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2017 Annual Report,
Auditor General

Comité permanent des comptes publics

Rapport annuel 2017,
vérificatrice générale

2nd Session
41st Parliament

Wednesday 28 February 2018

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Mercredi 28 février 2018

Chair: Ernie Hardeman
Clerk: Katch Koch

Président : Ernie Hardeman
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Hansard Reporting and Interpretation Services
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Toronto ON M7A 1A2
Téléphone, 416-325-7400; télécopieur, 416-325-7430
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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON
PUBLIC ACCOUNTSCOMITÉ PERMANENT DES
COMPTES PUBLICS

Wednesday 28 February 2018

Mercredi 28 février 2018

The committee met at 1231 in room 151, following a closed session.

2017 ANNUAL REPORT,
AUDITOR GENERAL

Consideration of chapter 2, public accounts of the province.

The Chair (Mr. Ernie Hardeman): I call the meeting of the public accounts committee to order. We're here this afternoon to deal with chapter 2 of the 2017 Annual Report of the Office of the Auditor General of Ontario. We thank all the guests here from Treasury Board Secretariat, Ministry of Finance, Ministry of Energy, Cabinet Office—oh, that's the list. Thank you all very much for being here.

As we normally do, we thank the committee for being here. We will have 20 minutes for a presentation from our guests. The first round of questions will be 20 minutes, and it will start with the PC caucus and then go around. When we get the first round done, I'll ask a mathematician to look at the clock and we will divide the time left to get us to 2:45 equally for the three parties. We'll do the second round with the time that's left. And if we could ask the guest to identify themselves for Hansard as their turn to speak comes up, so the record will record it accurately.

With that, the floor is yours.

Ms. Helen Angus: Thank you very much. Good afternoon, and thank you to the members of the committee for inviting us to be here. My name is Helen Angus and I'm Deputy Minister of Treasury Board Secretariat. There is obviously a large group in the room, so I'll take a little moment to introduce folks.

Before we begin, I'll introduce Secretary of Cabinet Steve Orsini, who's here in the front row; to my left, Scott Thompson, Deputy Minister of Finance, and Serge Imbrogno, Deputy Minister of Energy.

At your request, we also have here representatives from the Ontario Financing Authority, Ontario Power Generation and the Independent Electricity System Operator. We also have other ministry officials who are here to answer questions, and they'll be pleased to join the table as needed.

We welcome the opportunity to appear before the committee to provide information and answers to your questions regarding the consideration of chapter 2, public

accounts of the province of Ontario, of the Auditor General's 2017 annual report.

As you well know, Ontario's public accounts present the government's consolidated financial statements and give Ontarians an overview of how the province's finances were managed over the last fiscal year as compared to budget.

Producing public accounts requires teamwork and collaboration and many stakeholders across Ontario's public sector. The Office of the Auditor General plays a critical role in auditing and reporting on the province's consolidated financial statements. This committee, too, is an integral part of the process, playing an important role in legislative oversight and guidance.

Within Treasury Board Secretariat, the Office of the Provincial Controller Division, or OPCD, helps the province ensure transparency and accountability in its financial reporting through the preparation of public accounts.

I'm just going to talk briefly about the role of the public service and then proceed to go through the Auditor General's recommendations and highlight some of the people who will be there to answer more detailed questions. I'll talk specifically about the role of OPCD and that of other senior ministry officials who appear before you today.

As you know, we're members of the Ontario public service, or the OPS, as we like to call ourselves, a professional, non-partisan body. Our role is to support and provide impartial advice to the government elected by the people of Ontario. As public servants, we carry out the decisions and policies of the elected government and work to ensure that activities are conducted in an open, fair and transparent manner. We fulfill our duties in accordance with the law, including the Public Service of Ontario Act, and in compliance with our public service oath.

Members of other professional associations, such as the Chartered Professional Accountants, employed by the OPS are also required to comply with their professional codes of conduct. It's our role as public servants to continuously conduct our due diligence, apply professional and impartial judgment, and provide our best objective advice to the elected government to support its decision-making. This includes completing our own internal analysis, building prudence into financial forecasts, and looking to other jurisdictions or external advisers to supplement our own analysis, always bringing our best professional judgment and advice to the table.

I'm going to talk a little bit about the preparation of public accounts. The province's consolidated financial statements are prepared in accordance with Canadian public sector accounting standards, also referred to as PSAS. These standards are set by an independent standard-setting body in Canada focused specifically on the public sector, the Canadian Public Sector Accounting Board. These standards are used by all senior governments in the country and support informed decision-making and accountability.

It is important to highlight that public sector accounting standards are principle-based. They are not a set of prescriptive rules, and using them requires the application of professional judgment. Our professional staff exercise this judgment in applying standards and, as necessary, consult with external experts and advisers.

Our professional staff provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited. They discuss issues with the Office of the Auditor General. In fact, there's an ongoing collaboration with the Office of the Auditor General during the public accounts process. We work closely with the Auditor General's office to release public accounts and to ensure that the lines of communication between both offices are open.

Of course, our collaboration isn't limited to public accounts. Where feasible and appropriate, our internal audit function assists with the efforts on public accounts as well as the upcoming work of the Auditor General in follow-up audit processes.

We continue to build a positive relationship between both offices and make every effort to provide the Auditor General with the information that she needs on a full and timely basis in order to support her work and comply with the regulations under the Auditor General Act.

In 2016-17, we made some accounting changes. In preparation for the 2016-17 public accounts, our professional accounting staff adopted a number of changes to further enhance accountability and transparency in financial reporting. These changes include:

- presentation of third-party revenues for hospitals, school boards and colleges. The Office of the Auditor General is supportive of this change;

- the adoption of International Financial Reporting Standards as the basis for accounting for government business enterprises in the energy sector, of which the Auditor General, I understand, is also supportive;

- accounting for market accounts by the Independent Electricity System Operator, also known as IESO. The IESO is now recognizing market account assets and liabilities in its financial results and has adopted rate-regulated accounting; and finally,

- reporting pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards as well as the recommendations of the independent Pension Asset Expert Advisory Panel.

Let's move on to what we're really here for today, which is the consideration of chapter 2, public accounts

of the province, of the Auditor General's 2017 annual report.

As I mentioned, the Office of the Auditor General is an integral part of the public accounts process. In addition to the audit opinion, the auditor's annual report provides a closer look at the province's finances and processes.

In the 2017 annual report, the Office of the Auditor General makes 10 recommendations regarding public accounts. The government has provided a summary of those responses, including any next steps, where applicable, in the summary status table that was submitted to the committee earlier this month. They have been provided to support our appearance today.

The table outlines the process and rationale as to why the government chose to either continue with or adopt changes to accounting treatments. We remain open to continuing to discuss these recommendations and responses with the Office of the Auditor General, particularly regarding the interpretation and application of public sector accounting standards.

As I mentioned earlier, it is the role of the public servant to provide our best objective advice to the elected government and to comply with codes of conduct, including our CPAs', in the CPA Code of Professional Conduct. This means that if the professional accountants in the public service do not agree with the Office of the Auditor General, it is not as simple as just agreeing to accept the Auditor General's interpretation.

We expect professional accountants to agree on the vast majority of issues, but we also acknowledge that they may not agree on everything, as is the case here. However, I want to re-emphasize that we remain open to continuing the discussions with the Office of the Auditor General in hopes of achieving resolution.

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I'll talk a little bit more about the management response.

Preparing public accounts, as you probably can imagine, is an intensive process, and the government has a great team of experts that lead the process every year. Putting this material together requires a lot of work on the part of many people, and a key part of that is engaging stakeholders early and collaborating throughout the process.

Of course, one of these crucial stakeholders is the Office of the Auditor General. During the last fiscal year, we worked closely with the Auditor General's office to release public accounts earlier and to make sure that the lines of communication between both our offices were open. Through the process, there were regular meetings and touch points. These discussions are an opportunity to seek the Auditor General's input early and to ensure that there are no barriers to information sharing.

I would add that the process for the upcoming public accounts has already started, so you get a sense of the timelines that we work toward.

The government carefully reviewed the recommendations and provided detailed responses to the Auditor General for inclusion in her report in a timely fashion.

I'd like to take this moment to turn your attention to the summary status table, which contains a summary of these responses. Because there are a number of subject matter experts here today, I will briefly speak to the government responses and point you to the appropriate expert, should you need more information. We will endeavour to make every effort to provide you with the information—

Mrs. Liz Sandals: Excuse me, Chair. I don't think we've got the government responses that she is referring to.

The Chair (Mr. Ernie Hardeman): It's in the back-grounder that was passed out.

Mrs. Liz Sandals: Okay.

The Chair (Mr. Ernie Hardeman): Let's continue.

Ms. Helen Angus: No problem.

We have a number of subject matter experts here today. As I said, I'll briefly go over the responses and then point you to the appropriate person who will be able to answer and give you more information. If we are unable to answer the question here today, we'll endeavour to follow up.

I'll start at the top, on the point of pension accounting.

As you're well aware, I think, during the 2016-17 fiscal year, the province's professional staff conducted additional research and analysis, following the issuance of a qualified audit opinion of the Auditor General in 2015-16. It was determined that in applying public sector accounting standards, no valuation allowance was required this past year on either of the jointly sponsored pension plans in question: the Ontario Teachers' Pension Plan or the Ontario Public Service Employees' Union Pension Plan.

We will continue to evaluate the need for a valuation allowance on an annual basis, taking into consideration a number of factors. These would include changes, if any, in the governance structure of those plans; decisions, if any, of the joint sponsors that would impact the need for a valuation allowance; and changes, if any, in public sector accounting standards.

On the subject of external advisers, our responsibility as public servants is to give the best advice we can, in order to help the government make well-informed decisions. Sometimes this means seeking independent expertise for their unique professional skill sets and perspectives. It's not unusual for ministries to seek third-party advice on complex matters. For example, we would look to external lawyers on occasion for legal opinions on complex legislative matters.

This is no different in the world of accounting. Treasury Board Secretariat uses external expertise for accounting and financial reporting matters to supplement our own resources, particularly on complex or emerging accounting and reporting matters. As I mentioned earlier, this is part of our role as public servants in conducting due diligence and providing our best objective advice to the government.

I would like to emphasize that external advisers are used to supplement our own internal analysis.

Where required by the CPA Ontario Code of Professional Conduct, our staff have advised and will continue to advise the Office of the Auditor General of external adviser involvement. We are committed to proactively working with the Office of the Auditor General.

An arm's-length trust, we continue to assess the most appropriate vehicle for meeting policy objectives, which include appropriate oversight in ensuring good value for money and with respect to how transfer payments are spent.

