| | |
|---|---|
| **From:** | Schuurman, Tim (MOF) |
| **To:** | Gadi Mayman; Brian Lewis (MOL); Ronald Kwan |
| **Subject:** | FW: Audit Deck for Tomorrow |
| **Date:** | Wednesday, March 22, 2017 7:49:56 AM |
| **Attachments:** | image001.png<br>2016-17 Public Accounts Briefing DMs pre_AG Mar21_v1.pptx |

Not sure if any of you saw this deck or were consulted on its content….but since it kind of impacts you guys, thought I'd pass it on.

*Tim Schuurman*
*Assistant Deputy Minister*
*Office of the Budget, Ministry of Finance*
*7 Queen's Park Cres.*
*Toronto ON M7A 1Z1*
*Tel: 416-327-0173*
Office of the Budget
MINISTRY of FINANCE

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**From:** Birks, Ryan (MOF)
**Sent:** March-21-17 7:16 PM
**To:** Schuurman, Tim (MOF); Esmail, Selena (MOF); Tiburcio, Daniel (MOF)
**Subject:** FW: Audit Deck for Tomorrow

FYI, OPCD's audit deck for tomorrow's PER pre-brief…

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**From:** Hosick, Sarah (TBS)
**Sent:** March-21-17 7:04 PM
**To:** Laughton, Patrick (TBS); Birks, Ryan (MOF)
**Subject:** Audit Deck for Tomorrow

Hi Patrick and Ryan,

Apologies for the late hour on our deck for the morning's briefing. Ryan – have you sent the PER report one to your DMO already?

Thanks
Sarah

Office of the Budget
MINISTRY of FINANCE

Office of the Provincial Controller Division

# 2016-17 Public Accounts Planning

## Briefing Deck for DMs

March 24, 2017

# Purpose

- AG meeting with DMs (TBS/MOF) is expected to focus on reviewing the content of her Audit Planning Report for the 2016-17 Public Accounts Audit
- Other topics may include:
  - OPCD's proposal on accelerated Public Accounts schedule
  - Expectations for future years' audit timing
  - Key accounting Issues for 2016/17
  - CHIRP implementation and audit
  - PSAB accounting standards (future impacts)
  - Pre-Election Report (MOF to provide separate deck)

# OPCD Audit Planning with OAG

| Issue | Raised by | Communication with OAG | Status/Outcome |
|---|---|---|---|
| Early release of 2016-17 Public Accounts | OPCD | • Dec. 1, 2016 - OPCD discussed the potential early release of PA by end of July<br>• Jan. 11, 2017 - OPCD provided formal proposal on early release to OAG including detailed timeline on key audit components | • Jan. 17, 2017 – at OPCD/AG Sr. Management and Staff meeting,<br>o AG indicated that additional resources will be required to meet the early timeline.<br>o AG's preferred approach is to get the tabling date and then work backwards on her sign-off date.<br>• Feb. 21, 2017 - OAG formally communicated to DMs (TBS/MOF) that her expected sign-off date will be August 18, 2017<br>• Mar. 1, 2017 – OAG/OPCD planning meeting- OPCD acknowledges AG timing and advises of internal targets |
| OPCD initiatives to enabling early release | OPCD | • Engaging key stakeholders (OEP, CAOs, BPS sector ministries, OAG) to assess feasibility and key impacts, including approach to tax revenue auditing | • OPCD will work towards meeting the internal target completion of July 31, 2017 (as communicated to the OAG) and acknowledges that AG sign off date is at AG's discretion |
| OPCD's efforts to address OAG's concerns | OAG | • OPCD to coordinate collection of audit documentation centrally on behalf of OAG from all ministries, central agencies (PBC listing)<br>• It would be inappropriate and not feasible for OPCD to complete a QA review of info on OAG's behalf | • OPCD has created central data collection tool using SharePoint on behalf of the OAG<br>• OPCD has communicated plans and process to Ministries (March 21, 2017)<br>• OPCD will monitor status of completeness of documents<br>• OPCD is awaiting confirmed listing of required OAG documentation (including due dates) to initiate the process with the OPS financial community |

# Key Action Items: OPCD and OAG

| Key Action Item | Responsibility | Communication | Status |
|---|---|---|---|
| Key audit risk assessment (re: early release scenario) | OPCD | • Risk assessments for CIP/PIT and hospital sector submissions were compiled and shared with the OAG | • Completed and well received by OAG, including draft memo from OEP on tax revenue and detailed statistical analysis on MOHLTC submissions |
| Pro forma 16/17 Consolidated Financial Statements and Notes | OPCD (provided)<br>OAG (to respond) | • $1^{st}$ draft version was provided to the OAG on Mar. $1^{st}$<br>• Enhanced disclosure (see next slide) | • Pending comments from the OAG (target date: by end of March) |
| OAG request for OPCD coordination of audit requests | OAG & OPCD | • OPCD agreed to coordinate collection of audit documentation centrally, and advised OAG that cannot perform QA review<br>• OPCD requested examples of requests – none forthcoming | • Initial list was shared with OPCD on Feb 17, 2017, but lacked required due dates; therefore, OPCD is not yet able to initiate any requests on behalf of the OAG<br>• Pending revised list with due dates from OAG (expected by end of this week) |
| Draft audit planning report | OAG | • Initially expected by Feb. $24^{th}$ (as per January 16 meeting)<br>• Date changed to March 16 by OAG on March 1 | • Nothing received yet as of March 21 making difficult to brief for DM/AG briefing on March 24 |

# Pro-Forma Consolidated Financial Statements

- To ensure a more timely and efficient audit process and eliminate disclosure surprises late in the Public Accounts process, OPCD prepared Pro-Forma Consolidated Financial Statements (CFS) and shared with AG on March 1, 2017 for review/comments
- OAG is expected to provide comment on Pro-Forma CFS by end of March 2017
- In 2015/16, OPCD reviewed financial statement disclosure according to a checklist provided by the OAG
- In 2016-17, OPCD implemented a PSAB disclosure checklist from another source and identified a few additional areas to enhance reporting in the consolidated financial statements and related note, and to ensure that PSAB's presentation and disclosure requirements are met (additional details on next slide)

# Pro-Forma (Enhanced Presentation and Disclosures)

| Enhanced Presentation Disclosures | Comments |
| --- | --- |
| Net Debt | • Net debt presentation excludes – Pre-paid and Inventory for consumptions (Non Financial Assets) – increase in net debt<br>• Net Debt Budget presentation – Added budget net debt |
| Schedule-9 | • Separate disclosure and presentation for H1-non controlling interest<br>• Additional disclosures on GBE's inter-company assets/liabilities and debt repayment schedule |
| Pension | • Accepted the EAP recommendation on OTTP and OPSEU pension assets and re-stated the comparative financials.<br>• Added disclosures on Market Related Asset Values |
| Expanded disclosure | • Revenue<br>• Interest capitalized<br>• Trust<br>• Loan recognition basis and valuation allowance<br>• SB sinking fund balance<br>• Cash and cash equivalent |
| Work in Progress Items for 2016-17 PA and aim to include in second version of Pro-Forma CFS | • BPS line by line<br>• Contaminated sites (disclosures) |

# Key Audit Topics

1. Tax revenue estimates
2. Pension asset accounting
3. Education Life and Health Trust (ELHT) reporting
4. Accounting for other GBE transactions
5. Cap and Trade accounting
6. OPG/H1 IFRS reporting and audit requirements
7. Line by line reporting for BPS
8. Accounting for transit assets
9. EDU Remedy
10. Contaminated sites

# Other Issues

11. Electricity rate mitigation
12. CHIRP implementation
13. New PSAB standards
14. External accounting advisors

# 1. Tax Revenue Estimates

- The Office of the Provincial Controller has consulted with the Office of Economic Policy (OEP) regarding the implications of an earlier Public Accounts release on accuracy of major taxation revenue estimates.
- These include 3 major taxes:
  - Harmonized Sales Tax (HST),
  - Personal Income Tax (PIT, which includes the Ontario Health Premium); and
  - Corporate Income Tax (CIT)
- OEP's analysis suggests that, of the 3 major taxes, only the PIT revenue estimate clearly suffers from reduced accuracy as a result of the earlier reporting dates. Because of AG's planned release date, June data will be available to share with the OAG in the last week of July.
- OEP confirms that for CIT revenues, the earlier submission would not reduce the accuracy of public accounts estimate under the current methodology for estimating CIT revenues.
- OEP confirms that for HST revenue, any loss in accuracy related to using an earlier estimate is limited.
- OPCD shared OEP's draft memo on Risk Analysis for Tax Revenue Accruals with AG on March 1, 2017.

- Note – OPCD has not yet discussed the PIT risk re: prior year tax planning that was raised by MOF last week.

# 2. Pension Asset Accounting

OTPP and OPSEUPP

- Fiscal impact originally included in FES for valuation allowances was based on AG's position ($2.2 Billion in 2016-17, higher amounts in out-years)
- Expert Panel recommendations on OTPP and OPSEUPP were adopted in Q3 update and the valuation allowances recorded in 2015-16 were reversed
- Technical briefing on Panel's recommendations was held on February 13, 2017
- AG briefing in response to Panel's report held February 16 confirmed continued disagreement
- FAO implied during discussion on March 17/17 that he would present impact of both views

HOOPP and CAATPP

- Panel has completed work on HOOPP and CAATPP and will recommend a valuation allowance be taken based on the current governance structure; DM and MO briefing on March 20, 2017
- Full valuation allowance for 2016/17: HOOPP – NIL, CAATPP - $14M
- For PRRT, full valuation allowances for 2017-18; HOOPP - $102M, CAATPP - $25M; significantly increases in out years (2018-19 -- $765M, 2019-20 - $914M)
- Exploring potential changes in governance structure to align accounting for HOOPP and CAATPP with other joint sponsored pension plans

All Plans

- OPCD provided updated estimates of pension liability and expense in February
- External actuarial advisor engaged to complete valuation allowance assessment on on all plans

# 3. ELHT Reporting

- Creation of ELHTs (in total 6 trusts) was agreed during the 2014-17 agreement to streamline the employees' health, life and dental benefits for the sector
  - Legislation: Section 144.1 of the *Income Tax Act* (Canada)
  - Non-controlled trusts are not consolidated into the Province's books.
  - There is no change to accounting on the School Boards' books.
- Crown agreed to provide $175M one-time funding to the trusts
  - Trusts are effective once the trust agreements are signed.
  - 4 trusts established during 2016-17 already received funding
  - Remaining funding will be paid in 2017-18 for the remaining 2 trusts once established
- On March 10th, upon the AG's request, EDU met the AG and her staff
  - EDU walked through the structure of the trusts and accounting implications
  - The AG appeared to agree in general with the EDU's proposed accounting analysis
  - The AG raised the issue on the potential risk of the government to fund the trust deficit
    - Upon further analysis by OPCD and EDU, it is concluded that the government is
      - not exposed to any risk for active employees benefit cost (97% of total trust members)
      - only exposed to a small portion of the retiree benefits liability (less than 3% of total trust members); the liability will be diminishing over years due to eligibility around age limit for most retirees in this group.
      - Analysis is not yet final

# 4. Accounting for Other GBE Transactions

## (H1 Sale, Brampton Hydro Sale, etc.)

- Gain from second tranche of Hydro One sale  to be recognized in 16/17, excluding gain on sale of shares to OPG (related party) which will be deferred.
- Accounting analysis for Brampton Hydro sale drafted by OPCD (est. gain $180M) in 16/17 to be shared with the OAG in April.
- Status:
  - OPCD analysis of various energy sector transactions shared with OAG as completed, following review by external advisors.
  - Control analysis on Hydro One HoldCo to be undertaken based on anticipated future transactions (no impact on 2016/17).

