



March 6, 2017

Issue: The Province of Ontario's plan to record a net pension plan asset and related revenue in its Public Accounts.

The purpose of this paper is to inform the public and various interested parties as to why the Office of the Auditor General of Ontario (the Office), at this time, cannot provide the Province of Ontario (the Province) a clean audit opinion on the Province's financial statements resulting from its proposed accounting treatment to include the Province's calculations of net pension assets and revenue it is recognizing from the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) in the Public Accounts.

As with any audit, whether relating to a public sector entity such as the Province or a private sector corporation, an auditor requires sufficient, appropriate evidence of the amounts being represented in the financial statements by that entity. This evidence, in turn, is used by the auditor to conclude, among other things, whether an asset, liability, revenue or expense is presented fairly in terms of measuring the accumulated surplus (deficit) and the annual surplus (deficit). Including the OTPP and OPSEUPP net pension assets and revenue in the Public Accounts understates the accumulated deficit and overstates the annual financial results of the Province.

For the purpose of the Office arriving at an opinion, we consulted several experts that provided guidance in the interpretation and application of the appropriate accounting standard, actuarial sciences and contract law, including a number of national private sector accounting and auditing firms and Canadian legislative audit offices. There was unanimous agreement among them, when they were presented with all of the relevant information in a neutral and unbiased fashion, that this Office's conclusion on the accounting for net pension assets and revenue is appropriate.

It is the issue of evidence that the Office is seeking from the Province. While the Province's Advisory Panel (the Panel) completed a comprehensive review of existing legislation and various agreements affecting the OTPP and OPSEUPP, and provided their interpretation of how the accounting should be applied, there remains the critical issue of evidence that the Province has access to the plan surplus. The Panel report suggests that the Province can in fact reduce its future contributions.

Given the current conditions and circumstances, our Office's findings indicate otherwise. Because the accounting standards place limits on how much the asset can be valued at, the Province needs to demonstrate that members of the plans have agreed that the Province can, while maintaining existing levels of benefits, take a contribution reduction or holiday. The agreement would need to set out the amount and timing of the contribution reductions.

This is why the Auditor General said “Show me the letter”.

The letter needs to indicate that future contributions will be reduced. This is the only way under the public sector generally accepted accounting standards that the Province can report an asset of such value.

What follows are the explanations and technical reasons for the Office’s position. The explanations and technical reasons are presented in a question and answer format.

Questions and Answers

1.0 Why is it an issue now?

Our Office conducted a more in-depth review of the increasing pension asset and negative expense (revenue) stemming from the province's method of calculating the pension asset and revenue. For the first time in the last 15 years, in the 2016 Ontario Budget, tabled on February 25, 2016, the pension expense from the OTTP was shown to be revenue instead of an expense while at the same time the pension asset was increasing significantly.

In 2016, the Office of the Auditor General advised the Province that it should not include the OTTP and OPSEUPP surplus it calculated as a Provincial asset and the related calculated revenue in its financial statements because it does not have legal or contractual authority to unilaterally use the calculated pension asset and the calculated revenue.

Initial Provincial projections indicated the net pension asset and revenue were expected to significantly increase with the net pension asset projected to increase to \$20 billion by 2020. The growing asset creates revenue for financial statement purposes. These projections do not indicate any reductions in annual cash contributions. In fact, an upward trend in annual cash contributions is still assumed which means the asset will continue to grow as well as the revenue calculated on the growing pension asset balance.

Assuming that Provincial spending increases to the same extent of the budgetary room created from the revenue it records from the growing pension asset balance, the financial impact of this accounting (without evidence that the Province will reduce pension contributions) indicates a structural annual deficit may exist. This accounting also neutralizes the impact of increased borrowing on net debt by recording a pension asset to offset the impact of increased borrowings.

More recently, the Ontario Teachers' Pension Plan (OTPP) has been moving from an accounting net liability position towards an accounting net asset position, while the Ontario Public Service Employee Union Pension Plan (OPSEUPP) is reporting an accounting net asset.

However, the most recent audited financial statements of the OTTP indicate that it is still in a net pension liability position. The Province uses different calculation assumptions to show that the OTTP has a substantial accounting pension surplus.

The Office is aware, given the regulations and agreements between the Province and the members of those plans that restrictions currently exist on the withdrawal or use of plan net assets for contribution holidays or reductions.

