



Communications Branch

Your Strategic Partner

STANDING COMMITTEE ON PUBLIC ACCOUNTS

*Consideration of Chapter 2, Public Accounts of the Province
February 2018*

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Environmental Scan

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- **Pension asset accounting**
- **Ontario Fair Hydro Plan (OFHP) Accounting**
- **Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG “inappropriate expenses”; OPG compensation)**
- **Pre-Election Report**
- **Province's debt burden**

Following the release of the Auditor General's Annual Report on December 6, 2017, TBS-related issues were referenced in 41 per cent of articles, including specifically the “accounting disputes” between the Auditor General and the government, spending on government advertising, and the Auditor General's commitment to audit the IESO's consolidated financial statements. In the House, there were eight questions related to TBS issues: 50 per cent were related to the IESO/OPG “inappropriate expenses”; 25 per cent were related to government advertising; and the remaining two questions focused on the balanced budget narrative and the Pre-Election Report.

Overall, the focus on Public Accounts specifically has been limited in the media and the House alike: between September and December 2017, there were 12 mentions of Public Accounts. 50 per cent of mentions referenced “accounting rules” or the alleged existence of “multiple sets of books”. Following the tabling of Public Accounts 2016-17, media coverage was limited and 80 per cent of coverage was neutral in tone.

Media Scan

Auditor General 2017 Annual Report

- **Media Events – December 6, 2017**
 - **Auditor General**
 - Overall, TBS-related issues represented 28% of the Auditor General's remarks.
 - Media questions on TBS-related issues represented 28% of all questions asked (7 out of 25)– **including on the planned audit of IESO's financial statements, government numbers vs. AG numbers being used for the PC's platform, and concerns regarding pre-election reports.**
 - **Government Response**
 - Overall, TBS-related issues represented approximately 20% of the discussion.

- Media questions on TBS-related issues represented 20.8% of all questions asked (5 out of 24) – questions focused on government advertising and **on comments made by the Auditor General to “address significant issues without fear of push-back and reprisal.”**
- **PC Response**
 - Introductory remarks focused generally on waste and mismanagement.
 - Media questions on TBS-related issues represented 17% of all questions asked (2 out of 12) – **questions focused on the PC’s use of the government’s numbers in their “People’s Guarantee” platform**
- **NDP Response**
 - TBS-related issues related to 8% of the third party leader’s remarks, particularly on government advertising
 - No direct mention of TBS-led chapters, **however 38% of questions (3 out of 8) focused on IESO expenditures**
- **Initial Media Coverage**
 - There were approximately 17 stories focusing on the Auditor Generals’ 2017 Annual Report
 - 41% of articles referenced TBS-related issues
 - Key themes related to TBS issues include: **“accounting disputes” between the AG and the government** – and the effect it has on the balanced budget narrative, spending on government advertising, and **the AG’s statement that she will audit the IESO’s financial statements.**
- **Recent Media Coverage** (December 2017 – January 2018) has focused on the following key themes:
 - **The government’s relationship with the Auditor General**
 - **Pre-election report**
 - **Distrust of government numbers/“two sets of books”**

Public Accounts

- **Media Coverage**
 - Media coverage was short-term (24-hours), with **80% of media coverage neutral in tone** (compared to 26% in 2016)
 - Government key messages were picked up 100% of the time
 - Balanced budget key messages were picked up in 60% of the coverage
- **Key Themes**
 - Disagreement between the government and auditor general

- Ontario's fiscal position: government debt and deficit
- The government's alleged continued dismissal of watchdogs

Hansard Scan

Auditor General 2017 Annual Report

Following the release of the Auditor General's 2017 Annual Report, there were eight questions in the House relating to TBS issues:

- 50% (4/8) were related to **OPG/IESO "inappropriate expenses"**
- 25% referenced the FAO - one on balanced budget, one on the **pre-election report**

Public Accounts

Public Accounts were mentioned in the House at least 12 times between September and December 2017:

- 50% mention some form of "accounting rules" / two sets of books
- 42% (5/12) related to infrastructure spending
- 25% (3/12) mention FAO and AG together
- 25% regarding Fair Hydro Plan accounting
- One reference to pre-election finance report

FOIs/OPQs

There is one FOI and one OPQ currently in progress with TBS related to Ontario Fair Hydro Plan accounting.

