Email - Novembe 30 2016 - 2016 Auditor General’s Annual Report.pdf

From: Tam, Nelson (TBS)
To: Patricia O"Malley (plomalley@outlook.com); Uros Karadzic (uros.karadzic@ca.ey.com); Murray Gold (mgold@kmlaw.ca); Martin, Paul (FIN) (Paul.Martin@gnb.ca)
Subject: 2016 Auditor General"s Annual Report
Date: November-30-16 3:06:00 PM
Attachments: RE AG report - QP Briefing - Accounting spat undermines AG and Net Debt-to-GDP ratio.pdf
AG News Release - Qualified Opinion.pdf
AG Report - Section 2.pdf
AG Report - Section 4.01 - Accounting Treatment of Pension Funds.pdf
AG Report - Reflections.pdf

Patricia, Uros, Murray, Paul

The Auditor General just tabled her report. Attached are:

- Queen's Park Briefing
- AG New Release
- AG Report – Section 2
- AG Report – Section 4.01 – Accounting Treatment of Pension Funds
- AG Report – Reflections – brief comment relating to pensions at the beginning

These are not password protected. Communication Q&As are expected tomorrow.

Also, I will be including a discussion on the report in the agenda.

Thanks

Nelson
416-212-0514

RE_ AG report - QP Briefing - Accounting spat .pdf

From: Tam, Nelson (TBS)
To: Tam, Nelson (TBS)
Subject: RE: AG report - QP Briefing - Accounting spat undermines AG and Net Debt-to-GDP ratio
Date: November-30-16 12:56:16 PM

November 30, 2016

AG Report 2016: Accounting spat could be seen as effort to 'undermine' auditor general

By Geoff Zochodne

The auditor general's 2016 annual report was tabled Wednesday, and it's full of unflattering bits about the government.

The relationship between the Liberals and the province's auditor general has reached a point where the legislative officer is actively wondering if the government is trying to "undermine" her.

Auditor General **Bonnie Lysyk** tabled her latest volume of value-for-money reviews of government programs and practices Wednesday – and, as per usual, no punches are pulled in the annual report.

From the get-go, Lysyk says that in October the government gave her office just 50 minutes notice – via email, no less – that it was going public with the province's unaudited financial statements. The statements were unaudited because the government and the AG's office could not agree on how public sector pension assets should show up on the province's books.

"Despite meeting earlier in the day to discuss the financial statements, there was no indication from the government that it planned to release these statements later that day," states the AG. "In fact, the Chief of Staff of the Minister of Treasury Board Secretariat notified the Auditor General in an email of the decision to release the statements, only 50 minutes before their technical briefing to the media."

And with that, the AG's 2016 annual report was off and running. Here are our other stories:

- Patients waiting too long for beds and surgeries[1]
- Ad rule change enabled Liberals to spend millions of taxpayers' dollars on self-love-fest[2]
- Ontario businesses could spend $2.2B on foreign cap-and-trade credits – and it may not count[3]

- Physician overbilling, underworking going unchecked[4]

Because of the accounting kerfuffle, the auditor general's annual opinion on the province's financial statements is a "qualified" one – meaning all's mostly well, except for one item. This, the AG says, is due to the "error" over incorporating the assets of the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan, which the auditor says the government does not have unilateral access to and cannot solely control.

Ultimately, the government decided it would stomach the accounting change and add $1.5 billion to the province's deficit for 2015-16, as well as add $10.7 billion to Ontario's net debt.

However, this was not before it went public with the unaudited financial statements – and right after meeting the AG's office.

"The actions taken by the Government in releasing the consolidated financial statements late and without the audit opinion of the Auditor General, while also publicly disagreeing with an accounting issue before providing the Auditor General with information needed for her to issue an audit opinion, could be perceived by some as an attempt to undermine the role of the Office of the Auditor General," says the AG's report. "We note that materials were likely already printed, and a plan was likely already in place to publicly release the consolidated financial statements without the Auditor General's opinion, when we met with the Ministers of Treasury Board and Finance, their Chiefs of Staff and their Deputy Ministers on the morning of October 3, 2016, to further discuss the pension asset accounting issue."

Moreover, despite the government updating its books for the 2015-16 fiscal year, it did not do so for the year prior, meaning it was not done "correctly," the AG says.

The government doesn't have the right to slash contributions to those pension plans without signing a deal with the other sponsors of the plan, the AG says. The auditor recommended in her report that the Treasury Board and the Ministry of Finance firm up their position on the "pension asset issue."

The government, meanwhile, notes it has called in an expert advisory panel to issue a ruling on the accounting clash.

"The Panel's recommendations will inform the Province's final position paper on accounting for net pension assets, which will be shared with the Office of the Auditor General," reads the response.

As for the government's actual books, the AG says the "Province is still increasing its annual borrowings to finance these deficits, replace maturing debt and to fund infrastructure."

The province's net debt will top $326.8 billion by 2018-19, nearly double the $169.6 billion in 2008-09.

"In other words, it would cost every Ontarian $23,400 to eliminate the Province's net debt," notes the AG.

Ontario's net-debt-to-GDP ratio has improved somewhat, the auditor says, and at around 40.9 per cent in 2015-16 it is still below the 60 per cent mark that indicates a country is headed for fiscal calamity. The government is forecasting this to decline, and is shooting for a 27 per cent net-to-GDP-ratio.

However, the debt load could punish the government down the road if interest rates rise or if the province's credit rating is downgraded, which could both hike borrowing costs and crowd out spending on other things, like education and health care.

The government says it will balance the budget next year and that its investments in infrastructure – estimated at $160 billion over 12 years – will return more revenue to it than it spends.

The AG is also asking for copies of the contracts the government signs with external expert advisers, which the government says it will do, if those documents are what's required under "professional standards."