If you have any questions about pension asset accounting, use of external advisers, or arm's-length trusts, our TBS representatives who are here today would be happy to provide further information.

I'm going to shift to the accounting for the Ontario fair hydro plan. I would like to reiterate at the outset that the province has prepared and will continue to prepare its financial statements in accordance with public sector accounting standards. Regarding legislation and accounting treatments, the province will continue to prepare its financial statements, again, in accordance with public sector accounting standards.

Legislation was used to prescribe accounting that did not align with public sector accounting standards once, and that was in the 2015-16 public accounts. At that time, the government passed a time-limited regulation prescribing an accounting treatment for net pension assets reflecting an accounting interpretation consistent with that of the Office of the Auditor General in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on the statement of responsibility for the 2015-16 public accounts.

In the context of the fair hydro plan and its regulations, there are no provisions in the legislation that prescribe the accounting treatment that the province must follow. We have Deputy Imbrogno and representatives from the Ministry of Energy here who would be pleased to provide additional context and information on the fair hydro plan.

With regard to IESO accounting, like the province, the IESO prepares its financial statements in accordance with PSAS. We have representatives here from the IESO who would be pleased to provide the committee with more details on why they opted to make accounting changes in their 2016 financial statements.

On the point of earlier finalization of the province's financial statements, I am pleased to say that planning has already begun between the Office of the Auditor General and the Office of the Provincial Controller for the 2017-18 fiscal year. The Office of Economic Policy has also been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate income taxes. We will continue to collaborate in order to support the timely and transparent delivery of public accounts.

Moving to the recommendation regarding the province's debt, I have my colleague whom I introduced earlier, Deputy Minister of Finance Scott Thompson, here beside me. Deputy Thompson would be pleased to

provide more details about the province's plan to address the debt, should the committee wish. He would also be able to answer questions you may have on how we're working towards finalizing our financial statements earlier as it relates to estimating personal and corporate income tax revenue.

Finally, speaking to the pre-election report, earlier this week, on Monday, the government posted a regulation under the Fiscal Transparency and Accountability Act that requires the government to issue a pre-election report on Ontario's finances. The purpose of the pre-election report is to outline the province's estimated revenues and expenses and other details of the fiscal plan before the start of the provincial election. The Ministry of Finance and Treasury Board Secretariat are responsible for releasing the report, which must include the following information, updated from the most recent fiscal plan:

- the macroeconomic forecast and assumptions that were used to prepare the fiscal plan and any significant differences from those forecasts and assumptions;

- an estimate of Ontario's revenues and expenses, including estimates of the major components of those revenues and expenses;

- the details of the reserve; and

- information about the ratio of provincial debt to Ontario's gross domestic product.

The government intends to release the pre-election report concurrently with the 2018 budget. Both the 2018 budget and pre-election report will be available to the Office of the Auditor General for review in the coming weeks. Either Deputy Thompson or I would be pleased to answer questions regarding the report.

In conclusion, I want to emphasize that we as public servants remain committed to following public sector accounting standards and providing high-quality financial reporting for the province. We exercise our due diligence and, where necessary, look to other accounting frameworks, external expert analysis to supplement our own or to other government jurisdictions.

As public servants, it is our role to provide our best objective advice to support government decision-making. We are pleased to provide explanations in response to questions regarding policy matters. Finally, as professionals and public servants, we respect the Office of the Auditor General and that of the Legislature, and we are committing to work together constructively.

I want to thank the committee very much for your time today. We look forward to answering your questions.

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The Chair (Mr. Ernie Hardeman): Thank you very much for the presentation.

Just before we start with Mr. Hillier, I just want to point out that if a question is going to another person who is not sitting at the table presently, we would ask them to come forward to the open mike at the end of the table and make their presentation, prior to which they will state their name for the record.

Mr. Hillier.

Mr. Randy Hillier: Thank you for your presentation.

The public accounts committee in conjunction with the Auditor General are two of the safeguards that we have in place in this province for strong financial controls and safeguards that ensure the integrity of our financial statements.

Certainly, this committee has a track record of being non-partisan to a large extent, but it might be difficult to set aside that non-partisanship today, reading the Auditor General's report, especially when it comes to the fair hydro plan.

I listened intently to your opening address, Deputy. I don't know if that is either a completely fair or accurate representation of what has been going on with respect to the fair hydro plan.

You mentioned that you work early with and you get input early from the Auditor General on a number of items and you work with a collaborative approach. But you didn't seek the Auditor General's advice or input on these accounting practices with the fair hydro plan before the legislation was drafted. That's correct?

Ms. Helen Angus: I think we actually reached out to the Auditor General shortly after the policy decision around the construct of the fair hydro plan—

Mr. Randy Hillier: So afterwards?

Ms. Helen Angus: After the policy decision. I'm not sure what the timing was of the legislation. I might ask my colleague to answer that.

Mr. Randy Hillier: That's fine.

You also said that you provide your best impartial advice. I'm going to ask you directly—the three members here at the front: Was the fair hydro plan, as constructed, your best impartial advice to the ministry and to the Premier, on how to construct that hydro rate reduction? Was that your preferred or best advice?

Ms. Helen Angus: I would say that part of our advice is covered by the confidentiality provisions of cabinet. I think that we equipped ourselves to execute the government's preferred policy direction to the best of our abilities, given our professional judgment and experience in these matters.

Mr. Randy Hillier: Do you think that reaching out into a private sector accounting practice and finding a way to obscure or to insert a private sector accounting practice into the public sector accounting standards was good advice?

Ms. Helen Angus: With that, I'm going to have to ask an actual accountant. It would probably make sense at this point for Cindy to come up.

There's lots of accounting in the fair hydro plan, as you well know, and there are different roles of different actors within their role in the fair hydro plan, so I think you probably want to hear from somebody who is an accountant.

Cindy, why don't you introduce yourself?

Ms. Cindy Veinot: Cindy Veinot, provincial controller and assistant deputy minister at Treasury Board Secretariat.

With respect to your question about inserting private sector accounting into the province's accounting: I assume you're referring to rate-regulated accounting.

Mr. Randy Hillier: Yes.

Ms. Cindy Veinot: I think it's helpful to understand where rate-regulated accounting is actually already used in the public sector accounting standards—

Mr. Randy Hillier: No, no. In this instance—the province has no party to that function. Was that the best advice, to reach into private sector accounting practices and insert—

Ms. Cindy Veinot: But what I'm trying to tell you is that we already use regulated accounting in public sector accounting standards—

Mr. Randy Hillier: Not with the IESO.

Ms. Cindy Veinot: Not by the IESO.

Mr. Randy Hillier: So that's new.

Ms. Cindy Veinot: Well, the IESO—one could say that it's new, but it's not new to public sector accounting standards.

Mr. Randy Hillier: That accounting practice is new to the IESO and was only used because of this policy—the fair hydro plan.

Ms. Cindy Veinot: We probably need somebody from IESO to speak specifically to their decision-making, but if you're asking if rate-regulated accounting is new to the public sector accounting standards in terms of the preparation of the province's financial statements, the answer is no.

Mr. Randy Hillier: We know that no other Auditor General in this country and no other province uses that practice—nobody else.

Ms. Cindy Veinot: The province of British Columbia also uses rate-regulated accounting to account for BC Hydro, which is incorporated into the public sector financial statements of the province of British Columbia.

Mr. Randy Hillier: Okay. Maybe answer me this: Why did you go back five years and retroactively insert those market valuations?

Ms. Cindy Veinot: Maybe I'll start, and then I'll ask Kim Marshall to come up.

There are two different issues. One is the reflection of market accounts in the financial statements of the IESO. As the provincial controller, I actually asked the IESO to look at that issue. When I first heard about the fact that the IESO had a second set of accounts that was not reflected in their financial statements, I asked them to consider whether or not that was the appropriate accounting treatment. The accounting for the IESO in terms of reflecting those market accounts I think better reflects their role as the settler of the transactions between those that produce energy and those that use energy.

It's really very similar to the role that the Toronto Stock Exchange plays in terms of settling amounts between people who buy stock and people who sell stock. They account for it in the same manner.

Mr. Randy Hillier: Except in this whole scheme—and I'm glad to see we have everybody here who was involved in this scheme—I think this scheme has added

billions of dollars to the public cost—this whole fair hydro scheme. I think the FAO has estimated it into the billions of dollars. I believe that just the interest costs added another \$2 billion in costs as compared to other practices which I think I would characterize as better practices or better advice. Surely that would be part of the consideration when providing best advice: that the public is getting its best value, would it not?

Ms. Helen Angus: I think on that matter it's probably best directed to the Ministry of Energy. I think, Deputy, you might be able to explain a little bit more of the thinking behind this and the practices.

Mr. Serge Imbrogno: Serge Imbrogno, Deputy Minister of Energy.

What I'm going to give you is more of the policy construct. The accounting follows that, but I think it's—

Mr. Randy Hillier: It has been said to this committee that you provided your best impartial advice. If that is your best impartial advice, why did it cost an extra \$4 billion for us? Really, is that what your metric of "best" is—adding \$4 billion of unneeded cost?

Mr. Serge Imbrogno: No. If I can just give you the policy construct and then I think it'll answer your question—at least I hope it helps to answer your question.

The government—if you go back to 2003, we made huge investments in cleaning the system, adding to reliability: \$70 billion-plus of investments.

Mr. Randy Hillier: I hear that in question period all the time.

Mr. Serge Imbrogno: Of that, about \$37 billion of new generation assets have been put in place. A large portion of that has been paid for by the ratepayer, of course, and then, of that, the global adjustment pays for a portion of those costs. The government wanted to provide—

Mr. Randy Hillier: I've heard the Minister of Energy say all that in question period—

Mr. Serge Imbrogno: No, no, but I think it's important to understand that the government decided it wanted to provide rate relief for Ontario consumers. It did that in a number of ways. One, it said that when you look at the rate base, there were a number of programs in the rate base that were really social programs that were being recovered by ratepayers. The government said that's probably not the best way to recover these costs; we're going to shift those costs from the rate base to the tax base.

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They also introduced an HST-equivalent rebate, also funded through the tax base. That's about \$1.5 billion a year. The government also said—

Mr. Randy Hillier: Let me make my question clear: Was that your best advice to the government of the day, to develop this fair hydro scheme and add an extra \$4 billion of cost? Was that your best and preferred route, or were you directed, urged, pressured or compelled to act in this fashion, which would add needless cost onto everyone? Was that your best advice?

Mr. Serge Imbrogno: We always provide the government advice within the policy construct that it wants to operate.

Mr. Randy Hillier: They wanted to reduce the costs.

Mr. Serge Imbrogno: They wanted to reduce the costs, but—

Mr. Randy Hillier: They wanted to reduce the rates. So was that your best and preferred way of doing it?