# 5. Cap and Trade Accounting
## (for 1st Auction Proceeds)

- Accounting analysis on recognition of proceeds from March 2017 auction shared with OAG
- Revenue from first auction (March 22, 2017) will be reported in 2017-18 under either the Province's or AG's accounting approach
- Province's accounting policy -- revenue should be recorded in the period when the Province transfers emission allowances to purchasers, including both current and future vintages
- Status:
  - AG and OPCD disagree on revenue recognition point; however, difference would have no impact on the 2016/17 Public Accounts as it would be recognized in 2017/18 under either approach
  - AG believes revenue should be recognized on the date of auction certification
  - Based on anticipated future timelines, future timing of auction is not expected to result in any difference, but monitoring will be required

# 6. OPG/H1 IFRS Reporting and Audit Requirements

- FES reflected US GAAP based results for OPG and H1
- Q3 announced the adoption of IFRS-based consolidation of OPG and H1 results effective with the 2016/17 Public Accounts
- AG was notified prior to the Q3 release
- The net impact of adopting IFRS (IFRS14) for the Public Accounts will reflect OPG's preferred method of valuing its nuclear asset retirement obligation
- Status
  - Updated estimate of impact from OPG is expected before the end of March to update estimated 2016/17 impact and out years
  - OPCD working with OAG, OPG and H1 on supplementary audit requirements
  - OCI will remained as part of AG's error summary (b/s only)
  - OAG has confirmed that OPG's supplementary audit information requirements can focus only on the 'preferred method' of accounting under IFRS for asset retirement obligations (AROs) but continues to require that procedures be performed to statutory level of materiality that would be required as if OPG"s f/s were being audited

# 7. Line-by-Line Reporting for BPS

- AG preference for line by line consolidation of hospitals, school boards and colleges on statement of operations, as well as consolidation of Children's Aid Societies
- Status:
  - Hospitals, school boards and colleges to be implemented on line by line basis beginning with the 2016/17 Public Accounts, including restated 5-year historical trend analysis
  - Plans for change communicated to OAG
  - Discussions held with sector ministry stakeholders and formal notification of decision provided
  - Impact of potential consolidation for CAS has been initiated which is being considered for future years

# 8. Accounting for Transit Assets
## (Metrolinx MOU with City of Toronto)

- FES reflects assets will be Provincially controlled (TCA, depreciation impacts vs. transfer payments)
- Accounting risk – if assets assessed as **not being controlled by the Province**, assets would be written off of Province's balance sheet and considered transfers to the City of Toronto
- Status:
  - OPCD engaged with Metrolinx and MTO in early 2017
  - Discussions expanded to also include PwC (Metrolinx's external auditor)
  - Metrolinx responsibility to identify potential accounting risks clarified
  - Metrolinx has engaged PwC to issue an accounting opinion based on binding Agreement in Principle between Province and City
    - No certainty that agreement will be signed by March 31, 2017

# 9. EDU Remedy

- A $500M accrual for the education sector was included as an expense in the consolidated financial statements of the Province for 2015-16
- A contingent liability arose from a constitutional challenge by the sector on being legislated back to work with a defined labour agreement.
- The judgement of fault was given before the completion of the Public Accounts which confirmed the liability for 2015-16, but did not provide a cost. The judgement directed the Province and the claimants to negotiate a remedy.
- Based on the savings achieved from the legislation, the Ministry substantiated the $500M estimate which they considered the best estimate available on the cost of the remedy.
- Ministry of Education advised that:
  - Negotiations are on-going with the unions.
  - Negotiations for four unions are completed but represent a small number of members therefore estimation via extrapolation is not advised.
  - Also, remedies solution may differ among the unions.
- If information becomes available that would inform a better estimate of the expense before the end of the audit, the government would need to update the accrual resulting in an additional cost or a recovery.

# 10. Contaminated Sites

i. AG Follow-up audit on VFM audit for contaminated sites
   - OPCD, OIAD and ministries collaborated on an updated status of responses to the AG's 2015 VFM recommendations
   - Initial information provided to AG on March 21, 2017
   - OIAD is also engaged to undertake a review of contaminated sites accruals in advance of OAG fieldwork; steps being taken to optimize OAG reliance on OIAD work

ii. New contaminated sites for 16/17
   - Additional liabilities of approx. $54.1M identified in 2016-17.
   - Grassy Narrows -- potential liability based on actions taken by government (constructive obligation). OPCD is working with the MOECC to confirm the accounting treatment
     – Internal legal opinion from MOECC – moderately low risk that court would find Ontario is legally required to expend funds based on statements made

# 11. Electricity Rate Mitigation

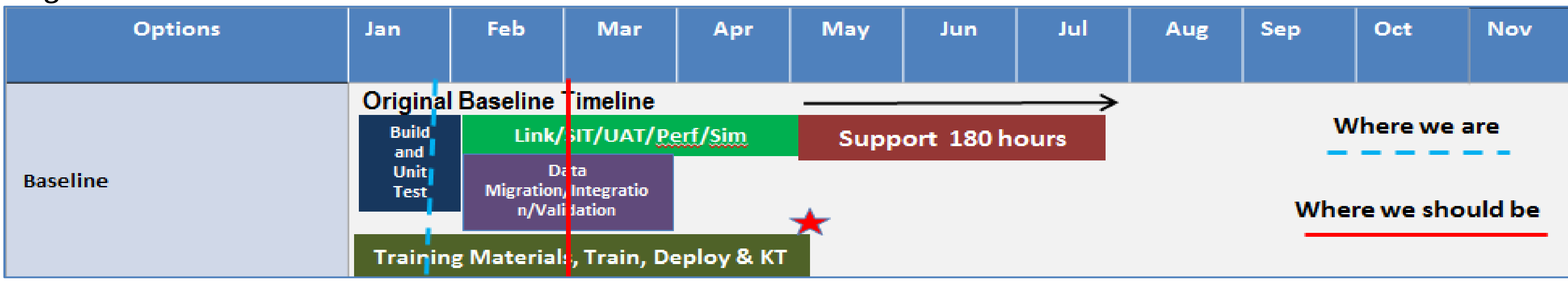
- Accounting for Global Adjustment (GA) deferral mechanism and the Affordability Fund are particularly complex
- MOE, MOF/OFA, TBS, OPG, H1, IESO and external advisors have collaborated on transaction structures and fiscal implications over the past several weeks. Details are not yet final.
- Affordability Fund:
  - OPCD is reviewing draft trust documents and transfer payment agreements which anticipate an initial transfer of funds will be made prior to the 2016-17 year end ($100M)
- GA deferral mechanism -- If all requirements can be met, an accounting analysis is expected to support: (1) increase in provincial borrowing (2) no increase in net debt, and (3) no impact on annual surplus/deficit, but depending on funding to OPG/Trust from Province, an increase in interest on debt and an increase in income from OPG (to offset IOD increase) will result.
  - Draft legislation and financing structure critical to informing accounting analysis
  - High audit risk re: intended accounting treatment, including:
    - Rate regulated accounting on IESO books
    - OPG's role in structure re: transparency
  - Complexity of structure and length of deferral/recovery increase risk
  - IESO Board has approved changes to reporting for December 31, 2016 financial statements and obtain external accounting opinion supporting rate regulated accounting
  - OPG to obtain external accounting opinion on accounting for OPG Trust
- Auditor General requested briefing – scheduled for April 19, 2017 (TBC)

# 12. CHIRP Implementation

**Schedule:**

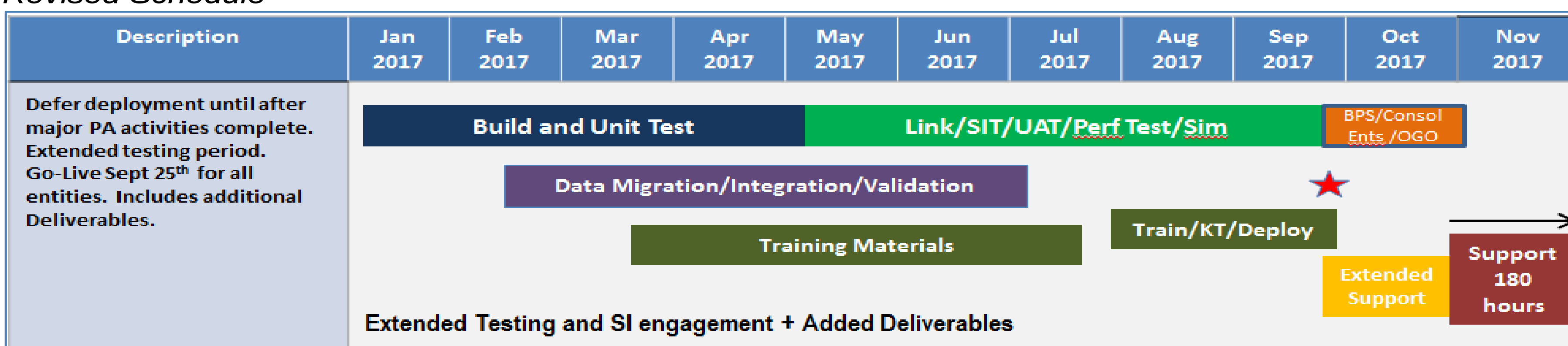
Original Schedule below reflects the plan for May 1st Go-Live. Due to significant delays related to competing business need, the project won't be able to meet the indicated timeline.

*Original Schedule*




The revised schedule for option 2 has been adjusted to circumvent the labour-intensive PA periods of May to September. Test periods are extended to better align with APFR schedule and time constraints. It also reflects the additional Deliverables items.

*Revised Schedule*



# 13. New PSAB Standards

- Pro-Forma CFS disclosed and discussed on future changes in accounting standards. The Province is currently assessing the impact of these new standards on its consolidated financial statements.