To contact the reporter on this story:
gzochodne@qpbriefing.com[5]
416-212-5913
Twitter: @geoffzochodne[6]

AG News Release - Qualified Opinion_1.stub.pdf

Security settings or invalid file format do not permit using AG News Release - Qualified Opinion_1.pdf (110868 Bytes).

AG Report - Section 2_1.stub.pdf

Security settings or invalid file format do not permit using AG Report - Section 2_1.pdf (1866234 Bytes).

AG Report - Section 4.01 - Accounting Treatmen.stub.pdf

Security settings or invalid file format do not permit using AG Report - Section 4.01 - Accounting Treatmen.pdf (365190 Bytes)

AG Report - Reflections_1.stub.pdf

Security settings or invalid file format do not permit using AG Report - Reflections_1.pdf (182166 Bytes).

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The battle behind the auditor general's report_ Cohn _ Toronto Star.pdf

The battle behind the auditor general’s report: Cohn

The annual report of Ontario’s auditor general has become a battle of attrition and repetition.

Against a backdrop of audits, allegations, and attrition, the Liberals are increasingly wary of the modus operandi.of Ontario auditor general Bonnie Lysyk — and have come up with their own countermeasures to inoculate themselves, writes Martin Regg Cohn. (CHRISTOPHER KATSAROV / THE CANADIAN PRESS)

By **MARTIN REGG COHN** Ontario Politics Columnist
Wed., Nov. 30, 2016

Bad news can be good for a government’s soul.

Ontario’s auditor general has revealed road-building blunders, eHealth excesses, hospital horror stories, and cap and trade troubles.

Queen’s Park is wasting massive amounts of public money, as governments are wont to do (See also: federal auditor general’s report this week). The provincial auditor makes many sensible suggestions for reform.

So far, so good.

But there’s a more contentious tenor to this year’s audit. And a sharper tone to the government’s response.

Between the lines — and there are a lot of lines in a two-volume report totalling 1,063 pages — a war of words is underway. It pits auditor general Bonnie Lysyk, an officer of the legislature, against a Liberal government that now views her as a rogue officer.

It’s a battle of attrition and repetition.

The auditor attacks, the government counterattacks; she recapitulates, the Liberals reprise; she drowns the media in detail, the government deluges reporters with an unprecedented lineup of five senior cabinet ministers at a news conference.

Case in point: In three consecutive reports, the auditor keeps condemning a government decision curbing her power to vet advertising spending. It was a controversial move, but the Liberals made an arguable case that the auditor’s clumsy screening was gumming up government ads.

It was the Liberals who first gave the auditor final say on its ads; a decade later, they decided to dial it down a bit, which is their right — right or wrong. The government argued that Lysyk’s office was reflexively rejecting ads merely for having too much (Liberal) red in depictions of apples or bricks. They reduced her discretion, but reinforced the rules preventing politicians from appearing in ads or inserting their names.

Today, Lysyk is still fighting the advertising vetting battle she lost long ago — and won’t let it go. She claims Ottawa is getting better on advertising while Queen’s Park is getting worse, but as the fine print in her own report acknowledges, the federal government is only slowly catching up to where

Ontario is today — still with the toughest rules in Canada.

When does the natural tension between auditor and audited cross the line from bottom lines to battle lines? Consider the case of the disappearing hard drives.

Lysyk sounded the alarm last summer in a special report on the Pan Am Games, claiming that officials had not handed over their hard drives as requested. On cue, the opposition pounced on the presumed coverup of deleted emails, demanding outside investigations (call in the OPP!).

But in a September report, the information and privacy commissioner found no deliberate attempt to thwart the auditor general before the leased hard drives were returned (their contents were retained online). The auditor's allegations didn't add up.

Against that backdrop of audits, allegations, and attrition, the Liberals are increasingly wary of Lysyk's modus operandi. And have come up with their own countermeasures to inoculate themselves.

When the auditor started poking around eHealth, the Liberals assigned their high-profile problem solver, retired TD Bank CEO Ed Clark, to pre-empt her with a report of his own. His predictable conclusions (eHealth is worth billions and has potential to do great good) were matched only by her predictable allegations (eHealth hasn't lived up to its potential and has cost billions to date).

Now, a bigger dispute is going well beyond headlines to the bottom line — potentially setting the government back billions of dollars. Once again, the Liberals are trying to discount her accounting methods.

Last summer, just as the government was coming within reach of a campaign promise to eliminate the budget deficit, Lysyk decided to move the goalposts further back. No longer could the Liberals claim certain pension surpluses as "assets" (even though pension deficits must still be counted as liabilities). Her accounting change added $2.2 billion to the current deficit, and billions more to Ontario's overall debt.

Civil servants vigorously disputed her change of heart — the auditor general's office had long endorsed the old accounting method going back to the Tory era. At an impasse, the government agreed to provisionally change the books, but promptly appointed a panel of four top accounting and pension experts to review the dispute.

In her latest report, the auditor tries to pre-empt the government's end run around her, devoting dozens of pages to her technical arguments. Lysyk's bottom line, however, is to withhold full approval for the government's books in the *previous* year (issuing only a "qualified audit opinion"), blaming the Liberals for using the old accounting method that she signed on to at the time.

Amid uncertainty, an auditor can issue a "qualified opinion." Not so easy for a newspaper to publish "caveat columns." But it's hard to know who's right or wrong in this high-stakes dispute until the expert panel issues its report in the weeks ahead.

The only political certainty is that this war of attrition and repetition is now an annual auditor's affair.

Martin Regg Cohn's *political column appears Tuesday, Thursday and Saturday. mcohn@thestar.ca , Twitter: @reggcohn*