Mr. Serge Imbrogno: It's important—if I could just finish that part. The government decided to move the social costs from the rate base to the tax base.

Then it also said, when you look at the global adjustment, that there were a number of investments made for renewable generation, for example. A lot of that investment was front-end loaded; it was 20-year contracts. When you look at the useful life of the assets, they can last beyond the 20 years, whether they're gas plants, whether they're renewables, solar and so on. The question was, is it appropriate—

Mr. Randy Hillier: My question was: Was that your best advice? Was that your preferred—

Mr. Serge Imbrogno: I'm getting to the best advice. Was it appropriate—

Mr. Randy Hillier: We have 20 minutes.

The Chair (Mr. Ernie Hardeman): If I could just stop it here for a minute, I do want to encourage everyone to understand that the issue of the policy is not before this committee. The issue before this committee is the auditor's report and how it was financially dealt with. So I just would encourage everyone to keep that in mind, both in the questions and in the answers, to make sure we stay on the focus of why we're here today.

With that, back to Mr. Hillier.

Mr. Serge Imbrogno: If I could just finish the thought—

Mr. Randy Hillier: As long as it's not policy.

Mr. Serge Imbrogno: On the global adjustment, a lot of those costs were front-end loaded. The government looked at that and said, "We don't think it's fair that today's ratepayers pay a higher burden of those costs. We want to look at a mechanism that spreads those costs over time." When you look at a mechanism that spreads those costs over time—

Mr. Randy Hillier: So was this scheme your best advice to the government? This fair hydro plan, was that the best advice that you provided, or did you feel pressured, urged or compelled to come up with a less than stellar scheme to go with?

Mr. Serge Imbrogno: Like I said, we'll provide the government advice on a number of options that meet its policy objective. The fair hydro plan and the spreading out of the cost of the global adjustment was part of that. I think the important part of that is it was always intended that it would remain in the rate base. So pulling out the costs of the social programs was explicit; this would be a tax-based cost. The spreading out of the global adjustment would be: Today's ratepayers would pay less; tomorrow's ratepayers would pay more. That was explicit.

That's how the legislation was written, and I think that's how—

Mr. Randy Hillier: That's not my question. My question was, was that your best advice? Was this development of the fair hydro plan your best advice? And was it your preferred mechanism to achieve rate relief?

Mr. Serge Imbrogno: What I'm saying is, we provide the government with advice. We give them options. We go through the pros and cons of each option, and then the government decides the course it wants to take. Once the government decides the course it wants to take, we implement.

Mr. Randy Hillier: So when the question must have arisen that this scheme would potentially not meet the high tests of financial safeguards and scrutiny by the Auditor General, what was the discussion then? Was that why the Auditor General was not brought into the discussions until after the policy was made? Certainly there would have been those discussions—that the Auditor General would have concerns taking on these new accounting practices and this new scheme.

Mr. Serge Imbrogno: In all of these major projects that I have been involved in, you always have considerations related to the legal aspects of it, the financial aspects of it and the fiscal accounting aspects. All those things are considerations going into a final decision.

It's very difficult to opine on an accounting treatment before you've landed all the details of it, especially the legislation. We do seek advice from our internal accountants, and to the extent we need to, we seek advice from external accountants.

Mr. Randy Hillier: Did they raise any red flags that the Auditor General may not view—that this would result in a qualified opinion?

I guess I should also ask this question: The actions on the fair hydro plan have put the integrity of our financial statements at risk. Once again, that must have been part of the discussion or conversation. What was the response about reducing or diminishing the reliability of our financial statements in this province?

Ms. Helen Angus: I think it might be worth talking about how the fair hydro plan actually will show on the financial statements of the province. I might ask Cindy to come up again—

Mr. Randy Hillier: No, no. The question is, was there discussion and consideration about putting our financial statements at risk with another qualified opinion?

Ms. Helen Angus: I don't think we anticipate—

Mr. Randy Hillier: You didn't anticipate a qualified opinion from the Auditor General? You thought that this was completely—

Ms. Helen Angus: I don't think we second-guessed the Auditor General on her opinion.

Mr. Randy Hillier: Yes, but again, if you were so open and collaborative, as you said in your opening statements—surely going to the Auditor General's office and explaining this scheme would have been consistent with your comments about being open and collaborative. But that didn't happen until after the policy, right?

Ms. Helen Angus: I would say that's probably true, but often the way that we work is that while cabinet is making a consideration—

Mr. Randy Hillier: Earlier, you said that you have an open and collaborative—

Ms. Helen Angus: Yes, “within the bounds of cabinet confidentiality,” I think, is an important construct here in terms of how we work in the policy development process and then perhaps a little differently in the implementation process.

Mr. Randy Hillier: Well, I don't know if I would characterize that as collaborative, truthfully.

I really find it troubling that for two years in a row now, this government has engaged in practices that put our financial statements at risk. It seems to be growing, this willingness to circumvent the financial safeguards and controls that are in place with the Auditor General's office and the public accounts committee—actually attempting to circumvent those things, to not show reliable financial statements.

Is there a growing sense in your three offices that the Auditor General's office and the public accounts are an unnecessary bar to meet?

Ms. Helen Angus: I think, absolutely, the meeting of the standards, the professional code of conduct that our accounting staff adhere to, and our commitment to openness and transparency are all important objectives for us as public servants, so meeting the test of the public accounts committee and that of the Auditor General is of utmost importance.

Mr. Randy Hillier: Okay.

Mr. Serge Imbrogno: If I could also add—in terms of transparency, everything that we're doing through OPG is very transparent. All their financing that they've already done, the \$500 million that went forward, is all transparent. The cost of that financing is transparent—

The Chair (Mr. Ernie Hardeman): That concludes the time for the PC caucus.

Mr. Vanthof.

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Mr. John Vanthof: Thank you for coming. Thank you to the Auditor General as well.

I'm going to try and take this from a different approach: as a lay Ontarian. I don't know if you can use that word. We're having an accountant-to-accountant debate here, but for your lay Ontarian—quite frankly, we're at a time and place where people don't trust political parties. They don't trust government numbers either, I don't think, regardless of which government. They question everything because they know, after every election, the party will come in and say, “Well, do you know what? We weren't told the truth and there are millions and billions of dollars of unaccounted money out there.” They instinctively know this.

Before I was elected, I just ran a dairy farm. The one office you could—when the Auditor General said something, okay; we'll look at this. And it is concerning to constantly have a debate between the Auditor General and the government of the day.

In response to the Auditor General's recommendation number 2, that you should remove the market accounts from the statements—and if I understand auditing from a lay perspective, you try and make sure that you audit in the same way so you're comparing apples to apples, not apples to oranges, because at the end then no one knows what's in your basket. I think that what we're trying to do is make sure that everybody at the end of the day knows how much money is or isn't in the provincial basket.

You said you were using PSAS standards. In your response, the IESO was subject to an external audit and received an unqualified, or clean, opinion. Is that clean opinion based on PSAS standards, in your response for number 2 on page 3? I just want to know if we're talking about apples to apples. The province uses PSAS standards. The IESO is audited. It has a clean audit, according to your response. Is that clean audit based on PSAS standards?

Ms. Helen Angus: I will ask Serge—maybe you want to introduce some colleagues from IESO.

Mr. Serge Imbrogno: Yes. We have Kim Marshall here from the IESO, who can explain the IESO accounting.

Mr. John Vanthof: But I have a specific question and I would like a specific answer, as a resident of the province of Ontario.

Mr. Serge Imbrogno: Yes, absolutely.

Ms. Helen Angus: Introduce yourself.

Ms. Kim Marshall: Kim Marshall, the chief financial officer of the Independent Electricity System Operator, the IESO.

Would you mind if I did a little bit of background on the IESO?

Mr. John Vanthof: No problem doing a little bit.

Ms. Kim Marshall: A little bit?

Mr. John Vanthof: Just don't rag the puck.

Ms. Kim Marshall: Okay. I'll try not to. I didn't play hockey.

I would start with saying that the IESO is a government agency. We're part of the electricity system and we have a very broad mandate. There are some obvious things that are very well known. We do the planning to meet the electricity needs, we've got the reliable operation of the grid, fostering a culture of conservation and engaging with stakeholders. A significant aspect of the IESO mandate is what we would term administration of the electricity sector market.

In the past year, what that meant is that the IESO settled \$17 billion worth of transactions that were flows between local distribution companies, receipt of funds and then payment of generators including OPG. I say that because it's a significant part of the activities of the IESO and was one of the items behind the push towards our greater transparency that I'll touch on.

Mr. John Vanthof: It's not really the country way to break in, but I'm starting to learn that that's how you have to do it here.

The Chair (Mr. Ernie Hardeman): I just want to point out that the 20-minute statement included all the

presenters. We do want to keep this part on the questions and answers because it's not fair to the whole committee to use part of the time for more statements rather than questions and answers. If you could both keep that in mind.

Ms. Kim Marshall: Could I throw in my next line?

Mr. John Vanthof: Yes.

Ms. Kim Marshall: The IESO follows public sector accounting standards, or PSAS. PSAS neither explicitly permits nor prohibits the recognition, measurement, presentation or disclosure of rate-regulated activities.

Mr. John Vanthof: Perfect. Okay, we'll stop right there. At that point, if you see that you're trying to work with the standards, and you know you're going to be accountable—obviously, which you are—wouldn't one of the agencies you would look for to talk to, before you changed your accounting standards, be the Office of the Auditor General?

Ms. Kim Marshall: I would say that the financial statements of the IESO are the purview and ownership of the management of the IESO.

In going through that process of deciding what we're doing with respect to accounting policies—which we do on an ongoing basis; we look at our capital amortization in any of the policies that we're undertaking a review of—we would look to a number of sources. We would look to our external advisers. We would take a look at our comparator organizations across North America. One of the things that we did do very early on was take a look at what the other IESOs in North America are doing. We would look to a range of sources—

Mr. John Vanthof: Would that include the Auditor General?

Ms. Kim Marshall: We would speak to the Auditor General once we had come to a conclusion on our own.

Mr. John Vanthof: But considering that your books have to be, or should be, consolidated in a way that the province of Ontario, the people of Ontario, would feel comfortable with—99.99% of the people of Ontario are not going to be watching this, believe it or not, but they need some kind of touchstone that they can believe. Up until I was elected, and still now, one of those touchstones is the Auditor General.

I don't think we're going to agree on this. How would the statements look if you followed the Auditor General's recommendations? Is that possible? Can you produce the statements if you followed the Auditor General's recommendation in number 2 and took out the—

Interjection: Rate regulations.