The Office is also aware that any changes to the agreements governing those plans must be collectively approved by the Province and the members of the respective plan.

The Public Sector Accounting (PSA) Handbook, Section PS 3250, *Retirement Benefits* places limits on the amount of any pension plan asset that can be reported by the Province. The Office is concerned with the amount that is proposed to be reported as the asset and revenue.

The Office needs evidence that the amount being reported as the asset is reliable, faithfully represents the underlying substance of the events governing the asset, is neutral and free from bias, and is verifiable. We need evidence that demonstrates that the Province has an asset of \$10.7 billion and, if not, PS 3250 would require the asset to be reduced in value.

2.0 Who legally owns the assets of the OTPP and OPSEUPP?

The assets do not belong to the Province—they belong to the OTPP and OPSEUPP. The assets are “trapped” within the pension plans. Any use of surplus must be negotiated and agreed to by the co-sponsors.

When accounting for its pension plan obligations, the Province sets aside funds to finance the current and future payments of the related pension to its employees. When those funds have been set aside in a separate entity, such as a trust fund, those funds are no longer available to the Province, unless otherwise negotiated with the co-sponsor. The Province gives up its control over the use of those assets to those responsible for the pension plan.

The assets are netted against the liabilities of the plans as a measure the Province’s obligation to the trust or other legal entity managing the plan. The plans have the obligation to the employees and the Province has an obligation to the entities managing each pension plan.

This is why the definition of a plan asset for the purposes of applying PSA Handbook, Section 3250, *Retirement Benefits*, Glossary [emphasis added] says:

A plan asset is an asset segregated and restricted in a trust or other legal entity *separate from the government* to provide for retirement benefits under the following conditions:

- a) the assets in the separate entity are to be used only to settle the related accrued benefit obligation, *are not available to the government’s own creditors*, and either cannot be returned to the government or can be returned to the government if the remaining assets of the trust are sufficient to meet the plan’s obligations; and
- b) to the extent that sufficient assets are in the entity, the government will have no obligation to pay the related retirement benefits directly.

For the purposes of this Section, plan assets do not include amounts held by the government and not yet paid into the trust or other legal entity.

Clearly, if the assets did not reside in an entity separate from the Province, they would remain the Province’s assets and could then be used by the Province for any other purpose such as the repayment of debt or transfer payments.

3.0 Does the Office disagree with the entire Panel’s Report?

No. There are a number of areas where we are in total agreement with the Panel’s Report. These include:

Interpretation of Legislative and Contractual Provisions

- (a) Surpluses in OTPP and OPSEUPP cannot be withdrawn.
- (b) The sponsors must agree on all decisions about the important features of the plan.
- (c) Any change in contribution rates and pension benefits require agreement of both sponsors.

Application of Accounting Standards

- (a) PSA Handbook, Section PS 3250, Retirement Benefits applies when the Province accounts for its interests in OTPP and OPSEUPP.
- (b) The classification of both Ontario Teacher's Pension Plan (OTPP) and the Ontario Public Service Employee Union Pension Plan (OPSEUPP) as joint defined benefit plans under PSA Handbook, Section PS 3250, *Retirement Benefits* – Joint defined benefit plans, is appropriate.
- (c) The Province should use PSA Handbook, Section PS 1150, *Generally Accepted Accounting Principles*, if a primary source of generally accepted accounting principles is unclear.
- (d) If the plans are in a net asset position, the Province could recognize an asset.

Because there is agreement, this release will not deal with why, but readers can be assured that the Office has undertaken its own review in forming its opinion on the above areas.

4.0 What does the Office not agree with in the Panel's Report?

The key technical issues include:

- (a) PS 3250 requires that a valuation allowance (a reduction in the reported amount of the asset) be considered on any recognized jointly-sponsored net pension asset.¹ The valuation allowance is used to report the net pension asset at the amount of the future benefit that can be realized based on existing agreements and current circumstances as at the financial reporting date. This is referred to as the "asset ceiling test". The Panel believes that no valuation allowance is required while the Office believes there should be a valuation allowance.
- (b) The PSA Handbook, Section PS 3060, *Government Partnerships* does not apply and cannot be analogized to.
- (c) The concept of shared control is not sufficient to meet the definition of an asset in the Province's consolidated financial statements.

