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Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 2 2017 Annual Report of the Auditor General

Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and (c) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

Summary Status Table in Response to the
Report of the Auditor General of Ontario

Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables,	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

	including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Governments have the legal authority to engage external professionals on the wide range of legal, policy and financial issues that fall within their executive authority. It is also widely recognized that a government is entitled to a zone of confidentiality in which to consider this advice before any final decision is made. This is with the full understanding that ultimately the government will be accountable to the public and the Legislature for its decisions. Part of that accountability includes a commitment to full cooperation with any Officer of the Assembly legally authorized to review and comment on the government's actions, including the disclosure of any documents the officer is entitled to receive as part of his or her work. Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*	analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	

their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:* • *Remove market*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

accounts recorded on its financial statements; and • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which states: "The Auditor*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of the legislation, would have been collected from	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

	specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%. The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining from its 2014-15 peak of 39.3%.	Continue to monitor progress.

	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and personal income tax*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
AG Recommendation #10 *We recommend that the government determine when it will issue a*	Under the *Fiscal Transparency and Accountability Act*, 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.	whether it is reasonable and issue a Statement describing the results of the review. Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General of Ontario to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.	

2016-17 Public Accounts Technical Briefing_Final.pptx

Ontario

2016-17 Public Accounts

Technical Briefing

September 7, 2017

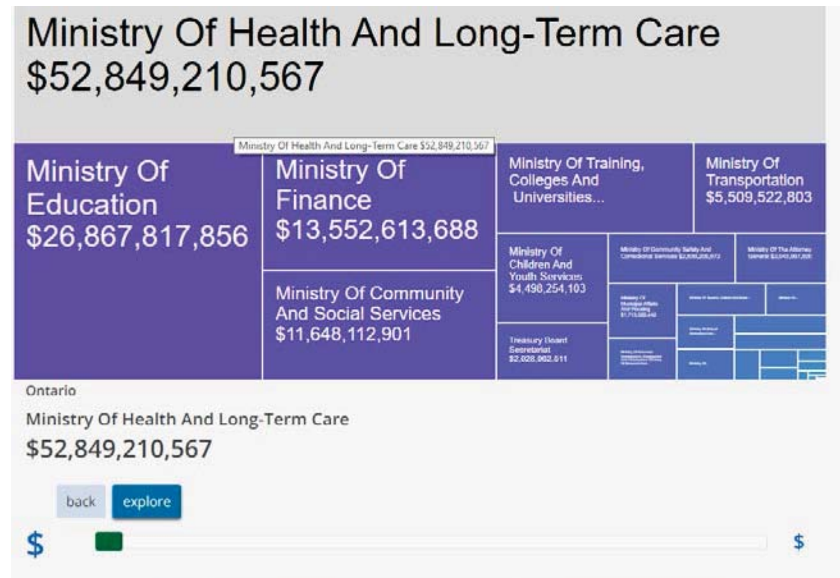
Purpose of today's briefing

1. Provide an overview of the results for fiscal 2016-17
2. Highlight the changes made in the 2016-17 financial statements:
   a) Classification of third-party revenues for hospitals, colleges and school boards
   b) Accounting basis for Ontario Power Generation and Hydro One
   c) Accounting for the Independent Electricity System Operator (IESO) and market accounts
   d) Accounting for net pension assets of jointly sponsored pension plans

2016-17 Highlights

- New digital tools have been developed that present the Public Accounts data in innovative, visual formats.

- This year, Ontario has:
  - Released six new downloadable data sets
  - Created new data visualizations tools
  - Published the web page under the Open Ontario Licence



2016-17 Highlights

- Ontario has beaten its deficit target eight years in a row. The 2016-17 Public Accounts of Ontario show that Ontario's deficit is $1 billion - $3.3 billion lower than projected in the 2016 Ontario Budget.
- In the 2016-17 fiscal year (April to March):
  - revenue was $140.7 billion – $2.2 billion more than expected in the 2016 Budget
  - expenses were $141.7 billion – $0.1 billion less than planned in the 2016 Budget
  - Some of the top spending areas included

$56B Health

$26.6B Education

$12.9B Infrastructure

Ontario

2016-17 Highlights

Other highlights include:

- Ontario's real gross domestic product (GDP) was 2.7%, up from 2.2% in the 2016 Budget. Over the last three years, Ontario's GDP growth has outpaced that of all G7 countries.
- Net debt-to-GDP continues to be forecasted lower than expected for 2016-17 at 37.8%, an improvement over the 2016 Budget of 39.6%.

Visit **Ontario.ca/publicaccounts** for more highlights and digital tools that help make Ontario's finances easier to understand, access and use.