Mr. John Vanthof: Yes, the market rate regulations, which have just been inserted. Is it possible that you could follow the Auditor General's recommendations, that the government could follow this? You are a public entity. Is it possible?

Ms. Kim Marshall: I would say that the IESO is following policies which are agreed to by our external advisers, KPMG. They are agreed to by other advisers we look to, other Big Four accounting firms, and we believe they provide the transparency and the economic substance that they should be providing.

Mr. John Vanthof: You may believe that, and perhaps others do as well, but that's not the question I asked.

The Auditor General is the independent auditor for the people of Ontario and the Legislature of Ontario. I'm asking: Is it possible for you to actually follow her recommendation? I'm not asking if you like it or if you've gotten independent auditors. KPMG is not the auditor for the province of Ontario; the Auditor General is.

Is it possible to actually follow that recommendation? We're not arguing about numbers that are missing or anything. We're arguing about how the numbers are presented, so that they're presented in a way that is understood by everyone. Is it possible to do it like that?

Ms. Kim Marshall: We believe our financial statements are presented in a way that is understood by everyone. They are in line with the guidance we have received from our external auditor, KPMG, and they are in line with most of the other entities like us in North America.

Mr. John Vanthof: Is KPMG the Auditor General of Ontario?

Ms. Kim Marshall: No, obviously not.

Mr. John Vanthof: Are you a public entity?

Ms. Kim Marshall: We are a public entity.

Mr. John Vanthof: So would it not make sense for a public entity to be audited in a way that is agreed upon by the Auditor General of Ontario? Quite frankly, KPMG is not an independent officer of the Legislature; the Auditor General is. So once again, the question I'm asking is, is it possible to follow recommendation number 2 from the Auditor General of Ontario and present the books in a manner which would be agreed on by the Auditor General?

Ms. Kim Marshall: We do not believe that that is the manner to present our financial statements so as to provide the transparency and economic substance that is appropriate for our activities.

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Mr. John Vanthof: That is not the question I'm asking. The question I'm asking is, is it possible to present the books in a manner that is recommended by the Auditor General of Ontario?

Ms. Kim Marshall: My responsibility is to present financial statements that I believe are representative of how they should be presented.

Mr. John Vanthof: Perhaps I should move this along to someone—is it possible?

Mr. Serge Imbrogno: We have Peter Gregg, who is the CEO of the IESO. I think Peter could probably answer that question, as well.

Mr. Peter Gregg: Peter Gregg. I'm the president and CEO of the Independent Electricity System Operator. I'm pleased to be here.

The direct answer to your question: I would say that, as management of the organization, we take our responsibility extremely seriously in terms of the representation of the appropriate accounts and activities of the organization. We stand behind those financials that we put forward. We are answerable to a board of directors that has

oversight over the organization. That board has an audit committee. We need to satisfy that audit committee and, ultimately, the board that we are presenting with the appropriate financials.

We use our judgment based on our own professional expertise, but also based on expert advice. Where we have landed is the use of rate-regulated accounting under PSAS through that advice that we have gotten. We feel that is the most appropriate way of representing our financials. We think that it has the added advantage of giving better visibility to the \$17 billion from market activity that happens on an annual basis, and it is in line with six of the other eight independent system operators across North America that also use rate-regulated accounting.

Mr. John Vanthof: I apologize for getting frustrated. I understand your position. You are answerable to your board. That's not the question that I'm asking. I'm asking, is it possible? Because, quite frankly, the people of Ontario are actually over the board. The Auditor General is the representative of the independent auditing process of the people of Ontario. If her office is asking for the books to be presented in a different way, I'm asking if it is possible.

Mr. Peter Gregg: The short answer to that is there are options here. It's possible. Based on management's judgment and based on board oversight, we have selected what we believe is the most appropriate for the organization.

It's no disrespect to the Auditor General and the Auditor General's office. It's just a disagreement that we have. But we do stand behind our judgment on this and we've taken this issue exceptionally seriously and have given it appropriate management attention and board oversight and engaged professionals to assist us on it.

Mr. John Vanthof: Thank you for actually answering.

Mr. Peter Gregg: You're welcome.

Mr. John Vanthof: So it is possible.

The question—and I'm trying not to be partisan here; whenever somebody says that, they always go partisan. We were just told that the IESO didn't approach the Auditor General before the decision was made. When the member of the official opposition was talking about your best advice—was that decision based on the policy of the government of the day? Why was the decision to go to market made now and not five years ago, when smart meters were—

Mr. Peter Gregg: Sure. It's a good question.

On a regular basis, we look at our accounting policies to make sure that we're staying as current as possible and giving the best possible representation. We have looked at making this change to rate-regulated accounting in the past. Most particularly, when the OPA and the IESO merged, there was a consideration made at that point. We did not adopt rate-regulated accounting at that time, but it was something that was an option that we identified at that point.

When we did our 2016 financials, it was at that point that we considered it again—to move to rate-regulated

accounting—and ended up doing our 2016 financials on rate-regulated accounting with a clean audit opinion.

Mr. John Vanthof: Again, but a clean audit opinion of KPMG or of your audit committee—

Mr. Peter Gregg: As our external auditors, yes.

Mr. John Vanthof: But again, I'd like to make it clear for the residents of Ontario that that clean audit opinion isn't, so far, from the Auditor General of the province.

Mr. Peter Gregg: Understood.

Mr. John Vanthof: I can't stress that enough. At this point, we need—it's possible to do the books differently. We're not arguing about whether—we're not talking about money missing or anything. We're not talking about that. Let's make that really clear: We're not trying to insinuate that. What we're talking about is how the books are presented and whether or not—and my question is: Did the fair hydro plan have any impact on changing the way the books are presented at this time?

Mr. Peter Gregg: There's obviously awareness of decisions that are being made out in the broader public sector, but I would say that the board, most particularly the audit committee, when considering the change to rate-regulated accounting, did not do it on the basis of having to do it for the fair hydro plan. Management was asked to look at this—regardless of fair hydro, regardless of anything like that—"Is this the right thing to do?"

That was the work we engaged KPMG to look at, and that's when we got the advice that came back to say, as I said, that six of the other eight independent system operators who manage the North American grid do the same rate-regulated accounting. It also gave the ability for us to more appropriately disclose the \$17 billion of market activity that comes through our systems. Before we made this change, that was not represented in our financials adequately. We believe this gives much better transparency to those transactions.

Mr. John Vanthof: The two that don't use rate-regulated accounting, and I don't want a really long answer, do they use something—what?

Mr. Peter Gregg: I don't know the answer to that question.

Mr. John Vanthof: Okay, and I don't want to spend hours on it; I don't have hours. So I'll just go to the next question.

Rate-regulated accounting, in the short time that I've had to look at this, basically—am I mistaken in thinking that, under rate-regulated accounting, accounts that could come due far in the future could actually be on the books as an asset? Because we can talk about rate-regulated accounting, and no one outside of this room knows what we're talking about.

Mr. Peter Gregg: I'm not an accountant.

Ms. Helen Angus: Neither am I. So maybe we should get one of the accountants up to make sure that you get the precise—

Mr. Peter Gregg: Full disclosure: I am not an accountant, so I probably shouldn't—

Mr. John Vanthof: Full disclosure: neither am I.

Mr. Peter Gregg: Perhaps Cindy—

Ms. Helen Angus: Cindy, why don't you come up and just reintroduce yourself for the committee.

Chair, I'm doing your job.

Ms. Cindy Veinot: Cindy Veinot, provincial controller and ADM. Can you restate your question?

Mr. John Vanthof: Rate-regulated accounting is a different way of presenting the books, right? Specifically—

Ms. Cindy Veinot: Rate-regulated accounting is a methodology that is used for entities where their rates are set by another party, either an independent regulator or their governing body.

When you have rate-regulated accounting, essentially what it means is that you're not always permitted to recover, in today's rates, the costs that you incur. Sometimes the regulator would say that you're permitted to recover those costs in future rates. What rate-regulated accounting does is enable you to record those amounts, not as an expense in the period, but as an expense in the period in which you're permitted to recover those from the consumer when they pay you the amount for those costs.

There are also representatives from OPG here; they use rate-regulated accounting. They could give me some examples of where they would have rate-regulated assets on their books, because they would have the billions of dollars of rate-regulated assets sitting in their accounts.

Mr. John Vanthof: Okay. So, using the fair hydro plan as an example, with rate-regulated accounting, the way the books are presented, would it look more positive from a policy perspective for the government, as opposed to if rate-regulated accounting was removed?

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Ms. Cindy Veinot: I think in our evaluation of what the appropriate accounting is for the fair hydro plan, we looked to determine whether or not the costs were going to be borne by the taxpayer or the ratepayer. The social programs that were moved onto the tax base, the 8% rebate that was started in January of last year, are all covered by the tax base. So those are all expensed in the period that they're incurred, and would increase the deficit of the province as they are expensed. With respect to the fair hydro plan, the global adjustment refinancing portion of it, as the deputy explained earlier, is to be fully borne by the ratepayer.

If I could just explain for a minute the way the system currently works and then we can go on to the transition: Right now, the OEB sets the RPP, which is the rate that consumers pay. It's estimated every six months. It can't ever be precisely accurate because you don't know how much electricity consumers will use and you don't know the market rates of the electricity. So they estimate it once every six months, and to the extent that it's different, then there are 12 months to reconcile that. Essentially, what's happening now with the fair hydro plan on that piece is that the period of settlement extends from 12 months to 30 years. There is a lower amount that is—

The Chair (Mr. Ernie Hardeman): I can't be perfectly accurate, but I have to try. The time is up.

Ms. Cindy Veinot: Okay, done. Thanks.

The Chair (Mr. Ernie Hardeman): Thank you very much.

We'll go to the government side. Ms. Sandals.

Mrs. Liz Sandals: Why don't you finish the answer to that question, because we interrupted you anyway.

Ms. Cindy Veinot: That period stretches on for 30 years. Those amounts will be collected from ratepayers when the clean energy adjustment is charged to those ratepayers for electricity that is consumed. Rate-regulated accounting permits you to record that amount as an asset. From an accounting perspective, that means that it does not impact the deficit or surplus of the province, which means it reflects that those costs are borne by the ratepayer and not by the taxpayer.

Mrs. Liz Sandals: A lot of people have said, "I'm not an accountant, but," and I would come into the same category as not an accountant, which all these folks have heard me say many times. But if I could make a couple of observations as somebody who's not an accountant—my next question would be: So what do you normally do?