5.0 What is a valuation allowance?

Valuation allowances address uncertainty in the amount that is reported as an asset. In this case, a valuation allowance is an amount that is recorded to recognize the potential reduction in value of the pension plan net assets that is not likely to be fully recovered or fully realized. The valuation allowance is an offset to the recorded amount of the asset to determine the carrying value, net book value, or net realizable value of the related asset.

PS 3250 requires that the Province consider whether all of the expected benefits associated with the pension plan's net assets will be realized in the future.² The position that the Province has taken is that it expects to use the net assets to reduce future contributions.

However, the use of any net assets in the plan is subject to negotiation between the sponsors of the plans. Further, the guidance in the PSA Handbook notes that it is important to consider past events, current conditions and everything that is known at the date of preparation of the financial statements. The potential or

1. Public Sector Accounting Handbook – Section 3250.050 (PS 3250.050)

2. Public Sector Accounting Handbook – Section 3250.054 (PS 3250.054)

anticipation of future contribution reductions or holidays does not support the recording of an asset. The existing circumstances should be used to value or measure a financial statement item not an expectation of what might happen.

In addition, our actuarial and accounting experts have indicated to us that current contributions exceed the cost of the pension benefits. The only time under PS 3250 that a Province can have an asset is when the cost of future benefits exceeds the future contributions, given that surplus cannot be withdrawn.³ If the future contributions are less than the costs, the Province may be able to use the surplus to fund future costs (e.g., through future reduced contributions). If future contributions are not less than the future costs, a valuation allowance is used to reduce the asset to the amount that the Province can realize today. Without seeking the approval of the other sponsors, the Province has assumed it will be able to use 50% of the pension plans' net assets, as calculated by the Province, to reduce its future contributions.

However, the Office is not aware of any current conditions or circumstances that indicates or supports the position that the existing agreements between the sponsors have changed. Given that current contributions exceed the costs of benefits, it is the Office's view that a valuation allowance should be taken.

6.0 What is the asset ceiling test and why is it important?

According to the Province's website, the Panel advises that the public sector accounting standards state that the benefits from the surplus need only be expected. The Province should record an asset in the province's financial statements for its share of the surplus reported in the accounting valuations of OTTP and OPSEUPP.⁴

The Office believes that the Province should disclose its share of the surplus in the notes to its consolidated financial statements. PS 3250 places a limit on the amount of a surplus in a pension plan that can be recognized as an asset by a sponsor, i.e., the expected future benefit.⁵ The amount is limited to and determined by the existing agreements in place regarding the use of that surplus. In other words, the future negotiations and any final agreements between the sponsors that result in changes to contributions or benefits levels should not be taken into consideration until agreed upon.

PS 3250 Glossary defines the *expected future benefit* as the calculated amount representing the benefit a **government expects to realize from a plan surplus**. An expected future benefit includes any reduction in future contributions or withdrawable surplus.

PS 3250.056 places a limit on the realization of a pension plan surplus. It could have simply said the Province should account for its share of the surplus by dividing the net pension plan assets by the number of sponsors. But that is not what it says. PS 3250.056 says a Province determines its *expected future benefit* as the sum of:

- a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the Province is required to make regardless of any surplus; and
- b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

3. Public Sector Accounting Handbook – Section 3250.056 (PS 3250.056)

4. <https://www.ontario.ca/page/pension-asset-expert-advisory-panel-report>

5. Public Sector Accounting Handbook – Section 3250.055 (PS 3250.055)

The expected benefit is the sum of: i) the future costs less future contributions plus ii) any withdrawable surplus (if assets can be withdrawn then this is added to the expected benefit derived from i).

Withdrawal of surplus

PS 3250.059:

A key factor in determining a Province's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the Province to withdraw assets from the plan. The expected future benefit includes amounts to which a Province has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus a Province is currently required, or intends, to allocate to employees.

The Executive Summary of the Panel's Report says that removing assets requires permission to do so in the terms of the plan, agreement with plan members or approval of the joint sponsor, as well as approval of the Financial Services Commission of Ontario.⁶

The Office agrees with this observation based on our research into the various agreements and governing legislation.

If the Province could withdraw assets from the plan, it could use those assets for any other purpose such as reducing taxes or user fees. But this is not the case.

For the purposes of determining the expected future benefits from an existing surplus, that benefit is now limited to PS 3250.056 (a):

the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus.

