting for 2015-16, the government can table its financial statements in a manner that the financial results are consistent with the fiscal impact of the AG's interpretation.

This is a cautious approach on the part of government, which ensures no disagreement about the numbers, which is also in the public interest while a review is undertaken.

Q: Has this ever happened before? Has an Auditor General ever not issued an opinion?

A: Not to the best of my knowledge.

Q: What are the consequences if the Auditor General doesn't provide an opinion?

A: The Auditor General has an obligation to provide an audit opinion. The Public Accounts require an opinion to be finalized before it can be tabled with the legislature.

Earlier this morning Minister Sandals and Sousa met with the Auditor General to reiterate the need for an opinion to be issued.

Q: Do you think the Auditor General is just being petty? Is this another war on the AG?

A: I have the greatest respect for the professional judgment of the AG as well as the accountants in TBS. They both have professional obligations, which are paramount.

It is the Province's responsibility to prepare the financial statements. In doing so, staff have an obligation to apply their best professional judgment to the preparation of the statements.

The AG's responsibility is to conduct an assurance audit and provide an independent audit opinion. She must apply her professional judgment to that, and by the very nature of her independence, the Province in no way influences that.

We have been working with her office over the couple of weeks to try and resolve this issue.

In the professional judgment of the government accountants, the accounting treatment in place since 2001 continues to be appropriate.

Disagreement Over the Standards and Professional Judgement

Q: Why do you disagree with PSAB?

A: We do not disagree with PSAB and the independent standard setters.

At issue are differences between the Province's and the AG's interpretation of PSAB standards.

Q: Are you saying the AG is wrong in applying the accounting standards?

A: The AG's responsibility is to conduct an assurance audit and provide an independent audit opinion. She must apply her professional judgment to do that.

We don't disagree with the PSAB standards; however, there remains a disagreement with the AG regarding the interpretation of the accounting standards.

By legislating the accounting for 2015-16, the government can table its financial statements in a manner that the financial results are consistent with the fiscal impact of the AG's interpretation.

This is a cautious approach on the part of government, and it also ensures no disagreement about the numbers, which is also in the public interest while we undertake a review of the issue.

Q: Do you not believe the professional judgment of the AG?

A: I have the greatest respect for the professional judgment of the AG as well as the accountants in TBS. They both have professional obligations, which are paramount.

It is the Province's responsibility to prepare the financial statements. In doing so, staff have an obligation to apply their best professional judgment to the preparation of the statements. The AG's responsibility is to conduct an assurance audit and provide an independent audit opinion. She must apply her professional judgment to that, and by the very nature of her independence, the Province in no way influences that.

In the professional judgment of the government accountants, the accounting treatment in place since 2001 continues to be appropriate.

Q: So if the AG's says that in her professional judgment she can't issue a report because of the use of legislated accounting, why do you disagree?

A: I can't speak for the AG. However, in Chapter 2 of her 2015 Annual Report she said that "if the government reported a deficit or surplus under legislated accounting standards that was materially different than what it would be under PSAB standards, I would have no choice but to include a reservation in my audit opinion."

That statement does not say that the AG would not issue an opinion in the case of legislated accounting, it only speaks to the nature of the opinion if she feels the results are misstated as a result of legislated accounting.

Net Debt and Total Debt

Q: How can the accumulated deficit and net debt increase by $10.7B without causing an increase in total debt?

A: Total debt is cash based – it is how much money we've borrowed and is owed to our creditors. Net debt and accumulated deficit take into account the difference between our financial assets and liabilities, whether they are cash or not. The province has changed the valuation of the net pension liability by reducing the pension assets by $10.7 billion, but because there is no cash involved in that valuation, the total debt does not change.

Impact on Fall Economic Statement and Budget

Q: How will you treat this for the Fall Economic Statement and the 2017 Budget? If there's an impact on the 15-16 deficit, that must mean there's an impact on the 16-17 deficit.

A: The Fall statement may still be months away, so it's premature to know how this will be addressed in that document or the 2017 Budget. There are many factors that need to be taken into consideration, and this could be one of them. The fiscal plan is updated with new developments in terms of economic projections, and other developments on the revenue and expenditure side, and rolls all of that up into an overall fiscal picture compared to balance. The

2016 Budget identified a projected deficit for 2016-17 of $4.3 billion. We don't know at this point how that would change if this accounting treatment were continued, much less combined with the many other factors are taken into account.

Q: Does that mean you don't know how much more would be added to this year's deficit if the Auditor General's accounting treatment was continued?

A: Not an exact figure, but we expect it would be at least as much as the $1.5 billion amount that resulted from this change for the 2015-16 fiscal year.

Independent Review

Q: How will the review be structured? When will the review expect to be finished? Who is conducting the review? Will the AG participate in the review?

A: We think it is important to have an independent review undertaken. We're mindful of the work that PSAB is undertaking on this matter as well.

As I mentioned, this is a time limited regulation, and the province is initiating its own independent review to ensure resolution before being able to finalise the Public Accounts for 2016-17.

Other Jurisdictions

Q: Are there other provinces in the country that have the same situation as you?

A: We are not aware of any other province having jointly sponsored pension plans with the same governance structure as ours and reporting an asset in their financial statements.

The Auditor General has pointed us to the accounting for four of British Columbia's pension plans (College Pension Plan, the Public Service Pension Plan, the Municipal Pension Plan, and the Teachers' Pension Plan.). We understand that for these BC plans, the Boards of Trustees can make decisions regarding the use of plan surpluses. In Ontario the Boards cannot make these decisions. We believe this difference is critical in evaluating the appropriate application of Public Sector Accounting Standards as only the sponsore have the ability to determine how the surplus is used.

Q: New Brunswick just changed its accounting for pension plans – is their situation similar to your?

A: As we understand it, New Brunswick converted four of its pension plans into what it refers to as target plans. In the prior year, New Brunswick accounted for these plans as defined contribution plans, meaning it expensed the contributions to the plan and did not reflect its share of the net asset or net liability of the plan in its financial statements. The Auditor General of New Brunswick issued a qualified opinion on those financial statements. In the 2015-16 year, New Brunswick changed its accounting for those plans to account for them as defined benefit plans and the Auditor General of New Brunswick issued a clean opinion.

Ontario has always accounted for its share of its jointly sponsored plans as defined benefit plans.

Joint Sponsored Pension Plans

Q: What discount rate does the Province use to account for the Teacher's obligation and the OPSEU obligation?

A: The discount rate used in the Province's financial statements at the end of March 2016 both the OTPP and OPSEUPP is 6.25%. The auditor general and her staff communicated during the audit this year that the rate was in the acceptable range, although was moving to the high end of the acceptable range. Based on a review of the funded pension plans in Canada that are provincially sponsored, the range of discount rates is between 5.75% and 7%, therefore the Province's selection of a rate for its estimate of the long-term rate of return within the ranges used by plans across the country.

Q: What does OPSEUPP and OTPP think about this issue?

A: Both OPSEU Trust and the Ontario Teachers Federation are aware of the regulation and the issue at hand. The accounting treatment as expressed in the consolidated financial statements, has no bearing or impact on the underlying health and funding status of the two pension plans.