If you look at the pension plan accounting, the only time—and it sort of goes to John's "Is it possible?"—it is possible to use the auditor's accounting for the pension plan. In fact, for the 2015 public accounts, cabinet directed these folks to use the auditor's accounting, which they unanimously disagreed with. It was a political decision to use that accounting. But if you were to ask, "What is the normal accounting for the pension plan?", if you were to look through the books forever and ever going back to the beginning of the 1990s, when it was structured as a joint pension plan—to every year but 2015, the normal accounting has been perfectly consistent. What's inconsistent is that the auditor has not agreed with what was normally accepted as the accounting.

Similarly, I think, with this IESO discussion, there are a number of people who have rate-regulated accounting or market accounts and who carry out the same function as the IESO, the Independent Electricity System Operator. As I think the CFO for the IESO told us, when they looked at the other eight entities that do the same thing, six of them use rate-regulated accounting on their market accounts—not for everything, but for their market accounts. When I ask myself, as a non-accountant, "Is it normal that other people do this?", then I see it being normal that other people do this. It sort of sounds in the questioning like, "Why did you people think up this really strange thing that nobody has ever done before?", but it actually isn't a really strange thing that nobody has ever done before.

The other comment I would make, as someone who has sat in cabinet, is that cabinet does not ask the Auditor General for an opinion when cabinet is making policy. So what these people are doing is, once cabinet has selected a policy from a variety of policy options, then they are correctly, as good public servants, looking for the best way in which to implement the policy. But that's the point at which you're looking at implementation. It's a

different stage than cabinet making policy. That's just my little bit of venting there.

I actually want to go back and ask a question of Deputy Angus. One of the recommendations that the auditor made was that we should look at the Office of the Provincial Controller working with various parties to see if we could get the public accounts out earlier than August or September. We're talking about a fiscal year that ends at March 31; is it possible to get the accounts out earlier? I'm curious about where that discussion is going because, in my experience, we've almost gone over the legislated deadline. We've been a bit before the legislated deadline, but I'm actually struggling with how we would actually get it done, say, earlier: in July. I would be really intrigued to hear how you think that might be possible.

Ms. Helen Angus: We'd love to get it done in July; I'll tell you that. I'll ask Cindy to talk about that in a minute. Obviously, when you release public accounts closer to the year that they're reporting on, it ties the two together a little more than if a number of months pass.

I'm hopeful that we have a running start this year, as we did last year. In fact, I think we improved our time last year over what we did the year before. So we are getting better and better at doing this, and I think that does speak to the collaboration that we do have with the Auditor General around the production of public accounts.

There are a lot of moving pieces. We have some dependencies on some information, particularly—I think I referenced it in my opening remarks—around the accuracy and timeliness of incoming information from the federal government on corporate and personal income tax. That tends to be one of our limiting steps.

I'll ask Cindy to just talk a little bit more about what the calendar is and how we approach the public accounts process.

Ms. Cindy Veinot: Sure. Cindy Veinot, provincial controller. There are a lot of moving steps. When I started in this role in 2016, it was actually one of the things that I took a look at because I agree that having information out earlier is more relevant. If we wait five months or six months to issue our financial statements, the year is half over and people are really focused on the future.

We had started some work internally to move up the timelines, and we had approached the Office of the Auditor General to do the same. I'm actually thrilled that there's a recommendation to continue that process to move things up, because I think it's an important movement on our part.

In terms of what the various pieces are in terms of the public accounts—just to make sure everyone is aware—we have an annual report, which includes our financial statement discussion and analysis, which tells the reader how we did in the year: what our revenues are, what our expenses are, how they compare to our budget and how they compare to the prior year.

The annual report also includes our consolidated financial statements. Those consolidated financial statements include the revenues and expenses of the Consolidated Revenue Fund as well as over 300 organizations that are controlled and consolidated by the government. Those would include organizations such as the hospitals in Ontario, the colleges and the school boards as well as other specific agencies that are controlled and therefore consolidated, such as Metrolinx or Cancer Care Ontario or items like that.

The public accounts also include three additional volumes—volumes 1, 2 and 3. Volume 1 presents ministry-specific information with respect to what has been spent in the ministries. Volume 2 includes the consolidated financial statements for the various agencies, with the exception of all the broader public sector entities, just because there are so many of them. Volume 3 includes payments from the province to vendors and transfer payment recipients over a certain threshold and as determined by the type of expense.

In terms of our ability to prepare accurate and timely public accounts, we do rely on the ministries and other provincial entities to prepare their financial statements to us. To that end, we work with the ministries to ensure that their information is provided as quickly as possible.

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In terms of working with the Office of the Auditor General, as was mentioned earlier, we have already started the biweekly meetings that happen at the staff level, to ensure that information is provided as it is available and is on track. We are also currently working with the office of economic policy at the Ministry of Finance to discuss the considerations of moving the information that relates to personal income tax and corporate income tax up earlier, so that that is not a gating factor to issuing public accounts earlier.

Of course, underlying this, there are various complex systems that we look at. We do an audit every year that we call SysTrust, to look at the specific information technology systems that our general ledger is based on, as well as our payroll system. Also, part of our process for issuing the public accounts is to receive a certificate of assurance from all of the ministries and the major agencies, to confirm to us that they have the appropriate internal controls in place and that they have prepared their financial information in accordance with the standards.

In terms of the work that we do with the Auditor General, that work and their work has already started. We provide information to them as it's requested, and the staff I believe has a constructive relationship that they work through in terms of providing that information.

There are always going to be issues that we have to look at in terms of the professional standards where either we have new transactions or there are new standards that come out. As the deputy previously mentioned, in addition to the oath of office that we take, our work is also guided by the Ontario CPA code of conduct, which requires us not to be associated with false or misleading

information, so the decisions we make are guided by that requirement.

We obviously look to the accounting standards that are published by the Canadian Public Sector Accounting Board. We do look to what other public sector entities in the country use as their accounting policies, so we're in fairly regular contact with senior governments from across the country, as well as the federal government.

We also look to other frameworks to ensure, to the extent that public sector accounting standards do not have specific guidance on issues, that we're taking into account guidance that other frameworks have. That is specifically a requirement in the handbook. The handbook states that, "No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise." It says, "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 encountered by the entity or when additional guidance is needed to apply a primary source to specific circumstances."

We always have to work with the basic concepts that are in the public sector accounting standards, but we have to ensure that we are providing our best advice in terms of dealing with complex matters. We do engage external advisers because they have access to practices that exist in other jurisdictions. They have experience that we sometimes don't have, and so we do ensure that we bring the best of the advice that we can access to bear in terms of making our informed decisions.

When all of that is complete and all of the issues are resolved—or, to the extent they can't be resolved, we've agreed to disagree—it's at that point that, typically, the audit will come to a conclusion and the public accounts are released into the public domain. In 2017, they were released on September 7, 2017.

We take the recommendations of the Office of the Auditor General seriously and ensure that we work to the extent we can in terms of implementing those in future years.

Mrs. Liz Sandals: How much time do we have left?

The Chair (Mr. Ernie Hardeman): About five minutes.

Mrs. Liz Sandals: There has been a lot of talk about transparency and open government and that sort of thing, and if the public actually understands the books, because the public aren't accountants. I know that back in 2013, the Premier set out a vision for Ontario to become an open government. There has been a lot of work going on within the Treasury Board Secretariat around open government and improving access to government data. I'm wondering, specifically with respect to public accounts, what is it that we do to communicate the status of the information in the public accounts in a way that the public can actually digest it that isn't focused on accounting?

Ms. Helen Angus: For sure. I might ask Karen Hughes to join me for a second, but before Karen does,

I'll just talk about—you're right that Treasury Board Secretariat also has accountability for open government, so it's in the spirit of open government that we've made improvements to how the public accounts are presented. I think you're going to talk a little bit about an online tool we have that actually allows the public to access more and better information and be able to do more interesting things with it. I would say that the pillars of open government are open data, open information and open dialogue, so this work that we do on public accounts fits very nicely.

I'll put a plug in, in that we're actually one of the few subnational jurisdictions that are part of an open government collaborative, which is with partners around the world. I think we're both committed to and recognized for our efforts in open government.

Karen, why don't you talk a little bit about the tool on—

Ms. Karen Hughes: Public accounts?

Ms. Helen Angus: Yes, specifically on public accounts.

Ms. Karen Hughes: My name is Karen Hughes. I'm the associate deputy minister within Treasury Board Secretariat. Open government is part of our portfolio, so we're excited to get the chance to talk about the great work that's being done by the team, but I'll focus on how we use open government in public accounts.

Sometimes the public accounts—I think Cindy talked about the three volumes. It can be large and there's lots of data and information that can be hard to understand, so sometimes people ask the question, "So what?" So how do we make it more available on behalf of the public for people to use?

I think it's important for us to look at how that information should be shared. Public accounts are one of three key reporting methods that demonstrate how the province is spending its money.

The first tool is the budget, which comes at the beginning of the fiscal year and proposes the items and makes general commitments for the province.

The second tool is the estimates, which forecast the anticipated costs of programs and services in more detail than what's presented in the budget.

The last tool, the one we are discussing today, is the public accounts, which provide the detailed accounting for what was actually spent at the end of the fiscal year.

Since the public accounts present the province's audited financial statements and provide a picture of how finances were managed over the last fiscal year, it's crucial for us to make sure the spending is appropriate and reasonable. Considering how important that information is for Ontarians, it's important that public accounts are released transparently and openly so that citizens can easily access them. In order to do that, we've tried to make the financial information easier to access, to use and to understand. Thanks to open government, our officials have greatly improved how the public accounts are shared with the province.

I'll describe some of the ways we've integrated open government with the public accounts, beginning with the public accounts web page.

The Treasury Board Secretariat became responsible for public accounts in the 2014-15 fiscal year. The work was previously done by the Ministry of Finance, but one of the changes that was made was to move the public accounts onto Ontario.ca, which was also developing at the time.

For the 2015-16 public accounts, the information was updated on the Ontario.ca page to make the content easier to navigate, using a number of open government principles, making the information more accessible and easier to find. The page now has a more logical flow, beginning with a high-level definition of the public accounts right at the top of the page and increasing the detail as the person scrolls down through the page. There is also a call-out box that offers a "just essentials" look at the public accounts for readers who may not have a lot of time or expertise to dig through the full report. When a person looks at the "just essentials" page, they can find highlights of the province's spending and a simple breakdown of the province's revenue.

Also positioned prominently on the page is a short animated video that explains the public accounts in a straightforward way, using plain language and terminology to help the public understand the purpose of the public accounts. The video outlines why the province releases the accounts each year, the value of the report to Ontarians, and how the public accounts tie to the open government initiative. The content is meant to be evergreen so that as new editions of public accounts are posted, the video remains relevant.

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We also added a reader's guide to the public accounts. This guide is designed to help people who are not familiar with financial statements and the annual report to better understand how the various pieces that make up the document work. The guide provides an overview of the public accounts-related legislation and definition of key terms.