  List of PSAB future changes in accounting standards and standards in progress:

| PSAB Future Accounting Standards | Impacting - Fiscal Period / Status |
|---|---|
| Related Party Disclosures | 2017-18 |
| Inter-Entity Transactions | 2017-18 |
| Assets, Contingent Assets and Contractual Rights | 2017-18 |
| Restructuring Transactions | 2018-19 |
| Financial Instruments & Foreign Currency | 2019-20 |
| Standards - Work in Progress | |
| Conceptual Framework | SOP- Expected in Q4-2017 |
| Asset Retirement Obligations | ED- Expected in Q1-2017 |
| Revenue | ED- Expected in Q2-2017 |
| P3 project. | SOP- Expected in Q2-2017 |
| Employee Future Benefits (Pensions) | IOC-Province working on response to PSAB |

# 14. External Accounting Advisor

- During 2016/17, OPCD issued an RFS to procure an external accounting firm to provide assistance in assessing complex accounting matters throughout the reporting period.
- The process was initiated at the suggestion of the former ADM and Provincial Controller as a means to ensure timely availability of resources to support OPCD on complex matters, and reduce the time and effort required by both OPCD resources as well as external advisory service firms to engage in the procurement process on a frequent basis.
- An external firm was engaged through a competitive procurement process and has been used over the past several months to review and advise on a number of OPCD projects, including:
  - Review of the draft accounting policy and guidelines for contaminated sites reporting
  - Accounting for a HoldCo as a GBE
  - GBE dilution of shares
  - Accounting for conservation costs
  - Review of OPCD analysis of the Brampton Hydro transaction

# Historical Audit Sign-off and Release Dates

| PUBLIC ACCOUNTS | | |
| --- | --- | --- |
| YEAR | RELEASE DATE | AUDIT SIGN-OFF DATE |
| 2015-16 | 6-Oct-16 | 5-Oct-16 |
| 2014-15 | 28-Sep-15 | 21-Aug-15 |
| 2013-14 | 22-Sep-14 | 19-Aug-14 |
| 2012-13 | 10-Sep-13 | 14-Aug-13 |
| 2011-12 | 13-Sep-12 | 6-Sep-12 |
| 2010-11 | 23-Aug-11 | 8-Aug-11 |
| 2009-10 | 23-Aug-10 | 30-Jul-10 |
| 2008-09 | 25-Sep-09 | 31-Jul-09 |
| 2007-08 | 25-Aug-08 | 1-Aug-08 |
| 2006-07 | 17-Aug-07 | 23-Jul-07 |
| 2005-06 | 24-Aug-06 | 2-Aug-06 |

| | |
|---|---|
| **From:** | Schuurman, Tim (MOF) |
| **To:** | Brian Lewis (MOL); Ronald Kwan; Gadi Mayman |
| **Cc:** | Selena Esmail (MOF) |
| **Subject:** | Fw: SoC briefing accounting risks_Nov 15.pptx |
| **Date:** | Tuesday, November 15, 2016 6:36:11 PM |
| **Attachments:** | SoC briefing accounting risks_Nov 15.pptx |

I'm not sure if any of you have seen this (maybe it was just me who didn't know this was being worked on).

This is an important piece of the fiscal path looking ahead and we should all know about these as they cut across the electricity finance, borrowing, debt and revenue components.

This was prepared for the SOC.

Tim

From: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
Sent: Tuesday, November 15, 2016 6:24 PM
To: Schuurman, Tim (MOF)
Cc: Esmail, Selena (MOF)
Subject: FW: SoC briefing accounting risks_Nov 15.pptx

Hi Tim,

Here is the deck from OPCD that was developed for the SoC.

Thanks,
Ryan

From: Laughton, Patrick (TBS)
Sent: November-15-16 4:31 PM
To: Birks, Ryan (MOF)
Subject: FW: SoC briefing accounting risks_Nov 15.pptx

From: Laughton, Patrick (TBS)
Sent: November-14-16 6:04 PM
To: Simone, Nicole (TBS); Nelson, Dane (TBS)
Cc: Hosick, Sarah (TBS)
Subject: FW: SoC briefing accounting risks_Nov 15.pptx

Here's the deck.

From: Laughton, Patrick (TBS)
Sent: November-14-16 1:37 PM
To: Hughes, Karen (TBS)
Cc: Hosick, Sarah (TBS)
Subject: FW: SoC briefing accounting risks_Nov 15.pptx

Hi Karen –

The attached deck has been updated following the meeting earlier with Cindy/Nadine.

Please let me know if you have comments. If you are ok I will send along to the DMO in advance of tomorrow's meeting with the SoC.

P.

From: Hosick, Sarah (TBS)
Sent: November-14-16 1:30 PM
To: Laughton, Patrick (TBS)
Subject: FW: SoC briefing accounting risks_Nov 15.pptx

Hi Patrick

Please see attached for the revised deck for the SoC briefing. Please let us know if Karen has any additional comments/edits.

Thanks
Sarah

From: Veinot, Cindy (TBS)
Sent: November-14-16 1:26 PM
To: Hosick, Sarah (TBS)
Cc: Petsche, Nadine (TBS)
Subject: SoC briefing accounting risks_Nov 15.pptx

See attached -- Cindy

Office of the Provincial Controller

# Financial Reporting Risks

November 15, 2016

Briefing to Secretary of Cabinet

# Purpose

- To highlight immediate and longer-term fiscal/financial reporting issues

- Options and recommendations to address  immediate high risk items
  - Pension Asset Accounting
  - OPG/H1 reporting

# Background

- The Provincial Budget and Public Accounts will be impacted by new and future changes to public and private sector accounting standards as well as the resolution of disagreements with the Auditor General

- Potential risks:
  - Outcome of Pension Asset Expert Advisory Panel and AG acceptance of the Panel's recommendations
  - Consistency between results reported by OPG and H1 vs. Public Accounts
  - Various current year transactions (e.g. cap & trade, Metrolinx transaction with City of Toronto)
  - Future standard setting projects (e.g. financial instruments, rate-regulated accounting)

- As a sovereign government, the Province is not bound by PSAB.  Legislation is in place to allow for a regulatory solution to mitigate risks (under FAA).

- The government regulated accounting for pension assets for the 2015/16 Public Accounts using a time-limited regulation (only for 2015-16).

- Under the AG Act, the audit opinion for the Public Accounts is based on the AG's judgment of 'appropriate GAAP'.  The AG is opposed to legislated accounting.

# Key Challenges

<u>Near Term</u>

1. Pension Asset Accounting
2. Consolidation reporting basis for H1 and OPG (US GAAP vs. IFRS)
3. Specific transactions (transfer payments similar to GIF, Metrolinx)
4. Cap and Trade accounting (accounting for proceeds from auction and expenses)
5. Expected reduction in AG materiality used for Public Accounts
6. Consolidation (presentation – e.g. BPS and what is consolidated – e.g. CASs)
7. Increased AG focus on governance and accounting re: contaminated sites
8. Other GBE transactions (Hydro One sale, recognition of unrealized gains/losses)
9. Implementation of Related Party disclosures – new accounting standard
10. Implementation of Hyperion Financial Management (parallel run)
11. Timing for release of 2016/17 Public Accounts – goal of an earlier release date (July 31)

<u>Future</u>:

1. Accounting for Financial Instruments – standard under review
2. PSAB -- new standards on asset retirement obligations, revenues, public-private partnerships
3. Finalization of PSAB Conceptual Framework
4. Timing and frequency of internal and external financial reporting
5. Basis for accounting for balanced budget legislation (budget and actuals)

# Pension Assets – High Risk

- In preparing the 2015-16 Public Accounts, the Province and the Auditor General's Office engaged in discussions regarding the appropriate application of Public Sector Accounting Board's (PSAB) standards, specifically in relation to pension accounting for the province's jointly sponsored pension plans.

- A time-limited regulation was passed for the 2015-16 Public Accounts to reflect a full valuation allowance against the pension assets. The AG provided her opinion that the 2015-16 results were fairly stated but qualified her opinion for lack of restatement of the 2014-15 results.

- A report from the Pension Asset Expert Advisory Panel, including recommendations on the interpretation of PSAS for the Province’s defined benefit plans is expected to be delivered by the end of December.

- It is uncertain whether the Auditor General will accept the recommendations of the Panel.

- Work plan underway – see Appendix A

# Accounting for GBEs – High Risk

**Government Business Enterprises (GBEs)**

- **OLG and LCBO** --
  - OLG and LCBO have been consolidated on International Financial Reporting standards (IFRS) since 2011/12
  - Results may be impacted by future changes to IFRS standards
  - No issues raised by AG

- **OPG and Hydro One** –
  - Private sector accounting standards for rate regulated entities changed effective January 1, 2015. PSAB requires that GBEs follow IFRS.
  - OPG and Hydro One are consolidated using US GAAP in the Province's consolidated financial statements which is the same basis that they report to securities regulators and the Ontario Energy Board.
  - The AG treats the difference between IFRS and US GAAP based results for OPG and Hydro One as errors on her Schedule of Unadjusted Differences (SUDs) listing. The largest impact relates to the discount rate on the nuclear asset retirement obligation. This difference is expected to be material in fiscal 2016-17.

# Risks Related to GBE Reporting (H1&OPG)

Risks of adopting IFRS for H1&OPG consolidation in the CFS:

1. Lack of transparency between stand-alone statements and results consolidated with the Province
2. Volatility under IFRS-based reporting for H1&OPG, especially due to the discount rate for OPG's Asset Retirement Obligation in fiscal 2016-17
   - Potential future changes in IFRS standards and US GAAP standards may cause further divergence from audited US GAAP-based reports issued by H1&OPG
3. Future of rate-regulated accounting under IFRS
   - IFRS currently has an interim standard on rate-regulated accounting and has a project underway evaluating whether a permanent standard supporting rate-regulated accounting will be issued
   - If H1&OPG were consolidated on an IFRS basis and rate regulated accounting was subsequently discontinued, more than $8 Billion of regulatory assets on the books of H1 & OPG would have to be analyzed to determine what amount would continue to be recorded (write-off would increase Province's Net Debt); additional volatility would be introduced into the Province's annual surplus/deficit.