Ontario

Summary 2016-17 Results

2016-17 Actual Results

$ Billions	2016-17 Budget[1]	2016-17 Actual	2015-16 Actual [1,2]	Change from Budget	% Change
Revenues	138.5	**140.7**	136.1	2.2	1.6%
Expenses	141.8	**141.7**	139.7	(0.1)	-0.1%
Reserve	1.0	**-**	-	(1.0)	
Annual Deficit	(4.3)	**(1.0)**	(3.5)	3.3	-76.7%
Net Debt		**(301.6)**	(295.4)		
Accumulated Deficit		**(193.5)**	(192.0)		

[1] 2015-16 Actuals and 2016-17 Budget have been reclassified to reflect the change in presentation for third party revenues of hospitals, colleges and school boards (no change to deficit)

[2] 2015-16 Actual has been restated to reverse the impact of regulated accounting for pensions

Ontario

Preparation of the Financial Statements

- The consolidated financial statements are prepared by the Government of Ontario in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB).
- PSAB independently establishes accounting standards for the public sector in Canada.
- The objective of PSAB standards is to meet the needs of users of financial statements by providing the information needed for accountability and decision making.
- PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.
- PSAB recognizes that their standards cannot address every potential situation, and that it may be necessary to refer to other sources of guidance.
  - *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

Accounting Changes for 2016-17

- The Province adopted several new accounting changes for the 2016-17 Public Accounts to better reflect the financial position and activities of the government during the fiscal year
- These changes included:

  a) Classification of third-party revenues for hospitals, colleges and school boards

  b) Accounting basis for Ontario Power Generation and Hydro One

  c) Accounting for the Independent Electricity System Operator (IESO) and market accounts

  d) Accounting for net pension assets of jointly sponsored pension plans

Ontario

Classification of Third-Party Revenues for Hospitals, Colleges and School Boards

- 2016-17 Public Accounts present third-party revenues for hospitals, school boards and colleges with provincial revenue.
- In prior years, these revenues were netted against the expenses of the respective sectors (health, education, post-secondary).
- This is a change in presentation only.
- The changes increases total revenues and expenses by approximately $8 billion.
- There is no impact to the Province’s deficit, net debt or accumulated deficit.
- This change is consistent with PSAB standards and the reporting practices of other senior Canadian governments.
- This change, supported by the Province’s professional accounting staff, was recommended by the Office of the Auditor General in prior years.

Accounting basis for Ontario Power Generation and Hydro One

- The 2016-17 Public Accounts include the financial results of Ontario Power Generation (OPG) and Hydro One using International Financial Reporting Standards (IFRS).
- These two government business enterprises currently report their stand-alone financial results using Generally Accepted Accounting Principles in the United States (US GAAP).
- In prior years, the reported results of OPG and Hydro One were included in the results of the Province based on US GAAP.
- This change does not have a material impact on this year's Public Accounts.
- This change, supported by the Province's professional accounting staff, was recommended by the Office of the Auditor General in prior years.

Ontario

Accounting for Independent Electricity System Operator (IESO) Market Accounts

- Independent Electricity System Operator (IESO) is a corporation established pursuant to Part II of the *Electricity Act, 1998*, and prepares its financial statements in accordance with PSAB standards.
- KPMG LLP audits IESO's financial statements and issued an unqualified opinion on the December 31, 2016 financial statements.
- IESO administers a $17 billion annual market reflecting the amounts *due to* entities that provide electricity to the market (e.g. power generators) and *due from* entities who consume electricity (e.g. local distribution companies on behalf of their consumers). IESO is a party to these agreements with the market participants.
- In 2016, IESO changed the accounting for the market accounts, recognizing these amounts due from and due to the market participants as assets and liabilities respectively.
- This change has no impact to the province's annual deficit, net debt or accumulated deficit.
- The Ontario Power Authority (which was merged with the IESO on January 1, 2015) included a segment of these accounts in its financial statements, and received an unqualified opinion by its external auditor, KPMG LLP. The financial statements of the Province were not qualified by the Office of the Auditor General as a result of including these accounts.

Accounting for IESO Market Accounts

- The IESO is a party to agreements with each market participant, and each market participant either owes an amount to the IESO or is owed an amount from the IESO. For example:
  - Ontario Power Generation has a receivable from IESO recorded on its financial statements related to power generated, and historically, IESO did not have a payable recorded to Ontario Power Generation – now it does
  - Hydro One has a payable to IESO recorded on its financial statements related to power purchases, and historically, IESO did not have a receivable recorded from Hydro One – now it does
- The amounts due from market participants meet the definition of an asset and the amounts due to market participants meet the definition of a liability under PSAB standards.
- In connection with this change, the accounting for eight other independent system operators in North America were reviewed, and all but one recognize market accounts in the financial statements.
- IESO management, their Audit Committee, their Board of Directors, their external auditor and the Office of the Provincial Controller support the change in accounting as being more transparent.
- A qualified opinion was issued by the Office of the Auditor General on the 2016-17 consolidated financial statements regarding the change in Independent Electricity System Operator’s accounting for the “market accounts”.