There is also a link on the main public accounts page to past public accounts going back as far as the 1994-95 fiscal year so that the public has easy access to audited finances dating back over 20 years. Having the information easily available online allows users to chart changes over time—

The Chair (Mr. Ernie Hardeman): I think the rest of it will fit very well in the next round, which will start with the official opposition. It will be 18 minutes per caucus.

Mr. Randy Hillier: I'm going to start off—

The Chair (Mr. Ernie Hardeman): I would just add, for the information of caucus: If there are questions that you need answers to, keep that in mind, because with the crowd we have today, obviously not everybody who is here with answers is going to be able to speak. The committee can ask for written answers to those questions

following this meeting. Just keep that in mind if you didn't get everything in that the committee wished to ask.

With that, back to Mr. Hillier.

Mr. Randy Hillier: Thank you, Chair. I'm going to start with a statement. I heard from, I believe, the chief financial officer of IESO that the financial statements of the IESO are the purview and ownership of IESO management. I think that's a telling statement, especially when Mr. Gregg, the president of the IESO, also made a statement that—and I'll paraphrase a little bit—it's more appropriate to comply with the IESO board than, by deduction, with the Auditor General of the province.

With the first part of that statement, the financial statements of the IESO are not solely the purview and ownership of the IESO. The IESO is a subordinate body created by this Legislature. It cannot have sole ownership and purview of its financial statements when it's a subordinate body here. The role of the audit committee or the board for the IESO, while very important, is still subordinate to the Legislature. This is the body that created it. This is the body that it reports to. I think it's telling and why we're having this qualified opinion is because of a distorted attitude and distorted view within the IESO about just who they report to. That's a statement first.

To the Deputy Minister of Energy: Did your ministry direct the IESO to start using rate-regulated accounting, including for market accounts? Did your ministry or anybody in your ministry direct the IESO to do that?

Mr. Serge Imbrogno: A direct answer to that is no, not that I'm aware of. We work with the IESO. They were a part of the discussions as we went through the Ontario fair hydro plan. As Kim and Peter have said, it was an IESO decision to adopt rate-regulated accounting.

Mr. Randy Hillier: Okay. Were you directed to keep the hydro rate relief policy—were you directed that that policy could not add to the bottom line, to the debt of this province? Were you directed or asked or encouraged to hide, or develop a process to hide, the additional cost from appearing on the public books?

Mr. Serge Imbrogno: Mr. Hillier, I tried to answer that with a bit more of the policy context. I think we've tried to explain that on the electricity—

Mr. Randy Hillier: Were you told by anybody that your policy of hydro relief could not add to the public debt or deficit?

Mr. Serge Imbrogno: What I'm saying is that we work within that policy construct of the ratepayer today would pay less, the ratepayer—

Mr. Randy Hillier: You can say no or you can say yes.

Mr. Serge Imbrogno: I just want to make sure you understand what—we had a cabinet direction. "Here's the policy. Here is the intent"—

Mr. Randy Hillier: Part of that direction—was it to not permit any additional debt or deficit to show up on the provincial books?

Mr. Serge Imbrogno: No, the policy direction was that we would keep those costs within the rate base. Once

you decided to keep those costs in the rate base, then the accountants would decide after the fact how you account for it. The policy intent is what makes sense for the taxpayer to pay and what makes sense for the ratepayer to pay. Then the accounting would follow that.

Mr. Randy Hillier: So at no time did any other ministry say to you, “Whatever you do with this fair hydro plan, it can’t show a greater debt on the public books”? At no time did anybody say that to you?

Mr. Serge Imbrogno: No, I think what I’m trying to say is that it was always understood that this was a ratepayer cost that would be borne by the ratepayer, and the accounting would follow that. In terms of the consolidation—

Mr. Randy Hillier: We’re talking apples and oranges here.

Mr. Serge Imbrogno: Well, no; I think it’s important.

Mr. Randy Hillier: The question is: Did anybody direct you that in the implementation of this policy, it cannot add to the debt or deficit of the province; it cannot show up on the books?

Mr. Serge Imbrogno: It does show up on the books when we consolidate OPG. Everything is transparent. Everything is consolidated. OPG goes out and borrows through the trust. That gets all consolidated.

Mr. Randy Hillier: Well, I’ll challenge you on that. I think the auditor’s report demonstrated very clearly that it was not very transparent. It was not very open. It was a very convoluted, complex—and unnecessarily so—scheme. I’ll challenge on the openness and transparency, but I’m going to go back.

Maybe I’ll go to Ms. Angus. Did Treasury Board Secretariat tell the Ministry of Energy that this fair hydro plan cannot add additional costs onto the public’s books?

Ms. Helen Angus: No, it did not.

Mr. Randy Hillier: It did not. It was, “Just go ahead and do that.” There was no need. So that convoluted, complex—and unnecessarily so—scheme of creating new trusts and whatnot: That was all IESO’s decision, and the Ministry of Energy?

Ms. Helen Angus: No, I don’t think—I think that there were many hands involved in the creation of the fair hydro plan. I would go back to what the deputy of energy was trying to say. Our job was to find an implementation path that put a set of expenses onto the tax base and another set onto the rate base by refinancing the global adjustment. Our role was really to be part of a process that looked at how to make that happen.

Mr. Randy Hillier: Mr. Thompson, did the Ministry of Finance enter into any discussions with the Ministry of Energy to encourage them or direct them to obscure the true cost of the fair hydro plan from the public?

Mr. Scott Thompson: The Ministry of Finance worked very closely with the Ministry of Energy on this, and never did it give that kind of direction.

Mr. Randy Hillier: Did the Ministry of Finance review the complicated program that was developed by the Ministry of Energy and give its approval to it?

Mr. Scott Thompson: The Ministry of Finance was part of the scrutiny of the proposals and the options for how to address the fair hydro plan. It was not in a position of approving it; it was in a position of giving advice on that. Along with my colleagues at Treasury Board Secretariat and energy, advice and analysis of the options was provided to government, and then they made their decision.

Mr. Randy Hillier: So maybe I used the wrong word. Were you agreeable to it instead of “approval” to it? You thought this was the best path forward for the stating of the finances of the province?

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Mr. Scott Thompson: Certainly after we talked to the controller’s office and had we comfort from the processes and the analysis they had done for it. It’s a shared responsibility between finance and the Treasury Board on the books, so when we asked for accounting expertise and they assured us that this was a viable way, then yes.

Mr. Randy Hillier: A viable way? Okay.

I just restated some comments from the chief financial officer of the IESO and from the president. Is that your understanding of subordinate bodies, that it is more important or only appropriate that they comply with their own board of directors and their own audit committees? Again, to the Deputy Minister of Finance: Is that what your expectation is of subordinate bodies of this Legislature?

Mr. Scott Thompson: I’m not sure I’m in a position of answering a question generally about subordinate bodies.

Mr. Randy Hillier: You’re the Deputy Minister of Finance.

Mr. Scott Thompson: I am.

Mr. Randy Hillier: Is that your expectation, that all of the hundreds of agencies, boards, commissions and crown corporations created by this Legislature are so independent that they do not need to really take into consideration the Auditor General’s considerations?

Mr. Scott Thompson: I’d say that since you phrased it in terms of how many we have—hundreds, and they’re doing lots of work on an ongoing basis—they have to have their own governance. They have to have their own board. They need approval from their own approving entity, they need to get advice from their accountants and they need to get external advice where necessary. All of the governance and accountability provisions are in place for all of our agencies and entities.

Mr. Randy Hillier: But out of those hundreds and hundreds, there is only one that is engaged in accounting practices that have led to a qualified opinion, right? So is the IESO an outlier here, or are their statements valid and correct, that they have the purview and are the owner of their financial statements, regardless of the public accounts committee, regardless of the Auditor General? It seems to me that that would hopefully be an outlier attitude, because we don’t have any of the other hundreds and hundreds of agencies, boards, commissions and

crown corporations putting the financial statements of this province at risk.

Mr. Scott Thompson: Since I'll be the fifth or sixth person here to admit that I'm not an accountant, I think the IESO has already answered that question, but certainly I think—

Mr. Randy Hillier: But is that your expectation of all our subordinate bodies of the Legislature, that they are so independent and sole-owner and sole-purview that they don't have to—that they could in a sense usurp the role of the public accounts committee and the Auditor General?

Mr. Scott Thompson: Others can jump in, but I don't think it's really pertinent what my expectations are for this. You're focusing on an IESO situation, and we're here to answer how the IESO dealt with the direction and the situation they were given. That's why we're focused on the IESO.

Mr. Randy Hillier: Okay, well, I'll pose the same question to the Treasury Board. You've got significant involvement with many of these subordinate bodies.

Ms. Helen Angus: Yes, we do.

Mr. Randy Hillier: Is that the expectation? We know what is a statutory requirement within the creation of these subordinate bodies, and that's why there's a roll-up, but the attitude that their compliance with their own board is more important than being consistent with the public accounts of this province—

Ms. Helen Angus: I'm going to ask Cindy to talk specifically about that roll-up into public accounts. I would say that the Treasury Board, just for your information, holds a lot of the accountability directives that impact agencies, boards and commissions, so if you talk to an agency head—I actually worked at Cancer Care Ontario for 10 years—many of our directives actually apply into those organizations: travel, meals and hospitality, and other things.

Mr. Randy Hillier: Sure. So the province—

Ms. Helen Angus: So we not only have an impact in terms of board appointments and other things, but we also have a number of directives that impact how those agencies operate.

Mr. Randy Hillier: Right. I'm going to keep my questioning here. We can do that because of the statutory authorities that we have, and we can do that because they are subordinate to this Legislature and cabinet. We can impose those conditions, such as recording meals and expenses, amongst many other things, and impose requirements and mandates for annual reports on a host of things.

Ms. Helen Angus: Mandate reviews, yes.

Mr. Randy Hillier: So is it the Treasury Board Secretariat's understanding that all these hundreds of agencies, boards, commissions and crown corporations are so independent that the Auditor General's requirements are subordinate to them, secondary to their board of directors?

Ms. Helen Angus: With your indulgence, I will ask Cindy to answer that, specifically around accounting—

Mr. Randy Hillier: Maybe one last one: Why is it that none of these other hundreds of agencies have put the financial statements of this province—are reducing the reliability of the financial statements of this province?

The Chair (Mr. Ernie Hardeman): Very quickly. There's one minute left.