# Options to Mitigate GBE Risks

1) **Adopt IFRS for consolidation of OPG/H1**
   - OPG/H1 results would be based on IFRS for Public Accounts. A material impact can be expected in 2016/17 when the ONFA plan is updated (due to a change in the discount rate associated with the asset retirement liability).
   - Differences in results reported by OPG/H1 (US GAAP) and the Province (IFRS) may be material.
   - Additional time, cost and effort would be involved in preparing and auditing a second set of IFRS based budgets and financial reports for Budget & Public Accounts purposes.
   - Risk continues regarding potential elimination of rate regulated accounting under IFRS
2) **Work to support the use of US GAAP with AG until the IFRS decision on rate-regulated accounting is complete**
   - IASB (International Accounting Standards Board), expects to issue a discussion paper on this project in calendar 2017. Given the widespread use of rate regulated accounting in Canada, the AcSB may determine the need for a Canadian solution. It would be inefficient to move to IFRS now and reconsider that move in the future.
3) **Regulate Consistent Accounting for GBEs** (see Appendix A re: proposed work plan)
   - Regulate Province's accounting for GBEs on modified equity basis of consolidation using the same GAAP as used by the entity itself (IFRS/US GAAP), with adjustments to confirm to the Province's accounting for unrealized gains/losses, and effective date for in-year changes to accounting policies for GBEs with different year-ends.
   - Regulation should be retroactively effective as at April 1, 2016 which was the first day that OPG and Hydro One were reported on a US GAAP basis in the Province's books. (for 2016/17)
   - No time-restriction, but may be reconsidered by the government at any time in the future.
   - Other considerations: Potential change to the AG Act, timing

Appendix A

# DRAFT Implementation Plan (Pensions)

| | Step | Actions |
|---|---|---|
| **November December 2016** | 1. Initiate Panel and support deliberations | Members announced November 10. Materials compiled, including position paper. |
| | 2. Engage external writer | Exemption from procurement policy to be approved |
| | 3. Run additional analysis/models as required | External actuary engaged |
| | 4. Complete analysis for additional plans | TBS with assistance from external advisors |
| | 5. Receive final report and summary | Share final report with AG and solicit agreement. Prepare summary document for public release. |
| **January 2017** | 6. Confirm accounting policy direction and valuation for Budget and Public Accounts | TBS & MOF |
| | 7. Draft communications products and briefing materials for Report from Panel | OPCD with TBS Communications (and MOF Comms) |
| **Feb 2017** | 8. Support impact analysis for Budget Document/Spring Bill | OPCD (TBS) to work with TBS, MOF on possible changes |
| | 9. Obtain AG acceptance of accounting | OPCD (TBS) to work with AG on concurrence |
| **Spring 2017** | 10. Any necessary changes to O.Reg. 395/11 or the Audit General Act could be reflected in Budget document or Spring Bill (TBD) | TBS & MOF Legal |

# DRAFT Implementation Plan (GBE Acctg)

| | Step | Actions |
|---|---|---|
| **November December 2016** | 1. Internal Briefings re: risks and potential solutions (acctg. reg) | Brief TBS, MOF, OEFC, MOE |
| | 2. Confirm policy direction | Confirm policy direction (through TB) |
| | 3. Consider draft of acctg. regulation | Review status of AcSB activities |
| | 4. Consider review of AG Act | TBS & MOF Legal (use same process as for changes to AG Act w.r.t. H1 IPO) |
| **January 2017** | 5. Draft communications products and briefing materials for Document | OPCD with TBS & MOF Comms |
| | 6. Accounting Regulation to be considered for Budget Bill or Spring Billl | OPCD |
| | 7. Consider implications of changes to Auditor General Act and Comms products for Budget Document/Spring Bill | OPCD (TBS) to work with TBS, MOF, MAG on possible changes and implications |
| **Spring 2017** | 8. Potential changes to Audit General Act could be reflected in Budget document or Spring Bill (TBD) | TBS & MOF Legal |

# IFRS vs. US GAAP Impacts (OPG/H1)

| | US GAAP | IFRS |
|---|---|---|
| **Asset Retirement Obligations** (Bruce Power portion buffered by rate reg) | • Constant discount rate, except for incremental changes (smoothing for prescribed facilities)<br>• Lifecycle costs capitalized and smoothed over remaining asset life<br>• Matches cost of service definition for regulatory purposes | • Strict IFRS would require annual update to discount rate (volatility)<br>• Lifecycle costs treated as variable (used fuel bundles) |
| **Decommissioning Costs** | • Similar to CGAAP | • Greater impact in years of decommissioning when variables costs will hit P&L (e.g. Pickering 2020) |
| **Rate Regulated Accounting** | • No plans to remove rate regulated accounting<br>• US GAAP consistent with basis up on which OPG and H! report, and are regulated (cost of service) | • IFRS14 is only a temporary standard<br>• Uncertainty remains regarding potential introduction of rate regulated accounting under IFRS<br>• If RRA g is removed, then RRA/RRL would be removed from OPG/H1 results and volatility introduced in annual surplus/deficit<br>• Costs recoverable through rates would be reported as costs to be covered by taxpayers |
| **Pension / OPEB Accounting** | • No significant difference | • Less ability to smooth past service costs (volatility risk for future plan amendments) |
| **Capitalization of Indirect Overhead** | • Allows for capitalization of indirect overhead,. | • Indirect overhead cannot be capitalized. If rate regulated accounting is not permanently introduced into IFRS, volatility will be introduced into CFS. (approx. 300M/year) |
| **Lease Accounting** | • Standard changing but maintaining the concept of operating versus capital leases | • Moving to a single approach to recognize all leases on the balance sheet (as capital), which would result in recognition of liability and amortization |
| **Revenue Accounting** | • US standard largely converged with IFRS | • Similar to US GAAP (Converged) |

# AG Mandate Summary

| | |
|---|---|
| **ON** | (3) In the annual report in respect of each fiscal year, the Auditor General shall express his or her opinion as to whether the consolidated financial statements of Ontario, as reported in the Public Accounts, present fairly information in accordance with appropriate generally accepted accounting principles and the Auditor General shall set out any reservations he or she may have. 2004, c. 17, s. 14 (8). |
| **BC** | 11 (1) The Auditor General must report each year, in accordance with generally accepted auditing and assurance standards, to the Legislative Assembly on the financial statements of the government reporting entity.<br>(2) The report under subsection (1) must state whether these financial statements are presented fairly in accordance with generally accepted accounting principles.<br>(3) The auditor in accordance with section 10 (3) must report each year on the financial statements of the government organizations and of the trust funds, in accordance with generally accepted auditing and assurance standards, to<br>(a) the boards of management of the government organizations and the trustees of the trust funds to which the appointment is made, and<br>(b) the minister responsible. |
| **AB** | (2) A report of the Auditor General under subsection (1) shall (a) include a statement as to whether, in the Auditor General's opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles, |
| **SK** | 11. (3) For the purposes of this section, where an auditor, including an appointed auditor, is required to examine accounts and render an opinion on those accounts, he shall do so in accordance with generally accepted auditing standards as prescribed from time to time by the Canadian Institute of Chartered Accountants. |
| **MB** | 9(4) The Auditor General must express an opinion as to whether the financial statements included in the Public Accounts fairly present information in accordance with the accounting policies of the government stated in the Public Accounts and on a basis consistent with that of the preceding year, and must set out any reservations the Auditor General might have. |
| **NB** | [.10]The Auditor General shall examine the several financial statements required by section 48 of the Financial Administration Act to be included in the Public Accounts and shall express his opinion as to whether they fairly present information in accordance with stated accounting policies of the Province and on a basis consistent with that of the preceding year, together with any reservations he may have. |

TBS

# AG Mandate Summary

| | | |
|---|---|---|
| **NS** | Auditor General Act | 19 (1) The Auditor General shall audit the annual consolidated financial statements of the Government that are included in the public accounts required under the Finance Act.<br><br>(2) The Auditor General shall submit a report to the House of Assembly, which must be included in the public accounts and which must provide an opinion, prepared in accordance with generally accepted auditing standards, as to the fair presentation of the consolidated financial statements . 2010, c. 33, s. 19. |
| **NL** | Auditor General Act | [.11] The auditor general shall examine the several financial statements required by the Financial Administration Act to be included in the public accounts of the province, and any other statement that is required to be audited by the auditor general under that Act or another statement that the Minister of Finance may present for audit and shall express his or her opinion as to whether the financial statements present fairly the financial position, results of operations and changes in the financial position of the province in accordance with the disclosed accounting policies of the provincial government and on a basis consistent with that of the preceding year, together with reservations the auditor general may have. |
| **GOC** | Auditor General Act | 6. The Auditor General shall examine the several financial statements required by section 64 of the Financial Administration Act to be included in the Public Accounts, and any other statement that the President of the Treasury Board or the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have. |
| **QC** | Auditor General Act | 38. In his report on the annual financial statements of the Government, the Auditor General<br><br>(1) shall indicate whether, in his opinion, these statements present fairly the financial position of the Government, the results of its operations and the changes in its financial position in accordance with the accounting principles or policies stated in the financial statements and whether these principles or policies have been applied on a basis consistent with that of the preceding fiscal year; |

# Draft Regulation (GBE Accounting)

- Ontario Regulation 395/11 is amended by adding the following section:
- **Clarity on the accounting policies and practices to be followed to prepare the consolidated financial statements of the Province**
  - 3. (1) The modified equity basis of consolidation required by Public Sector Accounting Standard PS 1300.35 (Government reporting entity), issued by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants as issued in June 1996 shall be the basis for consolidating government business enterprises and government business partnerships.
  - (2) For purposes of preparing the Province's consolidated financial reports, the basis of **GAAP** used by government business enterprises (GBE) in preparing their entity-level financial statements, including any regulated requirements, will be applied in conjunction with the basis of consolidation in section 3(1) above.
  - (3) Where a GBE's financial reporting year-end differs from the Province's reporting period ending March 31st, the Province's consolidated financial reports will reflect the GBE's accounting policies in place as at April 1st of the Province's reporting period.
- *As long as Hydro One, OPG, LCBO and OLG are controlled by the province they will be consolidated on the modified equity basis (no reference to GBEs).

# PSAB Standards Specific Items

- Financial Instruments

  (Financial Instruments and Foreign Currency Translation)

  - The effective date for PSAB's new standard has been deferred to April 1, 2019
  - The new standard, as currently written, would introduce fair value accounting into government financial reporting. The volatility could not be budgeted for, resulting in variances from plan.
  - The new standard would impact the province's annual surplus/deficit results due to the elimination of hedge accounting, and also impact the province's net debt position due to reflection of unrealized gains and losses..
  - A new financial statement, the Statement of Remeasurement Gains and Losses would be introduced to reflect unrealized gains and losses.
  - PSAB has initiated a review of their current standard and has met with the OFA and OPCD.
  - There is no certainty that PSAB will introduce hedge accounting which would address most stakeholder concerns with the new standard. Hedge accounting is also commonly reflected in FI standards around the world.
  - In addition, uncertainty remains regarding the ability to retain the province's current accounting treatment for ONFA under the new standard. Once the new standard is known, OFA and OPCD will consult with the AG regarding interpretation and impact on ONFA reporting.