This is different than expecting that the Province's share of the entire surplus is an economic resource that can be used by them today even though it cannot be withdrawn. As stated previously we agree that any change in contribution rates and pension benefits requires agreement of both sponsors. The calculation is based on what is known today not on what could possibly happen in the future.

Future costs and contributions

Paragraph .056 (a) means that if the required contributions are less than the future costs of service then an asset (the expected future benefit) may be reported at the amount of the difference. This difference does not necessarily equal the net asset position of the pension plan (surplus). The difference, or the amount of the net pension asset that may be recognized by the sponsors (e.g., the Province's financial statements), is determined by calculating a valuation allowance to reduce the net pension asset of the plan so that the amount reported equals the expected future benefit as determined by PS 3250.056(a).

An example illustrates the point. The employees and the Province currently share the funding 50/50. The net assets of the pension plan are \$200. Assume future costs for service is \$100. For simplicity both are required to contribute \$50 to the pension plan. All else being equal, if there is an agreement to reduce future contributions by \$10 each, the Province's contribution is \$40. This \$40 is less than the Province's

6. <https://www.ontario.ca/page/pension-asset-expert-advisory-panel-report>

share of future costs of service of \$50. The Province could report a net asset at a value of \$10. This net asset of \$10 then represents the Province's share of the existing net assets of the pension plans that it can currently benefit from. If, in the future, further reductions are approved, then the asset could be worth more. This illustrates that the expected benefit can be different than the net assets of the plan.

The financial statement presentation would be:

Asset: Ontario's share of the pension surplus	\$ 100
Valuation allowance	(90)
Expected future benefit or net asset reported	\$ 10

For the purposes of the calculation of the expected future benefit, the costs and timing of future service are estimated and reflected in today's dollars (present value). Likewise the amount and timing of the future contributions related to those costs are estimated and reflected in today's dollars (present value).

The difference between the costs and contributions represent the amount of the existing surplus that could potentially be currently applied to fund future costs.

Without making assumptions about changing the future regarding service costs and contributions, the calculation would reflect today's circumstances regarding the existing level of benefits and contributions. If today contributions equal or exceed the costs of benefits there is no net asset that the individual sponsors can report. It would mean that each sponsor would need to take a valuation allowance of the full amount of their share of the pension surplus (\$100).

Changes in costs and contribution levels cannot simply be anticipated given that both the sponsors must negotiate and agree to the level of benefits and contributions. The Panel Report, in its Executive Summary, supports this view:

In contrast, the joint plan sponsors are free to decide on their own level of required contributions as long as they comply with the terms of the plan and with the *Pension Benefits Act*. All that is required is for the joint sponsors to agree.⁷

If an agreement is reached to reduce future contributions to a point lower than the future costs, then each sponsor could report an asset to the extent those contributions are reduced. This is the past event that gives rise to the individual sponsors reporting an asset. The reduction in contributions represents the expected future benefit which may be the entire surplus that exists within the plan. The reduction in contributions reflects the negotiated access to the surplus without directly withdrawing assets from the plan.

Minimum contributions by the Province

The minimum contributions that are required to be made by the Province are governed by the existing terms and conditions of any agreements between the co-sponsors of the plans.

This is supported by International Financial Reporting Standards Interpretation Committee (IFRIC) 14.21 which states: "...An entity shall use assumptions consistent with the minimum funding basis..." and "the estimate shall not include the effect of expected changes in the terms and conditions of the minimum funding basis that are substantively enacted or contractually agreed at the end of the reporting period."

7. <https://www.ontario.ca/page/pension-asset-expert-advisory-panel-report>

In our view, to assume that contributions could be reduced to zero is not what PS 3250 intended. All amounts in the financial statements are governed by facts and circumstances that exist as at the financial statement date. It seems clear that any changes in contribution rates must first be agreed to by the plan sponsors.

Regardless of any surplus

It is clear that the sponsors cannot withdraw surplus from the plan. Nevertheless, the sponsors do have access to that surplus in terms of increasing benefits (costs) or reducing contributions. Regardless of any surplus, which includes past contributions, interest or other returns earned to date, means that the expected future benefit is a representation of what the future holds, not what is on the books today.

While the entire surplus represents an asset of the plan, the calculation relating to future costs and benefits is attempting to demonstrate how much of that surplus is available today for use by the individual sponsors. The remaining surplus is trapped within the pension itself. This is because access to or use of that surplus is restricted, and determination of its use must be negotiated among the sponsors.