Ms. Cindy Veinot: Okay. I would just say that we provide direction in terms of what we expect the financial statements to be prepared in accordance with. The IESO's financial statements are prepared in accordance with PSAS. The issue that the Auditor General qualified the statements on, the inclusion of market accounts, is something that I directed them, I asked them to look at, because I didn't think the accounting that they were doing, which was not showing any of the \$17 billion in the transactions that they settled for the market—I didn't think it was appropriate. So the fact that they—

Mr. Randy Hillier: So this all comes down to your determination that you—

The Chair (Mr. Ernie Hardeman): Mr. Hillier—

Ms. Cindy Veinot: I asked them to look at that specific issue and agree with the accounting that they determined was appropriate.

The Chair (Mr. Ernie Hardeman): With that, we'll go to Mr. Vanthof.

Mr. John Vanthof: The last exchange was very interesting, but I'm going to go back to the IESO. I was a bit taken aback, but I was expecting, as a public organization, your first duty would be to the public trust, and that's not what I heard.

Your audit committee agreed with the changes. You hired independent consultants to verify those audit changes. The question I'm going to ask is: The opinions from the independent consultants—were the terms of reference for those opinions the same as what the terms of reference would be for the Auditor General, who's looking out for the good of the province? Because the terms of reference of an opinion have a big impact on the opinion itself.

On behalf of the committee, I would like to ask for the opinions from IESO but also the terms of reference, to ensure that the terms of reference that the private consulting and auditing firms offered their opinions on are actually the same or similar to the terms of reference that the Auditor General is obliged to operate under in this province. Could you comment on whether those terms of reference were the same?

Mr. Peter Gregg: I'll come to that. I may need to refer to Kim to get some of the details on that, but I think it's important that we provide a little bit of context.

I don't want anyone to take from my previous comments that somehow there's an attitude problem at the IESO. It's important to remember that we have the oversight of this large market activity, and it's important that we are able to have appropriate independence so that that market can have confidence to be run effectively.

We were created as an independent agency of the crown—I'll get some of the specifics wrong, probably.

We do have a board there that is appointed by the crown and they oversee our operations, our business.

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We take that duty very, very seriously, and we're not trying to diminish the role we play as a public entity, but we also take seriously that we have to have appropriate independence to execute on our mandate.

With that, Kim, do you have any specific comments on the terms-of-reference question?

Ms. Kim Marshall: Yes, I could talk a little—but I will echo Peter's comments that we are responsible for preparing our financial statements. We are aware that we are consolidated up into the province and we are a government agency involved with our mandate, which is very important, obviously. We would work closely with Treasury Board and the provincial controller in terms of our activities in the consolidation.

You mentioned the terms of reference. I'll just be brief in terms of our audit. KPMG is conducting their audit in accordance with generally accepted auditing standards, which I think would be very consistent with what the Auditor General's approach would be in any of the audits they undertake. They've got ethical requirements that they have to work around, and they've got practices and tests that they must do in terms of ensuring that there are not misstatements within the financial statements. So they're going to perform procedures; they're going to look for audit evidence. I would say that there's a fair amount of judgment involved with their process, as well, as we've alluded to a couple of times here.

I can go through a bit more detail in terms of some of the things they'd want, but I'm not sure it's—

Mr. John Vanthof: No, but if you could, on behalf of the committee, send us the opinion and also the terms of reference, please?

Ms. Kim Marshall: Yes.

Mr. John Vanthof: I appreciate that.

It has come to our attention that in February 2017, the IESO board received statements for approval that did not contain the market accounts or the rate-regulated assets. These statements were changed following the February 2017 board meeting. In March 2017, the board approved the IESO's financial statements to include market accounts and rate-regulated assets. Why? And who directed that? I think we've heard it, but why? But first, is that the case?

Ms. Kim Marshall: I would describe that slightly differently. Like most organizations, we have a calendar of activities that have to go to our audit committee and our board during the year. It is a regularly scheduled activity that, at the end of February, management would take a financial statement to the audit committee and then to the board for approval.

What we did in February 2017 was—we had not concluded our analysis in terms of some of the things like regulated accounting and market accounts. What we took to our audit committee at that time was not something for approval but financial statements and some preliminary analysis that said, "We think there's more work to be

done here. Give us some time to finish that work." Then I think we took something back to them mid-March.

Mr. John Vanthof: And it was in that time that the way you presented the statements to the board was changed?

Ms. Kim Marshall: That's when we finalized our financial statements with the changes in accounting policy that we had discussed with the audit committee.

Mr. John Vanthof: I think we went through this before, but the reason was because you felt that that better represented the activities of the IESO?

Ms. Kim Marshall: Yes. I'm glad Peter brought up earlier the merger of the IESO and the Ontario Power Authority, which had happened in—gosh. Why am I blanking on that?

Mr. Peter Gregg: Three years ago.

Ms. Kim Marshall: The two predecessor companies had treated the accounting differently. The IESO had not recognized the market accounts and did not have regulatory accounting. On the Ontario Power Authority side, they did have—they didn't call it regulatory accounts but they had variance accounts.

The RPP was referenced earlier. The RPP is set by the OEB. Through its administration of the amounts, the Ontario Power Authority would be either short amounts month to month or they would have incremental accounts month to month. Those were our subsets of the market accounts that appear now. Those things, that variance account and those types of activities, were on the Ontario Power Authority financial statements.

At the time of the merger, we had to take to the audit committee of the newly formed organization a recommendation on the accounting policy. At that time, we actually said, "Let's go with the IESO approach," although we did admittedly say, "You could go either way." But it was felt that it was easier to actually adopt the—

Mr. John Vanthof: Just for clarification, when was that, about? I don't need exactly.

Ms. Kim Marshall: 2015, February-ish—February, early on.

Mr. John Vanthof: Okay. Thank you.

Ms. Kim Marshall: At that time, we did that approach. Fast-forward a couple of years: We have a new provincial controller, and I would say the Ontario Power Authority was consolidated into the government at that point as well, and also had unqualified audit opinions.

We fast-forward a couple of years and we have some conversations with a new provincial controller. At that time, there are questions about, "But why do you do what you do?" So we undertook some processes to go, first of all, right back to the beginning of the IESO and see what was some of the advice that was presented at that point in time, and then we did a bit of chronology in terms of what has changed over time for us and what are the decisions and choices—

Mr. John Vanthof: I'm just trying to get it straight in my head. I'm assuming that's about when the change was decided to be made, in February or March. Was it the

board, the audit committee or the province that actually initiated it and said, “Look, we want to change the look of the books”? Who was it?

Ms. Kim Marshall: I would say it was management. It was management having the conversation with the audit committee, saying, “We think there’s more transparency and there’s a different way to present our information.” At that time, on the audit committee in particular, they were very much, “What is the right thing for us?” I think that’s very much how they approached it at the time.

Mr. John Vanthof: So in that time, in February or March—this is not a cabinet decision. We heard that cabinet is not going to trot off to the auditor and ask how this is going to work. I understand that. But was the Auditor General talked to in that period to see how it would work in consolidated books?

Ms. Kim Marshall: No. We reached out to the Auditor General after the audit committee made the decision that, yes, we’ll make this change in accounting policy. That’s when we reached out.

Mr. John Vanthof: We heard previously that it was the province that directed you to look at it. At that point, did the province think of asking the Auditor General? Because the province said that they were the ones to direct IESO, not to do it, but to seriously look at it. Obviously a lot of people were talking about the books. Why, at that point—this was after the cabinet decision regarding the fair hydro plan, was it not?

Ms. Kim Marshall: I don’t think it was.

Mr. John Vanthof: It was before?

Ms. Kim Marshall: I don’t know when; you’d have to ask the government. I don’t—

Mr. John Vanthof: We should clarify that, because if it was before the decision, then, again, why? Everybody’s talking about changing the books. It’s somehow odd to me that while we’re all talking about books that are eventually going to be audited and going to be presented to the people of Ontario, no one thinks about saying, “Well, let’s contact the Auditor General’s office to see how we can make this”—you know?

In my previous life, in my previous business, I tried to avoid big bumps—I’m not going to talk about my previous business. I don’t understand how the Auditor General is totally left out of this conversation on how books are presented that are going to go to the people of Ontario.

Mr. Serge Imbrogno: We can check on the dates, but I think the important thing is that the changes that the IESO made reflected its existing business. The market accounts were already there. The fair hydro plan came later the next year in terms of the accounting, so this was a change that affected them in 2016. The fair hydro plan came later in terms of the accounting. So it wasn’t at that point that they reflected the fair hydro plan on their books; it was just they made that change—

Mr. John Vanthof: I agree.

Mr. Serge Imbrogno: So if we didn’t go forward with the fair hydro plan, they still would have made that

change to their books. I think that was the board decision. Regardless of whether the fair hydro plan comes into effect or not, the IESO feels, based on its review, that that’s the appropriate accounting for its market books.

Mr. John Vanthof: And with that statement, that doesn’t answer my question, because if this was just normal—“We’ve decided to change how we present the books”—then why wouldn’t you approach the Auditor General and say, “We’re thinking about doing this. How can we make this as smooth as possible?”

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We all want to present a clean set of books. You people don’t want to be here answering these questions either. I know that. I don’t want to be sitting here asking these questions. If some other—what was your word?

Mr. Randy Hillier: Subordinate.

Mr. John Vanthof: —subordinate outfit decides to change their books, maybe they’ll learn that perhaps you have to talk to the Auditor General to avoid this.

If this was just part of a regular review of how to present the books of a public company that is responsible to the people of Ontario, why did no one contact the Auditor General’s office to see how we can make this go as smoothly as possible?

Mr. Peter Gregg: I think it’s important to understand that we have had, as the IESO—we’ve been under the jurisdiction of a board of directors and have had external auditors in place for I don’t know how many years—since, I guess, our creation. And every year, it’s management’s duty to fairly present the financials of the organization. A lot of thought and effort goes into that. And then, every year, that external auditor, who is retained by the audit committee of the board of directors, goes through and conducts a year-end financial audit on those statements. So when management fairly represents those statements and puts them forward, the auditor then renders an opinion on those statements. That is the way we’ve done it, I think, since we were founded; that’s the way we went about it as well in 2016; and that’s the way we are going about it for the year-end of 2017. Hopefully that gives you some clarity.

Mr. John Vanthof: I appreciate that answer. Was the change to market revenue—what’s the term, accounting?

Mr. Peter Gregg: Market accounts, yes.

Mr. John Vanthof: Is that a fairly significant change? We’re talking something fairly significant in how you report—what was the number you were reporting?

Mr. Peter Gregg: It was \$17 billion.

Mr. John Vanthof: That’s a fairly significant change. So would it not be reasonable to believe that, while the audit committee and the board are discussing this, someone would go, “Wait a second. How about we just send an email to the Auditor General? What do you think?” Wouldn’t that be reasonable? In a public entity—

Mr. Peter Gregg: I can tell you what we did do, and it was to rely on the experts who are retained by the board, who are one of the Big Four accounting firms, who went out and researched this and came back and thought that the move to rate-regulated accounting gave

better transparency and visibility to the \$17 billion of market activity that happens annually. In our view, giving that better transparency and visibility is a good thing.