# PSAB Standards Specific Items

Related Party Transactions

- PSAB's final standard will impact disclosures starting with the 2017/18 Public Accounts.
- The main requirements of the standard relate to government transactions with private sector entities where key government management and political personnel, or close family members are related to a private sector entity or their key management or owners.

## Revenue Standard

- PSAB has a project underway to revisit revenue recognition standards.
- The new Exposure Draft is expected to be released in the third quarter of 2016

## Assets Standard

- PSAB has issued revised standards that will require additional disclosures.

# PSAB Standards Specific Items

Asset Retirement Obligations

- PSAB is expected to issue an Exposure Draft on Asset Retirement Obligations in the near future

PSAB Conceptual Framework Task Force

- PSAB is working through a revised conceptual framework – could have implications on presentation and disclosure; unlikely to have any impact on deficit or surplus

Employee Future Benefits

- PSAB has initiated a project to review how pension plans are reported by the public sector.
- ON is hopeful that PSAB may be able to include certain issues with PS 3250 which are resulting in disagreements on interpretation and application between the Auditor General and TBS.

# Other - Specific Items

Tax Revenue Accrual Methodology

- OEP, OPCD and the OAG continue to monitor and assess potential enhancements to the current methodology used to accrue tax revenues for Public Accounts purposes.

Expectation for Quarterly External Reports

- Implementation of CHIRP will allow for consideration of in-year external reporting. Quarterly reporting already a feature for many other senior Canadian governments.

Potential for Earlier Release Date for Public Accounts

- Implementation of CHIRP, supplemented by modified reporting requirements by ministries and consolidated orgs and change in OAG's audit approach will increase feasibility of earlier release.
- During the 2016/17 Public Accounts, OPCD will be undertaking a parallel run using the new Hyperion Financial Management system.

| | |
|---|---|
| **From:** | Francisco Chinchon |
| **To:** | Ronald Kwan; John Kim |
| **Subject:** | RE: Audit Deck for Tomorrow |
| **Date:** | Wednesday, March 22, 2017 11:46:05 AM |
| **Attachments:** | 2016-17 Public Accounts Briefing DMs pre_AG Mar21_v1_CEFD_markup.pptx<br>image001.png |

Hi,

I have a few edits and comments.

Thanks,

Francisco

**From:** Ronald Kwan
**Sent:** Wednesday, March 22, 2017 9:57 AM
**To:** Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>
**Subject:** FW: Audit Deck for Tomorrow

Hi,

Please review, particularly slides 6, 12, 14, and 19, at least at a glance they touch on electricity and assets.

Does the Brampton gain look right? Does that include the PILs amount? Should check with OPCD (Nadine?) on that.
Please strictly limit circulation (managers only), give the sensitivity of much of the discussion items in the deck.

Thanks,
Ron

**From:** Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
**Sent:** March-22-17 07:50
**To:** Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Brian Lewis (MOL) <Brian.Lewis@ontario.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>
**Subject:** FW: Audit Deck for Tomorrow

Not sure if any of you saw this deck or were consulted on its content….but since it kind of impacts you guys, thought I'd pass it on.

*Tim Schuurman*
*Assistant Deputy Minister*
*Office of the Budget, Ministry of Finance*
*7 Queen's Park Cres.*
*Toronto ON M7A 1Z1*

*Tel: 416-327-0173*
Office of the Budget
MINISTRY of FINANCE

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**From:** Birks, Ryan (MOF)
**Sent:** March-21-17 7:16 PM
**To:** Schuurman, Tim (MOF); Esmail, Selena (MOF); Tiburcio, Daniel (MOF)
**Subject:** FW: Audit Deck for Tomorrow

FYI, OPCD's audit deck for tomorrow's PER pre-brief…

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**From:** Hosick, Sarah (TBS)
**Sent:** March-21-17 7:04 PM
**To:** Laughton, Patrick (TBS); Birks, Ryan (MOF)
**Subject:** Audit Deck for Tomorrow

Hi Patrick and Ryan,

Apologies for the late hour on our deck for the morning's briefing. Ryan – have you sent the PER report one to your DMO already?

Thanks
Sarah

TBS

**Office of the Provincial Controller Division**

# 2016-17 Public Accounts Planning

## Briefing Deck for DMs

March 24, 2017

# Purpose

- AG meeting with DMs (TBS/MOF) is expected to focus on reviewing the content of her Audit Planning Report for the 2016-17 Public Accounts Audit
- Other topics may include:
  - OPCD’s proposal on accelerated Public Accounts schedule
  - Expectations for future years’ audit timing
  - Key accounting Issues for 2016/17
  - CHIRP implementation and audit
  - PSAB accounting standards (future impacts)
  - Pre-Election Report (MOF to provide separate deck)

# OPCD Audit Planning with OAG

| Issue | Raised by | Communication with OAG | Status/Outcome |
|---|---|---|---|
| Early release of 2016-17 Public Accounts | OPCD | • Dec. 1, 2016 - OPCD discussed the potential early release of PA by end of July<br>• Jan. 11, 2017 - OPCD provided formal proposal on early release to OAG including detailed timeline on key audit components | • Jan. 17, 2017 – at OPCD/AG Sr. Management and Staff meeting,<br>o AG indicated that additional resources will be required to meet the early timeline.<br>o AG's preferred approach is to get the tabling date and then work backwards on her sign-off date.<br>• Feb. 21, 2017 - OAG formally communicated to DMs (TBS/MOF) that her expected sign-off date will be August 18, 2017<br>• Mar. 1, 2017 – OAG/OPCD planning meeting- OPCD acknowledges AG timing and advises of internal targets |
| OPCD initiatives to enabling early release | OPCD | • Engaging key stakeholders (OEP, CAOs, BPS sector ministries, OAG) to assess feasibility and key impacts, including approach to tax revenue auditing | • OPCD will work towards meeting the internal target completion of July 31, 2017 (as communicated to the OAG) and acknowledges that AG sign off date is at AG's discretion |
| OPCD's efforts to address OAG's concerns | OAG | • OPCD to coordinate collection of audit documentation centrally on behalf of OAG from all ministries, central agencies (PBC listing)<br>• It would be inappropriate and not feasible for OPCD to complete a QA review of info on OAG's behalf | • OPCD has created central data collection tool using SharePoint on behalf of the OAG<br>• OPCD has communicated plans and process to Ministries (March 21, 2017)<br>• OPCD will monitor status of completeness of documents<br>• OPCD is awaiting confirmed listing of required OAG documentation (including due dates) to initiate the process with the OPS financial community |

# Key Action Items: OPCD and OAG

| Key Action Item | Responsibility | Communication | Status |
|---|---|---|---|
| Key audit risk assessment (re: early release scenario) | OPCD | • Risk assessments for CIP/PIT and hospital sector submissions were compiled and shared with the OAG | • Completed and well received by OAG, including draft memo from OEP on tax revenue and detailed statistical analysis on MOHLTC submissions |
| Pro forma 16/17 Consolidated Financial Statements and Notes | OPCD (provided)<br>OAG (to respond) | • 1st draft version was provided to the OAG on Mar. 1st<br>• Enhanced disclosure (see next slide) | • Pending comments from the OAG (target date: by end of March) |
| OAG request for OPCD coordination of audit requests | OAG & OPCD | • OPCD agreed to coordinate collection of audit documentation centrally, and advised OAG that cannot perform QA review<br>• OPCD requested examples of requests – none forthcoming | • Initial list was shared with OPCD on Feb 17, 2017, but lacked required due dates; therefore, OPCD is not yet able to initiate any requests on behalf of the OAG<br>• Pending revised list with due dates from OAG (expected by end of this week) |
| Draft audit planning report | OAG | • Initially expected by Feb. 24th (as per January 16 meeting)<br>• Date changed to March 16 by OAG on March 1 | • Nothing received yet as of March 21 making difficult to brief for DM/AG briefing on March 24 |

# Pro-Forma Consolidated Financial Statements

- To ensure a more timely and efficient audit process and eliminate disclosure surprises late in the Public Accounts process,  OPCD prepared  Pro-Forma Consolidated Financial Statements (CFS) and shared with AG on March 1, 2017 for review/comments
- OAG is expected to provide comment on Pro-Forma CFS by end of March 2017
- In 2015/16, OPCD reviewed financial statement disclosure according to a checklist provided by the OAG
- In 2016-17, OPCD implemented a PSAB disclosure checklist from another source and identified a few additional areas to enhance reporting in the consolidated financial statements and related note, and to ensure that PSAB's presentation and disclosure requirements are met (additional details on next slide)

# Pro-Forma (Enhanced Presentation and Disclosures)

| Enhanced Presentation Disclosures | Comments |
|---|---|
| Net Debt | • Net debt presentation excludes – Pre-paid and Inventory for consumptions (Non Financial Assets) – increase in net debt<br>• Net Debt Budget presentation – Added budget net debt |
| Schedule-9 | • Separate disclosure and presentation for H1-non controlling interest<br>• Additional disclosures on GBE’s inter-company assets/liabilities and debt repayment schedule |
| Pension | • Accepted the EAP recommendation on OTTP and OPSEU pension assets and re-stated the comparative financials.<br>• Added disclosures on Market Related Asset Values |
| Expanded disclosure | • Revenue<br>• Interest capitalized<br>• Trust<br>• Loan recognition basis and valuation allowance<br>• SB sinking fund balance<br>• Cash and cash equivalent |
| Work in Progress Items for 2016-17 PA and aim to include in second version of Pro-Forma CFS | • BPS line by line<br>• Contaminated sites (disclosures) |

# Key Audit Topics

1. Tax revenue estimates
2. Pension asset accounting
3. Education Life and Health Trust (ELHT) reporting
4. Accounting for other GBE transactions
5. Cap and Trade accounting
6. OPG/H1 IFRS reporting and audit requirements
7. Line by line reporting for BPS
8. Accounting for transit assets
9. EDU Remedy
10. Contaminated sites

# Other Issues

11. Electricity rate mitigation
12. CHIRP implementation
13. New PSAB standards
14. External accounting advisors

# 1. Tax Revenue Estimates

- The Office of the Provincial Controller has consulted with the Office of Economic Policy (OEP) regarding the implications of an earlier Public Accounts release on accuracy of major taxation revenue estimates.
- These include 3 major taxes:
  - » Harmonized Sales Tax (HST),
  - » Personal Income Tax (PIT, which includes the Ontario Health Premium); and
  - » Corporate Income Tax (CIT)
- OEP's analysis suggests that, of the 3 major taxes, only the PIT revenue estimate clearly suffers from reduced accuracy as a result of the earlier reporting dates. Because of AG's planned release date, June data will be available to share with the OAG in the last week of July.
- OEP confirms that for CIT revenues, the earlier submission would not reduce the accuracy of public accounts estimate under the current methodology for estimating CIT revenues.
- OEP confirms that for HST revenue, any loss in accuracy related to using an earlier estimate is limited.
- OPCD shared OEP's draft memo on Risk Analysis for Tax Revenue Accruals with AG on March 1, 2017.