Under the standard if a surplus exists in the pension plan itself, any sponsors' access to that plan surplus is then restricted by PS 3250.056 as to how much it can report as an asset in its own financial statements. In other words, can the Province use that 50% of the net assets of the plan to reduce contribution levels?

The Executive Summary of the Panel's Report states that the public sector accounting standards imply that the benefits from the surplus need only be expected to justify recording an asset. While the Office agrees that the right to use surplus needs to be expected, in our view that right does not currently exist. The expectation refers to the realization that benefits from surplus are available and will continue to be available in the future given various uncertainties. However, an agreement needs to be in place that demonstrates the Province has both a current right to access that benefit and can also expect a benefit from accessing the surplus through contribution reductions. PS 3250.056 clearly excludes any existing surplus from the calculation of those benefits because PS 3250.056 (a) says without regard to any surplus and PS3250.056(b) says the amount of the plan that can be withdrawn, which in this case is not currently permitted. However, note disclosure in the Province's consolidated financial statements of the existence of the calculated pension asset is appropriate.

As agreed to and set out in the Panel's Report, *any change in contribution rates and pension benefits require agreement of the sponsors*. This means that both the Province and the plans' membership must agree to take such a reduction in contributions. Until there is an agreement otherwise, contributions remain the same.

Based on the Office's own consultations with its actuarial and accounting experts, because *current employer contributions are currently higher than the employer current service costs on an accounting basis, the economic benefit will be nil*. This view does not anticipate future changes to existing plan terms or conditions. Any changes reflect a future event that has not yet happened. When a future change is made to existing plan terms and conditions, a future economic benefit could be realized.

This is the key to the evidence that the Office is requesting. Without such evidence of an agreement to reduce existing contribution rates in the future how can there be an expectation of using the surplus and thus having an expected future benefit from it. Any surplus in the plan is "locked-in" until the co-sponsors agree to how it will be used i.e., increases in benefits, decreases in contribution rates or some combination

of both. In other words, the Province cannot assume on its own that contributions will be reduced—it needs the agreement of the plans' sponsors.

This is why the Auditor General noted that this is an issue between the government and the Ontario Teachers' Federation (representing Ontario's teachers) and why the need to see evidence that the future costs of service will be greater than the future contributions of the sponsors without regard to any existing surplus. Under PS 3250.056 (the asset ceiling test) the existing agreement relating to benefits and contributions, what is known today, does not give rise to an expected benefit. In the Office's view a valuation allowance is required to reduce the amount of the Province's pension asset.

There needs to be evidence that contributions will be lowered. Expectations of future events leading to assets are not reported in financial statements—these are potential assets.

7.0 Why doesn't Section PS 3060, Government Partnerships apply?

The office acknowledges that while there may be some similarities between a government partnership and a jointly-sponsored pension, a jointly-sponsored pension plan is not a government partnership.

It is also useful to note that PS 3060 does not have an asset ceiling test. The asset ceiling test in PS 3250 is evidence there are unique circumstances governing pension plans that must be considered i.e., the withdrawal or use of surplus.

Both OTPP and OPSEUPP plans are administered in accordance with the wishes of the sponsors. The plans raise revenue through contributions and investments and incur expenses by way of pension costs related to the benefits being or yet to be provided. The assets of the plans and the liability to the employees are the responsibility of the pension plans, not the Province. The Province's obligation is to fund the pension plans.

The assets and liabilities of a government partnership are consolidated into the Province's "books". That is the individual assets and liabilities are mixed in with the Province's assets and liabilities. Unlike a government partnership, the pension plans individual assets and liabilities are not consolidated in the Province's "books" (i.e., Public Accounts) because they belong to the plan.

In respect of a government business partnership, the Province's share of the individual assets and liabilities of a government business partnership are consolidated with those of the Province on a one line basis—this is called equity accounting. This approach is used to demonstrate the commercial nature of that partnership. Government business partnerships usually have different objectives from the Province—to make a profit. The one line consolidation shows the extent to which those net assets can be used to finance future operations or repay liabilities of the partnership. This is different from a pension plan's net assets that have restrictions placed on their use.

Footnote three to PS 3060 says:

In arrangements where Provincial employees jointly manage an employee benefit program (e.g., a pension plan) with the Provincial, the employees are **not considered to be parties outside of the financial reporting entity** for the purposes of applying the definition of a government partnership.