Mr. John Vanthof: If I could—quite frankly, it does not give me or my colleagues a fuzzy warm feeling when—“You know what? One of the Big Four accounting firms thought this was great. Just forget about the independent auditor of the province, who represents the province. We’ve got KPMG and Deloitte on our side and everyone in the province has got huge faith in them.” That’s not quite the case. They’re credible. I’m not saying they’re not credible; I’m not attacking them. But there’s a whole difference between the Big Four and the Auditor General of the province.

Mr. Peter Gregg: Yes, and we do fully respect the role of the Auditor General and her office. We do fully accept that she has the right to audit our organization. We’re open to that, and we’ve had a number of occasions to have interactions with the Auditor General. We’re happy to co-operate with that and to provide access to all of the material that our external auditor gets and to answer any questions they might have.

Mr. John Vanthof: Have you in the past been, at every opportunity, co-operative with the Auditor General?

Mr. Peter Gregg: Yes.

Mr. John Vanthof: And does that include—that’s for everybody at the table.

Ms. Kim Marshall: Yes.

Mr. John Vanthof: At every opportunity?

Ms. Kim Marshall: Yes.

Mr. John Vanthof: And has she gotten information on a timely basis? Not just financial information, but regarding changes in reporting practices—has she gotten that on a timely basis?

Ms. Kim Marshall: In the past, I don’t think that we’ve ever provided—in the past, prior to 2016, while we’ve had lots of interaction with the Auditor General’s office in terms of special audits, value-for-money audits, we had never had interaction around our financial statements. So I don’t know that there have been any situations where they were asked to do that. The oversight—the Auditor General is actually the auditor of the provincial books, not the IESO books, to date, so our interaction with them had been through other parties, including KPMG, frankly.

Mr. John Vanthof: Let’s just back up. So prior to 2016—I’m just trying to make sure I heard you correctly. The Auditor General was still responsible to audit IESO’s books, or no?

Ms. Kim Marshall: No. You’d have to ask the Auditor General, I think, to have a better sense of the language around the role.

Ms. Bonnie Lysyk: Do you want me to clarify? In terms of the IESO—

Ms. Kim Marshall: No, I was saying you’d have to ask that—can I finish my question? Sorry.

The Chair (Mr. Ernie Hardeman): Order. One at a time. Who’s going to answer?

Ms. Kim Marshall: I would say that prior to 2016, both predecessor organizations had never been audited by the Office of the Auditor General, in terms of their financial statements. That was true for 2016 as well. Our books are consolidated up into the province, so any request with respect to their information etc., would have come through the province at that time and not directly to us.

The Chair (Mr. Ernie Hardeman): Okay. And with that, that concludes your time, Mr. Vanthof. We’re now going to the government.

Mrs. Liz Sandals: Yes, and if I can just follow a little bit along on context here, my understanding is that prior to the amalgamation, OPA in fact did have market accounts that used rate-regulated accounting in one form or another, that that was part of the OPA’s books; and the OPA’s books, with rate-regulated accounting, with market accounting, were consolidated onto the provincial books; and that, in fact, had not been pulled out as an issue for comment previously. It had previously been approved. So when you look at the context, there was no particular reason you would anticipate that there was a problem here, because it was consistent with the past practice at OPA—different from IESO, but consistent with past practice at OPA, which had been approved.

I’m going to turn it over to Mr. Delaney for a couple of quick questions, and then I’ll take it back.

Mr. Bob Delaney: Okay. Thanks. I’m not entirely sure which one of you to direct it to, but thinking of transactions that are incurred on the Ontario rate base, are those transactions incurred on the Ontario rate base by electricity consumers considered to be commercial transactions or public sector transactions?

Ms. Kim Marshall: I’m certainly not—

Ms. Helen Angus: It’s definitely not me.

Mr. Serge Imbrogno: I guess I can start, but maybe just to clarify the question. I think maybe the nuance on that is, we own commercial companies. OPG is a commercial company, but it’s 100% owned by the province. We own 40%-plus of Hydro One, which is a commercial company. The IESO isn’t a commercial company, but it’s consolidated as an agency. So I think there’s a mix of public ownership of commercial companies and ownership of agencies that are consolidated in the province.

Mr. Bob Delaney: Perhaps I could clarify it this way: When OPG finances capital expenses such as a hydro dam or nuclear refurbishments, does Ontario-owned OPG borrow on the commercial market?

Mr. Serge Imbrogno: Yes—I could probably start, and maybe ask Ken Hartwick to come up. He actually does all the financing for OPG.

I think there’s a mix there. I think for a lot of dams and so on, there’s project financing that OPG does. There’s also financing at a corporate level that’s done through other mechanisms.

Maybe I’ll let Ken give you a bit more detail on the various borrowings that OPG does.

Mr. Bob Delaney: Don't drill down too deep. It wasn't meant to be a terribly deep question.

Mr. Ken Hartwick: I'll try not—

The Acting Chair (Mr. Sam Oosterhoff): Just make sure you introduce yourself for the record.

Mr. Ken Hartwick: Ken Hartwick. I'm the CFO at Ontario Power Generation. To your point: You're right. OPG is a OBCA—Ontario Business Corporations Act—company. We're registered on the OSC file—all of our financial statements, all related documents on the OSC.

Related to the financing question specifically, we have a range of financing. We've done some very large project financing, all external, market-driven, for some of our bigger hydroelectric facilities that we have built over the last number of years. We have a commercial debt program. It's called a medium-term note program, which we issue in the commercial market, in which we did our inaugural transaction last year, in October. Then we borrow through the OFA as well, on commercial terms. All of the transactions that are done to support OPG's assets are either external or through the OFA, but all of them are on a commercial basis.

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Mr. Bob Delaney: Okay. Thanks. That's as far as I need to go. Ms. Sandals will continue from here.

Mrs. Liz Sandals: Thank you very much. One of the things that we have somehow managed to not cover, which is always of interest in the public accounts, is to talk about whether or not the budget is balanced. That was where I thought we might end up this afternoon, so let me end up there this afternoon.

Certainly, it's no secret, when we looked at the post-recession budgets, that we were deliberately running deficits as we tried to deal with that financial crisis. We had committed to getting back to balance by 2017-18. Certainly, the deficit supported creating jobs and making sure we had investment and dropped the unemployment rate. We've now seen the unemployment rate at 5.5%, below the national average now for 33 straight months, and real GDP growth.

We had a balanced budget in 2017. So the question then is, what sort of activity have we had so that when we look at the indicators, when we look at the activity at Treasury Board and the Ministry of Finance about actually making sure that the budget can be—

Mr. Randy Hillier: Chair, a point of order.

The Chair (Mr. Ernie Hardeman): Point of order.

Mr. Randy Hillier: We are about the public accounts today, not the broader public policy discussions of the government. The questions should be concentrated on the Auditor General's report.

Mrs. Liz Sandals: The Auditor General discussed at great length whether or not the budget is in fact balanced. That's a significant part of the discussion—

The Chair (Mr. Ernie Hardeman): I'm sure, if the member is not talking to the topic, she will return to that at some point.

Mr. John Fraser: Chair, a point of order.

The Chair (Mr. Ernie Hardeman): Point of order.

Mr. John Fraser: They are questions, and how we phrase those questions is how we want to phrase those questions, just as they do on the other side. So in fairness, I think the member's point of order—I'm not challenging the Chair, but I just wanted to make that point.

The Chair (Mr. Ernie Hardeman): I didn't say it wasn't a point of order. I said the member will get back to that position, if she isn't there.

Mr. John Fraser: Thank you.

The Chair (Mr. Ernie Hardeman): Back to the member: Did the member finish her question?

Mrs. Liz Sandals: One of the things that has been discussed at great length in chapter 2 is whether or not, in fact, we are in balance and will continue in balance. There are references to reports by the FAO in chapter 2 and a variety of other reports. I wonder if you could comment on the indicators as to whether or not the budget is in fact balanced.

Mr. Scott Thompson: Thank you, Ms. Sandals. I'll start and my colleagues may want to kick in.

Certainly, as you point out, it is an important part of fiscal management to balance the budget and, where the budget is not in balance and there is a deficit showing, to have a path back to a balanced fiscal picture.

That's why the Fiscal Transparency and Accountability Act requires that when a deficit is shown, as it has been for the last few years, it shows a balance recovery plan as part of our financial documents and as part of our annual budget.

You have pointed out, and rightly so, that since the global recession in 2008-09, the government has run a deficit on an annual basis. That is in large part due to two things. One is that the government chose not to make cuts and restraints to services for the public, but instead chose to provide stimulus investments. Part of that stimulus investment plan was a very large capital plan. Now, looking back and forward, we have about a \$190-billion capital plan over 13 years, and that was a big part of the stimulus investment plan. But when we published the recovery plan that's required under the FTAA legislation, we started that in 2010—the path back to the current balance.

The 2017 budget, as you point out, presented a balanced picture for the fiscal plan for 2017-18. Not only did the latest budget show a balanced picture for 2017-18; in fact, the government's books showed that the deficit projection that was in that plan in 2010 was beaten every year since that global recession in 2009. You can see that page 5 of the latest budget shows Ontario's return to balance, and it shows the difference between what was projected to be the deficit and what indeed was the deficit.

We published the Q3 financial reports just a few weeks ago. A combination of that and the public accounts of last summer and fall put us in a solid position of being able to hit that balance in 2017-18. The deficit position was forecasted to be \$4.3 billion for the 2017-18 year. When we did public accounts for 2016-17, that was actually reduced to \$993 million or so.

Again, the 2016-17 books closed at a \$993-million deficit—under \$1 billion—compared to the earlier forecast of \$4.3 billion. That puts us in a very solid position to balance this fiscal year.

I don't know how much time we have, whether I can get into the features of building a budget, but obviously the main building blocks of those are revenue forecasts—

The Chair (Mr. Ernie Hardeman): I believe that that would be taking us off the topic, if that's what you're asking, because that's not part of the Auditor General's report.

Mr. Scott Thompson: Okay.

The Chair (Mr. Ernie Hardeman): Other questions?

Mrs. Liz Sandals: Why don't we stop here, because we're almost done.

The Chair (Mr. Ernie Hardeman): That's your choice. What time is left, we will put to good use in the closed session.

With that, that concludes the questioning. We thank you all very much for participating this afternoon.

We shall proceed further. As soon as we clear the room, we shall go forward to organizational discussion for the committee for the next meeting.

The committee continued in closed session at 1437.

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