- Note – OPCD has not yet discussed the PIT risk re: prior year tax planning that was raised by MOF last week.

# 2. Pension Asset Accounting

OTPP and OPSEUPP

- Fiscal impact originally included in FES for valuation allowances was based on AG's position ($2.2 Billion in 2016-17, higher amounts in out-years)
- Expert Panel recommendations on OTPP and OPSEUPP were adopted in Q3 update and the valuation allowances recorded in 2015-16 were reversed
- Technical briefing on Panel's recommendations was held on February 13, 2017
- AG briefing in response to Panel's report held February 16 confirmed continued disagreement
- FAO implied during discussion on March 17/17 that he would present impact of both views

HOOPP and CAATPP

- Panel has completed work on HOOPP and CAATPP and will recommend a valuation allowance be taken based on the current governance structure; DM and MO briefing on March 20, 2017
- Full valuation allowance for 2016/17: HOOPP – NIL, CAATPP - $14M
- For PRRT, full valuation allowances for 2017-18; HOOPP - $102M, CAATPP - $25M; significantly increases in out years (2018-19 -- $765M, 2019-20 - $914M)
- Exploring potential changes in governance structure to align accounting for HOOPP and CAATPP with other joint sponsored pension plans

All Plans

- OPCD provided updated estimates of pension liability and expense in February
- External actuarial advisor engaged to complete valuation allowance assessment on on all plans

# 3. ELHT Reporting

- Creation of ELHTs (in total 6 trusts) was agreed during the 2014-17 agreement to streamline the employees' health, life and dental benefits for the sector
  - Legislation: Section 144.1 of the *Income Tax Act* (Canada)
  - Non-controlled trusts are not consolidated into the Province's books.
  - There is no change to accounting on the School Boards' books.
- Crown agreed to provide $175M one-time funding to the trusts
  - Trusts are effective once the trust agreements are signed.
  - 4 trusts established during 2016-17 already received funding
  - Remaining funding will be paid in 2017-18 for the remaining 2 trusts once established
- On March 10th, upon the AG's request, EDU met the AG and her staff
  - EDU walked through the structure of the trusts and accounting implications
  - The AG appeared to agree in general with the EDU's proposed accounting analysis
  - The AG raised the issue on the potential risk of the government to fund the trust deficit
    - Upon further analysis by OPCD and EDU, it is concluded that the government is
      - not exposed to any risk for active employees benefit cost (97% of total trust members)
      - only exposed to a small portion of the retiree benefits liability (less than 3% of total trust members); the liability will be diminishing over years due to eligibility around age limit for most retirees in this group.
      - Analysis is not yet final

# 4. Accounting for Other GBE Transactions

## (H1 Sale, Brampton Hydro Sale, etc.)

- Gain from second tranche of Hydro One sale to be recognized in 16/17, excluding gain on sale of shares to OPG (related party) which will be deferred.
- Accounting analysis for Brampton Hydro sale drafted by OPCD ~~(est. gain $180M)~~ in 16/17 to be shared with the OAG in April.
- Status:
  - OPCD analysis of various energy sector transactions shared with OAG as completed, following review by external advisors.
  - Control analysis on Hydro One HoldCo to be undertaken based on anticipated future transactions (no impact on 2016/17).

# 5. Cap and Trade Accounting
## (for 1st Auction Proceeds)

- Accounting analysis on recognition of proceeds from March 2017 auction shared with OAG
- Revenue from first auction (March 22, 2017) will be reported in 2017-18 under either the Province's or AG's accounting approach
- Province's accounting policy -- revenue should be recorded in the period when the Province transfers emission allowances to purchasers, including both current and future vintages
- Status:
  - AG and OPCD disagree on revenue recognition point; however, difference would have no impact on the 2016/17 Public Accounts as it would be recognized in 2017/18 under either approach
  - AG believes revenue should be recognized on the date of auction certification
  - Based on anticipated future timelines, future timing of auction is not expected to result in any difference, but monitoring will be required

# 6. OPG/H1 IFRS Reporting and Audit Requirements

- FES reflected US GAAP based results for OPG and H1
- Q3 announced the adoption of IFRS-based consolidation of OPG and H1 results effective with the 2016/17 Public Accounts
- AG was notified prior to the Q3 release
- The net impact of adopting IFRS (IFRS14) for the Public Accounts will reflect OPG's preferred method of valuing its nuclear asset retirement obligation
- Status
  - Updated estimate of impact from OPG is expected before the end of March to update estimated 2016/17 impact and out years
  - OPCD working with OAG, OPG and H1 on supplementary audit requirements
  - OCI will remained as part of AG's error summary (b/s only)
  - OAG has confirmed that OPG's supplementary audit information requirements can focus only on the 'preferred method' of accounting under IFRS for asset retirement obligations (AROs) but continues to require that procedures be performed to statutory level of materiality that would be required as if OPG"s f/s were being audited

# 7. Line-by-Line Reporting for BPS

- AG preference for line by line consolidation of hospitals, school boards and colleges on statement of operations, as well as consolidation of Children's Aid Societies
- Status:
  - Hospitals, school boards and colleges to be implemented on line by line basis beginning with the 2016/17 Public Accounts, including restated 5-year historical trend analysis
  - Plans for change communicated to OAG
  - Discussions held with sector ministry stakeholders and formal notification of decision provided
  - Impact of potential consolidation for CAS has been initiated which is being considered for future years

# 8. Accounting for Transit Assets
## (Metrolinx MOU with City of Toronto)

- FES reflects assets will be Provincially controlled (TCA, depreciation impacts vs. transfer payments)
- Accounting risk – if assets assessed as **not being controlled by the Province**, assets would be written off of Province's balance sheet and considered transfers to the City of Toronto
- Status:
  - OPCD engaged with Metrolinx and MTO in early 2017
  - Discussions expanded to also include PwC (Metrolinx's external auditor)
  - Metrolinx responsibility to identify potential accounting risks clarified
  - Metrolinx has engaged PwC to issue an accounting opinion based on binding Agreement in Principle between Province and City
    - No certainty that agreement will be signed by March 31, 2017

# 9. EDU Remedy

- A $500M accrual for the education sector was included as an expense in the consolidated financial statements of the Province for 2015-16
- A contingent liability arose from a constitutional challenge by the sector on being legislated back to work with a defined labour agreement.
- The judgement of fault was given before the completion of the Public Accounts which confirmed the liability for 2015-16, but did not provide a cost. The judgement directed the Province and the claimants to negotiate a remedy.
- Based on the savings achieved from the legislation, the Ministry substantiated the $500M estimate which they considered the best estimate available on the cost of the remedy.
- Ministry of Education advised that:
    - Negotiations are on-going with the unions.
    - Negotiations for four unions are completed but represent a small number of members therefore estimation via extrapolation is not advised.
    - Also, remedies solution may differ among the unions.
- If information becomes available that would inform a better estimate of the expense before the end of the audit, the government would need to update the accrual resulting in an additional cost or a recovery.

# 10. Contaminated Sites

i. AG Follow-up audit on VFM audit for contaminated sites
   - OPCD, OIAD and ministries collaborated on an updated status of responses to the AG's 2015 VFM recommendations
   - Initial information provided to AG on March 21, 2017
   - OIAD is also engaged to undertake a review of contaminated sites accruals in advance of OAG fieldwork; steps being taken to optimize OAG reliance on OIAD work

ii. New contaminated sites for 16/17
   - Additional liabilities of approx. $54.1M identified in 2016-17.
   - Grassy Narrows -- potential liability based on actions taken by government (constructive obligation). OPCD is working with the MOECC to confirm the accounting treatment
     - Internal legal opinion from MOECC – moderately low risk that court would find Ontario is legally required to expend funds based on statements made

# 11. Electricity Rate Mitigation

- Accounting for Global Adjustment (GA) deferral mechanism and the Affordability Fund are particularly complex
- MOE, MOF/OFA, TBS, OPG, H1, IESO and external advisors have collaborated on transaction structures and fiscal implications over the past several weeks. Details are not yet final.
- Affordability Fund:
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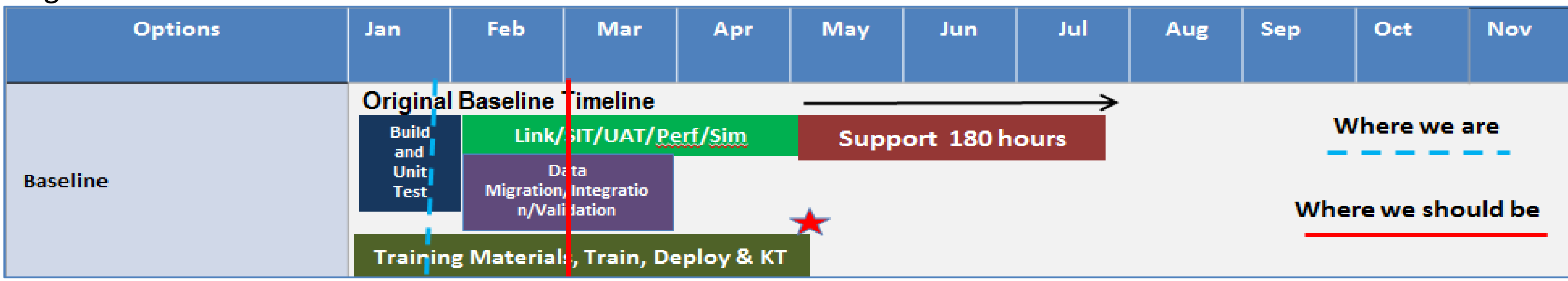


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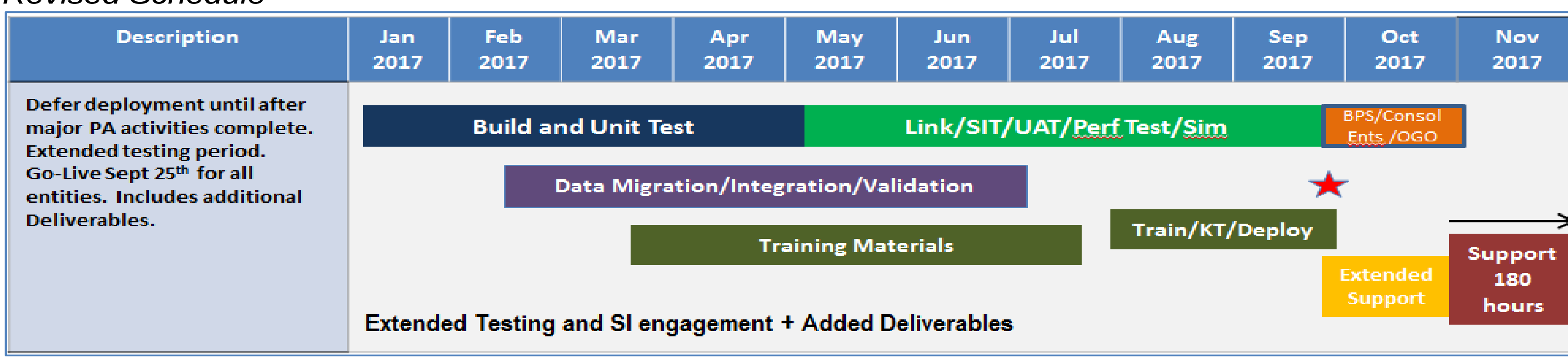

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| | |
|---|---|
| **From:** | Francisco Chinchon |
| **To:** | Ronald Kwan; John Kim |
| **Subject:** | RE: Audit Deck for Tomorrow |
| **Date:** | Wednesday, March 22, 2017 11:46:05 AM |
| **Attachments:** | 2016-17 Public Accounts Briefing DMs pre_AG Mar21_v1_CEFD_markup.pptx<br>image001.png |

Hi,

I have a few edits and comments.