A government partnership is defined as a contractual arrangement between the Provincial and a party or parties **outside of the Provincial reporting entity**.⁸

This makes it clear that the accounting treatments afforded to the Province in PS 3060 for government business partnerships cannot be used or analogized to for the purposes of jointly-sponsored pension plan. The standard simply does not apply.

This is why the Office disagrees with the analogy to PS 3060 the Panel's Report has made.

8.0 What is the definition of an Asset?

The following are excerpts from the Public Sector Accounting Handbook, Section PS 1000, *Financial Statement Concepts*.

An asset is an economic resource controlled by the government as a result of past transactions and events and from which future economic benefits are expected to be obtained.⁹

Assets have three essential characteristics:¹⁰

- (a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;
- (b) the government can control access to the benefit; and
- (c) the transaction or event giving rise to the government's control of the benefit has already occurred.

An item is not asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:¹¹

- (a) no future benefit;
- (b) future economic benefit, but the government cannot obtain it; or
- (c) future economic benefits that the government may obtain, but the events or transactions that give the government control of the benefit have not yet occurred.

Applying the requirements in the above definition and related guidance to this issue highlights the following challenges to the Province's conclusion that it has an asset.

- The definition requires that the Province must control the resource. In this case the assets are trapped inside in the pension plans. The Province cannot withdraw assets or surplus.
- The Province must control access to a benefit (i.e., surplus withdrawal or contribution holiday/reduction). Access to the benefit must be negotiated by reducing future contributions. The Province currently has no negotiated agreement to reduce future contributions.
- The Province may obtain a benefit in the future. However, the events or circumstances that give rise to that benefit have not yet occurred i.e., a negotiated access to the plan's surplus through reduced future contributions.

8. Public Sector Accounting Handbook – Section 3060.06 (PS 3060.06)

9. Public Sector Accounting Handbook – Section 1000.35 (PS 1000.35)

10. Public Sector Accounting Handbook – Section 1000.36 (PS 1000.36)

11. Public Sector Accounting Handbook – Section 1000.37 (PS 1000.37)

In the Office's view, the Province does not have an existing asset until access to the plans' surplus, through reduced contributions, is agreed to by the sponsors of the plans. Furthermore, shared or joint-control is not sufficient to meet the definition of an asset in the Province's consolidated financial statements because the negotiation of future contribution reductions is the event that gives the Province control.

9.0 How can this issue be resolved?

The issue can be resolved very quickly if the Province provides evidence that the related members of the plans have agreed to allow the government to reduce its current contributions.

10.0 How do other jurisdictions account for pension plans' asset surpluses in joint benefit pension plans?

Currently there are only two other provinces that have public sector pension plan surpluses—British Columbia and New Brunswick. Both provinces are doing what our Office is advising—disclosing the pension surplus in a note to the audited financial statements for information and not using that surplus to record revenue without a written agreement between pension co-sponsors. The Toronto Transit Commission, audited by a private sector accounting firm, is also following this same accounting treatment.

11.0 Concluding Comments

The Office of the Auditor General's responsibilities include: examining the province's Public Accounts and the accounts and financial transactions of a number of Crown agencies; carrying out value-for-money audits of Provincial activities and programs, and of broader public-sector organizations that receive Provincial grants; and assessing compliance with relevant legislation and government directives.

To fulfil that role, our employees include professionally designated experts in accounting, financial auditing, value-for-money auditing and compliance auditing. As needs arise, the Office also relies on external experts to provide advice to the Office.

Government is responsible for the preparation and approval of the Public Accounts. For over the last 20 years, the Province has prepared the Province's consolidated financial statements in accordance with the accounting standards issued by the Public Sector Accounting Board of Canada (PSAB).

PSAB serves the public interest by establishing high-quality accounting standards for public sector entities. Independently set accounting standards are critical to promoting confidence in public sector entities. High-quality accounting standards contribute to transparent and accountable information that is made available to the public, as well as quality financial information to support decision making.¹²

In its role, the Office of the Auditor General reviews the Province's application of these accounting standards in the preparation of Ontario's consolidated financial statements. The audit opinion of the Auditor General on the province's financial statements is based on whether there has been a fair presentation of financial position, annual results, cash flows and other supplementary information using the accounting standards set out in the PSA Handbook.

12. <http://www.frascanada.ca/public-sector-accounting-board/what-we-do/about-psab/index.aspx>