Op-Ed v. 4

RE: Globe editorial: “Bad books: How Ontario’s new hydro accounting could cost taxpayers billions”

- **Currently 948 words; should be approximately 700 words**
- **Decision point - author**

In the article published on April 21, 2018, there are a number of points that require correction and clarification. Most notably: the role of public servants; transparency in accounting; our work with agencies; and the interpretation of accounting standards.

Role of the Public Servant

As professional public servants of the Ontario Public Service (OPS), it is our role to be factual, objective and non-partisan and conduct our due diligence in implementing government decision-making. For Ontario’s Fair Hydro Plan, like any other government policy matter, our professional staff ensured the proper due diligence was completed in implementing the government’s direction.

Due diligence includes an objective evaluation of the government’s policy options, completing our own internal analysis, looking to other jurisdictions or external advisors to supplement our own analysis, and bringing our best professional judgment to the table.

Transparency in Accounting

The April 21st article indicates that the borrowing activities related to the Fair Hydro Plan will be “off-balance-sheet.” This is not accurate. Specifically, direct borrowing by the province is and will continue to be recorded as gross debt of the province. Borrowing by Ontario Power Generation (OPG), or the Fair Hydro Trust (which is consolidated with OPG) will be recorded on the financial statements of OPG and then included in the investment account for OPG on the province’s books, in the same way that OPG has been recorded for the last 18 years.

Ontario’s Public Accounts include a Statement of Responsibility, which is signed by the deputy ministers of Finance and Treasury Board Secretariat, as well as the Provincial Controller. That statement of responsibility is an obligation that the government will be prudent financial managers and maintain internal controls to ensure proper spending. One aspect of those internal controls is an obligation that our financial information is presented and prepared in a reliable way.

And that includes the accounting for Ontario's Fair Hydro Plan.

The impact of the Fair Hydro Plan is transparent and already disclosed in the December 31, 2017 financial statements of the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG), which have been released with unqualified (or clean) audit opinions from their external auditors. It will also be transparent in the consolidated financial statements of the province, which will be released in the Public Accounts later this year.

Direction to the IESO

The April 21st article indicated that Ontario's Provincial Controller directed the IESO to adopt rate-regulated accounting. This is not accurate.

The Provincial Controller neither encouraged nor discouraged IESO's management, its audit committee, or its board regarding the adoption of rate-regulated accounting.

The Provincial Controller did request IESO to take a closer look at the accounting for market accounts on its financial statements. This is an entirely separate issue.

The recognition of market accounts better reflects the financial position of the IESO-administered markets at year-end.

While the Provincial Controller became aware of the accounting for the market accounts of IESO at a meeting to discuss the Fair Hydro Plan, the request to review the accounting for the market accounts was not tied to, or in anticipation of, the structure of the Fair Hydro Plan.

The Office of the Provincial Controller is responsible for the integrity of the government's public financial reporting, including consolidation of all organizations within the reporting entity, as presented within the Public Accounts of Ontario. The province's consolidated financial statements, including the entities it controls and consolidates (such as the IESO), are presented in accordance with public sector accounting standards (PSAS). Each consolidated entity (such as the IESO) produces its own stand-alone financial statements and is subject to its own financial statement audit.

A Professional Disagreement

The Auditor General's decision to issue a qualified opinion on the 2016-17 Public Accounts of the province is a matter of professional disagreement on accounting standards.

As articulated previously, the province's financial statements are prepared in accordance with PSAS. PSAS are principle based – they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercise judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the province's financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the OPS, are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information. That means that if the professional accountants in the OPS do not agree with the judgment of the Auditor General, it is not as simple as agreeing to accept the interpretation of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Auditor General can choose to issue a qualified audit opinion.

Transparency and Accountability

The province will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

As public servants, we are committed to maintaining the highest standards of professionalism and integrity in informing government decision-making.

If the public service has provided its best advice based on due diligence, and if the decisions made are constitutional, and the effects of the policy are accounted for transparently, then we have fulfilled our role as public servants.

Note: A more detailed summary table of corrections is also attached for your consideration.