Thanks,

Francisco

**From:** Ronald Kwan
**Sent:** Wednesday, March 22, 2017 9:57 AM
**To:** Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; John Kim <John.Kim@ofina.on.ca>
**Subject:** FW: Audit Deck for Tomorrow

Hi,

Please review, particularly slides 6, 12, 14, and 19, at least at a glance they touch on electricity and assets.

Does the Brampton gain look right?  Does that include the PILs amount?  Should check with OPCD (Nadine?) on that.
Please strictly limit circulation (managers only), give the sensitivity of much of the discussion items in the deck.

Thanks,
Ron

**From:** Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
**Sent:** March-22-17 07:50
**To:** Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Brian Lewis (MOL) <Brian.Lewis@ontario.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>
**Subject:** FW: Audit Deck for Tomorrow

Not sure if any of you saw this deck or were consulted on its content….but since it kind of impacts you guys, thought I'd pass it on.

*Tim Schuurman*
*Assistant Deputy Minister*
*Office of the Budget, Ministry of Finance*
*7 Queen's Park Cres.*
*Toronto ON M7A 1Z1*

*Tel: 416-327-0173*
Office of the Budget
MINISTRY of FINANCE

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**From:** Birks, Ryan (MOF)
**Sent:** March-21-17 7:16 PM
**To:** Schuurman, Tim (MOF); Esmail, Selena (MOF); Tiburcio, Daniel (MOF)
**Subject:** FW: Audit Deck for Tomorrow

FYI, OPCD's audit deck for tomorrow's PER pre-brief…

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**From:** Hosick, Sarah (TBS)
**Sent:** March-21-17 7:04 PM
**To:** Laughton, Patrick (TBS); Birks, Ryan (MOF)
**Subject:** Audit Deck for Tomorrow

Hi Patrick and Ryan,

Apologies for the late hour on our deck for the morning's briefing. Ryan – have you sent the PER report one to your DMO already?

Thanks
Sarah

TBS

**Office of the Provincial Controller Division**

# 2016-17 Public Accounts Planning

## Briefing Deck for DMs

March 24, 2017

# Purpose

- AG meeting with DMs (TBS/MOF) is expected to focus on reviewing the content of her Audit Planning Report for the 2016-17 Public Accounts Audit
- Other topics may include:
  - OPCD's proposal on accelerated Public Accounts schedule
  - Expectations for future years' audit timing
  - Key accounting Issues for 2016/17
  - CHIRP implementation and audit
  - PSAB accounting standards (future impacts)
  - Pre-Election Report (MOF to provide separate deck)

# OPCD Audit Planning with OAG

| Issue | Raised by | Communication with OAG | Status/Outcome |
|---|---|---|---|
| Early release of 2016-17 Public Accounts | OPCD | • Dec. 1, 2016 - OPCD discussed the potential early release of PA by end of July<br>• Jan. 11, 2017 - OPCD provided formal proposal on early release to OAG including detailed timeline on key audit components | • Jan. 17, 2017 – at OPCD/AG Sr. Management and Staff meeting,<br>o AG indicated that additional resources will be required to meet the early timeline.<br>o AG's preferred approach is to get the tabling date and then work backwards on her sign-off date.<br>• Feb. 21, 2017 - OAG formally communicated to DMs (TBS/MOF) that her expected sign-off date will be August 18, 2017<br>• Mar. 1, 2017 – OAG/OPCD planning meeting- OPCD acknowledges AG timing and advises of internal targets |
| OPCD initiatives to enabling early release | OPCD | • Engaging key stakeholders (OEP, CAOs, BPS sector ministries, OAG) to assess feasibility and key impacts, including approach to tax revenue auditing | • OPCD will work towards meeting the internal target completion of July 31, 2017 (as communicated to the OAG) and acknowledges that AG sign off date is at AG's discretion |
| OPCD's efforts to address OAG's concerns | OAG | • OPCD to coordinate collection of audit documentation centrally on behalf of OAG from all ministries, central agencies (PBC listing)<br>• It would be inappropriate and not feasible for OPCD to complete a QA review of info on OAG's behalf | • OPCD has created central data collection tool using SharePoint on behalf of the OAG<br>• OPCD has communicated plans and process to Ministries (March 21, 2017)<br>• OPCD will monitor status of completeness of documents<br>• OPCD is awaiting confirmed listing of required OAG documentation (including due dates) to initiate the process with the OPS financial community |

# Key Action Items: OPCD and OAG

| Key Action Item | Responsibility | Communication | Status |
|---|---|---|---|
| Key audit risk assessment (re: early release scenario) | OPCD | • Risk assessments for CIP/PIT and hospital sector submissions were compiled and shared with the OAG | • Completed and well received by OAG, including draft memo from OEP on tax revenue and detailed statistical analysis on MOHLTC submissions |
| Pro forma 16/17 Consolidated Financial Statements and Notes | OPCD (provided) OAG (to respond) | • 1st draft version was provided to the OAG on Mar. 1st<br>• Enhanced disclosure (see next slide) | • Pending comments from the OAG (target date: by end of March) |
| OAG request for OPCD coordination of audit requests | OAG & OPCD | • OPCD agreed to coordinate collection of audit documentation centrally, and advised OAG that cannot perform QA review<br>• OPCD requested examples of requests – none forthcoming | • Initial list was shared with OPCD on Feb 17, 2017, but lacked required due dates; therefore, OPCD is not yet able to initiate any requests on behalf of the OAG<br>• Pending revised list with due dates from OAG (expected by end of this week) |
| Draft audit planning report | OAG | • Initially expected by Feb. 24th (as per January 16 meeting)<br>• Date changed to March 16 by OAG on March 1 | • Nothing received yet as of March 21 making difficult to brief for DM/AG briefing on March 24 |

# Pro-Forma Consolidated Financial Statements

- To ensure a more timely and efficient audit process and eliminate disclosure surprises late in the Public Accounts process,  OPCD prepared  Pro-Forma Consolidated Financial Statements (CFS) and shared with AG on March 1, 2017 for review/comments
- OAG is expected to provide comment on Pro-Forma CFS by end of March 2017
- In 2015/16, OPCD reviewed financial statement disclosure according to a checklist provided by the OAG
- In 2016-17, OPCD implemented a PSAB disclosure checklist from another source and identified a few additional areas to enhance reporting in the consolidated financial statements and related note, and to ensure that PSAB's presentation and disclosure requirements are met (additional details on next slide)

# Pro-Forma (Enhanced Presentation and Disclosures)

| Enhanced Presentation Disclosures | Comments |
| --- | --- |
| Net Debt | • Net debt presentation excludes – Pre-paid and Inventory for consumptions (Non Financial Assets) – increase in net debt<br>• Net Debt Budget presentation – Added budget net debt |
| Schedule-9 | • Separate disclosure and presentation for H1-non controlling interest<br>• Additional disclosures on GBE's inter-company assets/liabilities and debt repayment schedule |
| Pension | • Accepted the EAP recommendation on OTTP and OPSEU pension assets and re-stated the comparative financials.<br>• Added disclosures on Market Related Asset Values |
| Expanded disclosure | • Revenue<br>• Interest capitalized<br>• Trust<br>• Loan recognition basis and valuation allowance<br>• SB sinking fund balance<br>• Cash and cash equivalent |
| Work in Progress Items for 2016-17 PA and aim to include in second version of Pro-Forma CFS | • BPS line by line<br>• Contaminated sites (disclosures) |

# Key Audit Topics

1. Tax revenue estimates
2. Pension asset accounting
3. Education Life and Health Trust (ELHT) reporting
4. Accounting for other GBE transactions
5. Cap and Trade accounting
6. OPG/H1 IFRS reporting and audit requirements
7. Line by line reporting for BPS
8. Accounting for transit assets
9. EDU Remedy
10. Contaminated sites

# Other Issues

11. Electricity rate mitigation
12. CHIRP implementation
13. New PSAB standards
14. External accounting advisors

# 1. Tax Revenue Estimates

TBS

- The Office of the Provincial Controller has consulted with the Office of Economic Policy (OEP) regarding the implications of an earlier Public Accounts release on accuracy of major taxation revenue estimates.
- These include 3 major taxes:
  - Harmonized Sales Tax (HST),
  - Personal Income Tax (PIT, which includes the Ontario Health Premium); and
  - Corporate Income Tax (CIT)
- OEP's analysis suggests that, of the 3 major taxes, only the PIT revenue estimate clearly suffers from reduced accuracy as a result of the earlier reporting dates. Because of AG's planned release date, June data will be available to share with the OAG in the last week of July.
- OEP confirms that for CIT revenues, the earlier submission would not reduce the accuracy of public accounts estimate under the current methodology for estimating CIT revenues.
- OEP confirms that for HST revenue, any loss in accuracy related to using an earlier estimate is limited.
- OPCD shared OEP's draft memo on Risk Analysis for Tax Revenue Accruals with AG on March 1, 2017.

- Note – OPCD has not yet discussed the PIT risk re: prior year tax planning that was raised by MOF last week.