Overview	Key Issues	Key Dates	Next Steps
FOI Request TBS 2017-033 (Government) 1. All emails, memos and/or briefing materials responsive to the requests(s) made by the Auditor – General of Ontario and/or her office, in connection to her special report on the government's Fair Hydro Plan and <i>that were released</i> to the Auditor-General; and 2. All emails, memos and/or briefing materials responsive to the request(s) made by the A.G. of Ontario and/or her office, in connection to her special report on	Ontario Fair Hydro Plan Accounting Relationship with the Auditor General Use of external advisors	January 19, 2018 (awaiting deposit)	This is a common request received by Cabinet Office, Energy, Finance and TBS. A common approach is being coordinated by IPA. Interim decision and fee estimate sent on December 20, 2017. Request is on hold until 50% deposit of estimate is received (\$2,427.50). Next Steps: Await payment of deposit (due

the government's Fair Hydro Plan and <i>that have not been</i> released to the Auditor – General. 3. A summary of outside consultant and/or legal fees paid and/or payable by the government in relation to the preparation and/or rollout of the government's Fair Hydro Plan.			January 19, 2018)
OPQ #700 MPP Vic Fedeli Would the President of the Treasury Board state whether the government is in possession of an opinion from KPMG or E&Y on how the Fair Hydro Plan transaction should be recorded in the government's Consolidated Financial Statements, and further state precisely where they disagree with the Auditor General	Ontario Fair Hydro Plan Accounting Relationship with the Auditor General Use of external advisors	OPQ will be formally filed on February 20, 2018	In progress – Products: Response to OPQ. Notes: Draft will be sent first week of January 2018 to OPCD to draft response. OPQ will be formally filed on February 20, 2018 TBS is the only ministry to have received this OPQ. Next Steps: Develop and approve response

Other Considerations

- Executive compensation (OPG, OEB, IESO)
- “Inappropriate expenses” (OPG, IESO)
- Hydro bill redesign (“\$15 million”)

Key Issues

Issue/Consideration	Strategy	Key Messages	Evidence
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government	• Pension Asset Expert Advisory Panel • Opinion from Deloitte LLP • Analysis Completed by EY

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		respectfully disagrees with the Auditor General's interpretation of the accounting standards, as 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 further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.	
IESO Accounting: 1) Market Asset Accounts 2) Rate-Regulated Accounting 3) AG to audit IESO's 2017 statements 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. IESO's recent accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.	Opinion supported by: • IESO audit committee • Independent external auditor (unqualified opinion) • OPCD • Same method used by Ontario Power Authority previously

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Fair Hydro Plan Accounting: “convenient/inappropriate accounting”	Highlight due diligence included in OFHP decision making, and that the accounting structure is still being finalized. Refuse to speculate about AG’s potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.	• PSAS Guidance • CPA professional code of conduct • External advisors • Other jurisdictions
Pre-Election Report: “government should publicly communicate if and when”	Re-iterate the government’s commitment to working with the Office of the Auditor General.	Under the <i>Fiscal Transparency and Accountability Act, 2004</i>, the government may file a regulation that would require it to	• Highlight how the government has been working with the Office of the Auditor General (stated by Minister

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	Confirm that the government will, as always, continue to follow the relevant legislation.	release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.	Sandals in a Dec 16, 2017 Toronto Sun article)
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	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 up to \$6, on average, in the long term.	• C4SE study • MOF
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	The <i>Ontario Fair Hydro Plan Act, 2017</i> and its related regulations do not create accounting rules or legislate the accounting. 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 legislation, would have been collected from specified	• Example of single use of legislated accounting (Public Accounts 15-16)

		ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.	
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government'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, and in the normal course of business.	• CPA professional code of conduct
FOI/OPQ/Records Disclosure			

Questions & Answers

Top Questions*

1. How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?
2. How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?

3. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?
4. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?
5. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?
6. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?
7. Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.
8. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?
9. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?
10. Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?
11. When will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

**See appendix A for a full list of QAs.*

Long-Form Answers

1. **Why did the government choose to recognize pension assets from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan? What evidence and processes were used to support this decision?**

2. Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements? Is there any precedent for this?
3. Can you explain when and how the Treasury Board Secretariat looks to other accounting methods to support the preparation of Public Accounts?

Ministry/Agency Representatives

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Treasury Board Secretariat Legal Services Branch	Director	Len Hatzis

Supporting Materials

Backgrounders

- Auditor General 2017 Annual Report – Public Accounts – Management Response Backgrounder
- Public Accounts Backgrounder

Technical Briefings/QAs

- Public Accounts – Technical Briefing Deck September 2017

House Book Notes

- Public Accounts
- Fair Hydro Plan Accounting
- Pension Asset Accounting