Ontario

Accounting for Net Pension Assets of Jointly Sponsored Pension Plans

- Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans (JSPPs) where the Government of Ontario is a co-sponsor.
- The plans are funded on a 50/50 basis, co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.
  - On June 12, 2017, the co-sponsors of OTPP (Ontario Teachers Federation and the Government) announced a 1.1% reduction in contributions effective January 1, 2018
- Under PSAB standards, an asset arises when the government's total contributions to a plan, including interest earned thereon, are greater than the pension expense recognized since the start of the plan.
- Since 2001-02, the Province's share of pension assets reflected on the audited consolidated financial statements of the Province has been based on a policy considered to be consistent with PSAB standards related to accounting for retirement benefits. The standards have not changed since their issuance in 2001.
- In 2016, the government passed a time-limited regulation to require the full write-off of the net assets of both of these plans for the 2015-16 Public Accounts.

Ontario

Pension Accounting

- Based on professional staff's interpretation of PSAB standards, the government believes that pension assets for OPSEUPP and OTPP should be reported to fairly present the Province's financial position.
- The Province has shared control over the pension plan and the existing agreements in place between the sponsors support the recognition of the pension asset.
- The professional staff does not believe that the Government has the right to withdraw any surplus from the plan, and has supported the value of the pension asset solely on the basis of being able to reduce contributions in the future.
- The Province has recorded the pension assets for OTPP and OPSEUPP in its 2016-17 consolidated financial statements and has restated the 2015-16 consolidated financial statements to recognize the pension assets.
- With respect to the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology Pension Plan (CAATPP), based on the difference in governance structures between these plans and OTPP and OPSEUPP, the Province has recorded a valuation allowance for CAATPP in the year (amount is not material). The HOOPP plan is not in a net asset position for accounting purposes at March 31, 2017. This treatment is consistent with the recommendations of the Pension Asset Expert Advisory Panel who issued a supplementary report on these plans in March 2017.

Pension Accounting

- The professional staff's interpretation of PSAB standards is supported by its own research and analysis as well as:
  - The report of the Pension Asset Expert Advisory Panel (https://www.ontario.ca/page/pension-asset-expert-advisory-panel-report) released on February 13, 2017 stating that the Government should record an asset for its share of the surplus reported in the accounting valuations for each plan and that no valuation allowance is required.
  - An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the OTPP, a summary of which is included in Appendix A. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions.
  - Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.
- A qualified opinion was issued by the Office of the Auditor General on the 2016-17 consolidated financial statements regarding the Province's accounting for the net pension assets of OTPP and OPSEUPP.

Appendix A – Deloitte Summary of Accounting Opinion Issued on Pension Accounting

Deloitte was engaged to provide a report (“Deloitte Report”) on the application of accounting standards by the Ontario Treasury Board Secretariat. Our report, which was issued on October 2, 2016, was prepared under professional standards for such reports set out by CPA Canada.

The subject of this report was the application of Public Sector Accounting Standards (PSAS), as established by CPA Canada, in the recognition of a pension asset in the Province of Ontario’s financial statements. Pension accounting is subject to professional judgement and interpretation, and involves significant accounting estimates. The Deloitte Report focused on a specific aspect of this complex area as it relates to the Province of Ontario’s accounting for the Ontario Teachers’ Pension Plan (OTPP).

OTPP is a pension plan that is jointly sponsored by the Ontario government (or the Province) and the Ontario Teachers’ Federation (OTF). Based on the Province’s application of PSAS, OTPP is in a plan surplus position. We accepted this aspect of the Province’s application of PSAS as a matter of fact in developing our report.

The Deloitte Report addressed the question of whether it was possible to record a pension asset related to the plan surplus in the Province’s financial statements, given that the plan is jointly sponsored. We concluded that, based on the information provided to us by the Province and our professional judgement, that it was permissible under PSAS to record a pension plan asset, even though the Province’s ability to benefit from any plan surplus, through future contribution reductions for example, would need to be negotiated with and agreed between the Province and OTF.

It is to be noted that even if a pension asset is recorded, PSAS would also require that consideration should be given to limiting the recorded amount of this pension asset to an amount that would be less than the calculated amount of the pension surplus. The Deloitte Report did not express a view on whether any limit to the recorded amount of the asset is needed in the case of the Province’s accounting for the pension asset related to OTPP. Therefore, our report did not express a view on the amount of the pension asset that should be recorded in the Province’s financial statements as at March 31, 2016 or at any other date.

Appendix B: Panel Members

- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Uros Karadzic – Pension actuary, member of the PSAB's Employment Benefit Taskforce, partner at EY
- Paul Martin – Comptroller with the Government of New Brunswick, member of the PSAB's Employment Benefit Taskforce and previously a partner with the national accounting firm of Grant Thornton LLP