# 2. Pension Asset Accounting

<u>OTPP and OPSEUPP</u>

- Fiscal impact originally included in FES for valuation allowances was based on AG's position ($2.2 Billion in 2016-17, higher amounts in out-years)
- Expert Panel recommendations on OTPP and OPSEUPP were adopted in Q3 update and the valuation allowances recorded in 2015-16 were reversed
- Technical briefing on Panel's recommendations was held on February 13, 2017
- AG briefing in response to Panel's report held February 16 confirmed continued disagreement
- FAO implied during discussion on March 17/17 that he would present impact of both views

<u>HOOPP and CAATPP</u>

- Panel has completed work on HOOPP and CAATPP and will recommend a valuation allowance be taken based on the current governance structure; DM and MO briefing on March 20, 2017
- Full valuation allowance for 2016/17: HOOPP – NIL, CAATPP - $14M
- For PRRT, full valuation allowances for 2017-18; HOOPP - $102M, CAATPP - $25M; significantly increases in out years (2018-19 -- $765M, 2019-20 - $914M)
- Exploring potential changes in governance structure to align accounting for HOOPP and CAATPP with other joint sponsored pension plans

<u>All Plans</u>

- OPCD provided updated estimates of pension liability and expense in February
- External actuarial advisor engaged to complete valuation allowance assessment on on all plans

# 3. ELHT Reporting

- Creation of ELHTs (in total 6 trusts) was agreed during the 2014-17 agreement to streamline the employees' health, life and dental benefits for the sector
  - Legislation: Section 144.1 of the *Income Tax Act* (Canada)
  - Non-controlled trusts are not consolidated into the Province's books.
  - There is no change to accounting on the School Boards' books.
- Crown agreed to provide $175M one-time funding to the trusts
  - Trusts are effective once the trust agreements are signed.
  - 4 trusts established during 2016-17 already received funding
  - Remaining funding will be paid in 2017-18 for the remaining 2 trusts once established
- On March 10th, upon the AG's request, EDU met the AG and her staff
  - EDU walked through the structure of the trusts and accounting implications
  - The AG appeared to agree in general with the EDU's proposed accounting analysis
  - The AG raised the issue on the potential risk of the government to fund the trust deficit
    - Upon further analysis by OPCD and EDU, it is concluded that the government is
      - not exposed to any risk for active employees benefit cost (97% of total trust members)
      - only exposed to a small portion of the retiree benefits liability (less than 3% of total trust members); the liability will be diminishing over years due to eligibility around age limit for most retirees in this group.
      - Analysis is not yet final

# 4. Accounting for Other GBE Transactions

## (H1 Sale, Brampton Hydro Sale, etc.)

- Gain from second tranche of Hydro One sale to be recognized in 16/17, excluding gain on sale of shares to OPG (related party) which will be deferred.
- Accounting analysis for Brampton Hydro sale drafted by OPCD ~~(est. gain $180M)~~ in 16/17 to be shared with the OAG in April.
- Status:
  - OPCD analysis of various energy sector transactions shared with OAG as completed, following review by external advisors.
  - Control analysis on Hydro One HoldCo to be undertaken based on anticipated future transactions (no impact on 2016/17).

# 5. Cap and Trade Accounting
## (for 1st Auction Proceeds)

- Accounting analysis on recognition of proceeds from March 2017 auction shared with OAG
- Revenue from first auction (March 22, 2017) will be reported in 2017-18 under either the Province's or AG's accounting approach
- Province's accounting policy -- revenue should be recorded in the period when the Province transfers emission allowances to purchasers, including both current and future vintages
- Status:
  - AG and OPCD disagree on revenue recognition point; however, difference would have no impact on the 2016/17 Public Accounts as it would be recognized in 2017/18 under either approach
  - AG believes revenue should be recognized on the date of auction certification
  - Based on anticipated future timelines, future timing of auction is not expected to result in any difference, but monitoring will be required

# 6. OPG/H1 IFRS Reporting and Audit Requirements

- FES reflected US GAAP based results for OPG and H1
- Q3 announced the adoption of IFRS-based consolidation of OPG and H1 results effective with the 2016/17 Public Accounts
- AG was notified prior to the Q3 release
- The net impact of adopting IFRS (IFRS14) for the Public Accounts will reflect OPG's preferred method of valuing its nuclear asset retirement obligation
- Status
  - Updated estimate of impact from OPG is expected before the end of March to update estimated 2016/17 impact and out years
  - OPCD working with OAG, OPG and H1 on supplementary audit requirements
  - OCI will remained as part of AG's error summary (b/s only)
  - OAG has confirmed that OPG's supplementary audit information requirements can focus only on the 'preferred method' of accounting under IFRS for asset retirement obligations (AROs) but continues to require that procedures be performed to statutory level of materiality that would be required as if OPG"s f/s were being audited

# 7. Line-by-Line Reporting for BPS

- AG preference for line by line consolidation of hospitals, school boards and colleges on statement of operations, as well as consolidation of Children's Aid Societies
- Status:
  - Hospitals, school boards and colleges to be implemented on line by line basis beginning with the 2016/17 Public Accounts, including restated 5-year historical trend analysis
  - Plans for change communicated to OAG
  - Discussions held with sector ministry stakeholders and formal notification of decision provided
  - Impact of potential consolidation for CAS has been initiated which is being considered for future years

# 8. Accounting for Transit Assets
## (Metrolinx MOU with City of Toronto)

- FES reflects assets will be Provincially controlled (TCA, depreciation impacts vs. transfer payments)
- Accounting risk – if assets assessed as **not being controlled by the Province**, assets would be written off of Province's balance sheet and considered transfers to the City of Toronto
- Status:
  - OPCD engaged with Metrolinx and MTO in early 2017
  - Discussions expanded to also include PwC (Metrolinx's external auditor)
  - Metrolinx responsibility to identify potential accounting risks clarified
  - Metrolinx has engaged PwC to issue an accounting opinion based on binding Agreement in Principle between Province and City
    - No certainty that agreement will be signed by March 31, 2017

# 9. EDU Remedy

- A $500M accrual for the education sector was included as an expense in the consolidated financial statements of the Province for 2015-16
- A  contingent liability arose from a constitutional challenge by the sector on being legislated back to work with a defined labour agreement.
- The judgement of fault was given before the completion of the Public Accounts which confirmed the liability for 2015-16, but did not provide a cost. The judgement directed the Province and the claimants to negotiate a remedy.
- Based on the savings achieved from the legislation, the Ministry substantiated the $500M estimate which they considered the best estimate available on the cost of the remedy.
- Ministry of Education advised that:
  - Negotiations are on-going with the unions.
  - Negotiations for four unions are completed but represent a small number of members therefore estimation via extrapolation is not advised.
  - Also, remedies solution may differ among the unions.
- If information becomes available that would inform a better estimate of the expense before the end of the audit, the government would need to update the accrual resulting in an additional cost or a recovery.

# 10. Contaminated Sites

i. AG Follow-up audit on VFM audit for contaminated sites
   - OPCD, OIAD and ministries collaborated on an updated status of responses to the AG's 2015 VFM recommendations
   - Initial information provided to AG on March 21, 2017
   - OIAD is also engaged to undertake a review of contaminated sites accruals in advance of OAG fieldwork; steps being taken to optimize OAG reliance on OIAD work

ii. New contaminated sites for 16/17
   - Additional liabilities of approx. $54.1M identified in 2016-17.
   - Grassy Narrows -- potential liability based on actions taken by government (constructive obligation). OPCD is working with the MOECC to confirm the accounting treatment
     - Internal legal opinion from MOECC – moderately low risk that court would find Ontario is legally required to expend funds based on statements made

# 11. Electricity Rate Mitigation

- Accounting for Global Adjustment (GA) deferral mechanism and the Affordability Fund are particularly complex
- MOE, MOF/OFA, TBS, OPG, H1, IESO and external advisors have collaborated on transaction structures and fiscal implications over the past several weeks. Details are not yet final.
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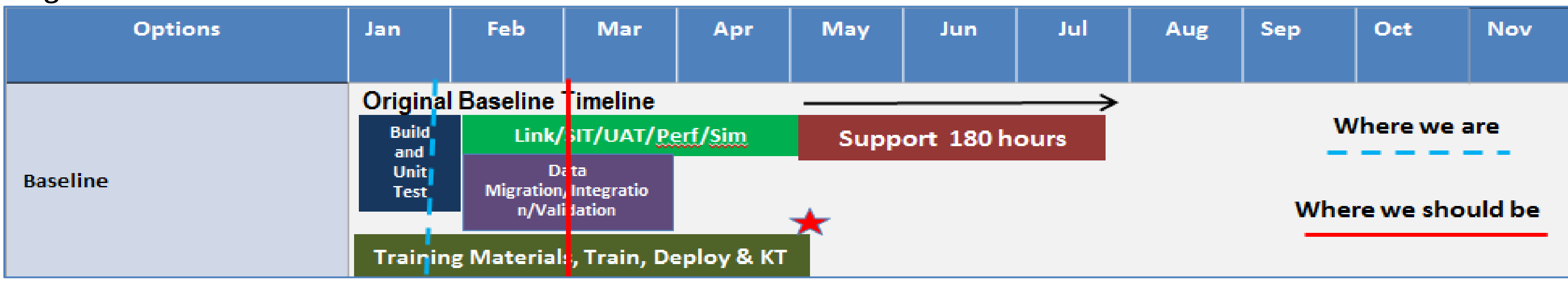


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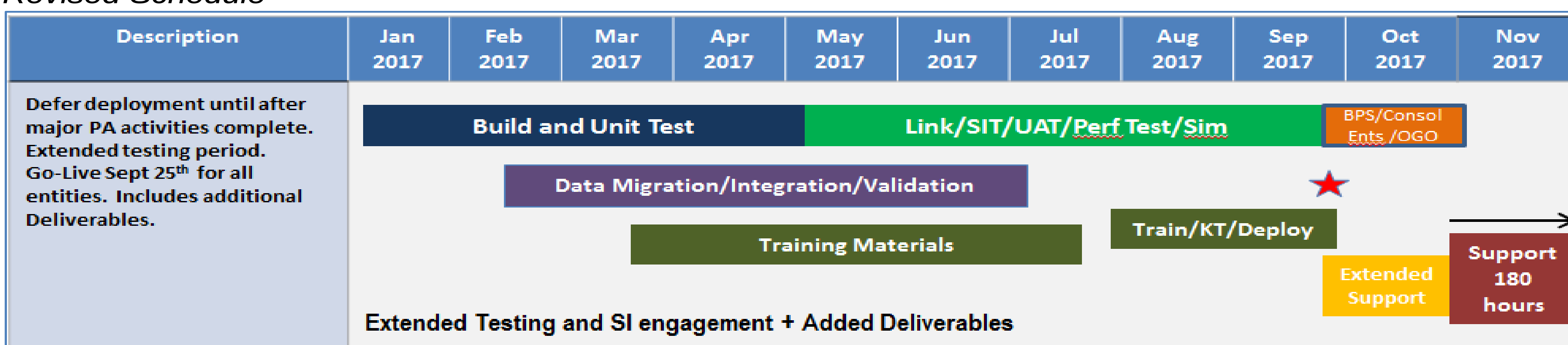

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