2015-16 Public Accounts

Consolidated Financial Statements

Technical Briefing

October 3, 2016

What Are Public Accounts?

- The Public Accounts report on the Province's financial activities against the approved Budget plan for 2015-16.
- They include:
  - Annual Report and Consolidated Financial Statements
  - Volume 1: Ministry Statements and Schedules
  - Volume 2: Financial Statements of Government Organizations; Financial Statements of Government Business Enterprises, Trusts and Miscellaneous Statements
  - Volume 3: Detailed Schedules of Payments

Actions to Enhance Transparency and Accountability

- This year, the Province is using additional tools and features to enhance its financial reporting:
  - Expanded comparison of the current year's results to prior year(s) including expanded trend analysis over a five-year period.
  - Enhanced descriptions of the Province's capital assets.
  - A description of key risks that could impact the Province's financial results.
  - Discussion of key financial indicators.
  - Additional data visualization tools and data tables.
  - Increased number of open data sets for download.
  - Whiteboard video explaining the important role of Public Accounts in supporting transparency and accountability

Summary 2015-16 Results

2015-16 Actual Results							
$ Billions		**Budget**	**2015-16 Actual**		**2014-15 Actual**	**Change from Budget**	**% Change**
Revenues		124.4	**128.4**		118.5	4.0	3.2%
Expenses		131.9	**133.4**		128.8	1.5	1.1%
	Reserve	1.0	**-**		-	(1.0)	
Annual Deficit		(8.5)	**(5.0)**		(10.3)	3.5	-41.2%
Net Debt			**(305.2)**		(284.6)		
Accumulated Deficit			**(202.7)**		(187.5)		

Ontario

Preparation of the Financial Statements

- The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB)
- PSAB independently establishes accounting standards for the public sector in Canada.
- PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.
- The objective of PSAB standards is to meet the needs of users of financial statements by providing the information needed for accountability and decision making.

Jointly-Sponsored Pension Plans

- Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.
- The assets of OPSEUPP and OTPP are held in trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.
- During the 2015-16 Public Accounts audit, the Auditor General raised some concerns with regards to Ontario's past accounting practices related to pension assets for the OPSEUPP and OTPP plans.
- Pension accounting is complex and requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion on how the pension assets for these plans would be accounted for under PSAB.

Province’s Position

- Since 2001-02, the Province’s share of pension assets reflected on the audited consolidated financial statements of the Province have been based on a policy considered to be appropriate and consistent with PSAB standards related to accounting for retirement benefits, which have not changed since their inception in 2001.
- An asset arises when the government's total contributions to a plan, including interest earned thereon, are greater than the pension expense recognized since the start of the plan.
- The government has valued pension assets on its books in accordance with PSAB standards based on expected future benefits, as required by accounting standards.
- The OPSEUPP and OTPP have both been reported in an asset position on the Province’s consolidated financial statements for the past 14 years.
- The Province has received clean audit opinions for each of the past 22 years by four different Auditors General.
- Pension assets of OTPP and OPSEUPP were $10.7 billion as of March 31, 2016.

Auditor General's Position

- During the 2015-16 Public Accounts audit, the current Auditor General expressed a different interpretation of the existing PSAB standards which would impact the Province's reporting of pension assets of jointly sponsored pension plans.
- The AG's view is that the government does not have a legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the AG believes that the pension asset should be removed from the Province's balance sheet.
- The AG has also takes the position that agreements to reduce future contributions would need to be in place with plan sponsors by each year end, before an asset could be reported in the Public Accounts.
- Based on the AG's interpretation of the PSAB standards, the Province would need to take a full valuation allowance of the $10.7 billion pension assets currently reported for OTPP and OPSEUPP, which would eliminate these assets from the Province's consolidated financial statements.

Timeline

Jan./Feb.

- Public Accounts planning discussions with the OAGO

Wk. ending June 10

- OAGO first ask questions about pension asset matters

Wk. ending June 30

- Revised Audit Planning Report issued by OAGO, reflects review of accrued pension benefit assets

September 1

- TBS and external advisors meet with OAGO to respond to provide additional analysis supporting status quo

September 13

- AG advises TBS and MOF that asset value to be reported on Province's books should be NIL.

September 14 – 30

- TBS and MOF attempt to address differences and propose legislated accounting as solution for 2015-16

Jan. - March
Audit Planning

April – June
Prepare statements and conduct audit enquiries

July - September
Finalize audit & production

February

- Draft Audit Planning Report provided by the OAGO
- No reference to pension asset matters

Wk. ending June 17

- OAGO advises that an 'actuarial assessment' is needed
- TBS initiates competitive procurement process to engage actuary

July 21 – Aug. 19

- TBS selects and engages external actuary to perform analysis
- Actuary works with actuaries from OTPP and OPSEUPP, as well as MOF to gather information and perform analysis
- Draft reports discussed with TBS, finalized and provided to OAGO
- Conclusions support status quo (no valuation adjustment required)

September 27

- Minister notifies the House that there would be a delay in tabling Public Accounts

Legislated Accounting for Jointly Sponsored Pension Plans

- Given the differences in interpretation of the application of PSAB standards for OTPP and OPSEUPP pension assets, the Province is using a time-limited regulation which legislates the accounting for pension assets of jointly sponsored pension plans for the 2015-16 Public Accounts.
- The effect of the legislation is to reflect the fiscal impact of the AG's position pending further review and analysis on this complex accounting matter.
- The legislation requires a full valuation allowance be recorded against the pension assets for 2015-16, therefore writing off the value of the assets. The $9.2 billion amount of the asset that was built up over time has been added to opening net debt and accumulated deficit for 2015-16.
- The increase in the asset during the year has been written off to increase the 2015-16 deficit.
- The change in accounting treatment is not any reflection on the funding status of the plans, or the quality of financial reporting by the Province.

Fiscal Impact of Accounting Treatment Change

- The legislated accounting change results in the exact same fiscal impact as the AG's interpretation of the PSAB standards.
- Impact of legislated accounting 2015-16 consolidated financial statements:
  - Increase in opening net debt and accumulated deficit by $9.2 billion (audited value of OTPP and OPSEUPP pension assets at March 31, 2015)
  - Increase in annual pension expense by $1.5 billion
  - Increase in ending net debt, accumulated deficit and pension liabilities by $10.7 billion (as at March 31, 2016)
- The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.
- Total debt remains unchanged by the pension adjustment.

Impact of Legislated Accounting on 2015-16 Public Accounts

($ Millions)	Balance before Legislated Adjustment	Adjustment in accordance with Legislation	2015-16 Public Accounts
Consolidated Statement of Operations			
Total Expenses	na	1,514	133,406
Annual Deficit	na	1,514	(5,029)
Consolidated Statement of Financial Position			
Pensions and Other Employee Future Benefits	1,439	10,668	12,107
Total Debt	327,413	-	327,413
Net Debt	(294,565)	(10,668)	(305,233)
Accumulated Deficit	(192,029)	(10,668)	(202,697)

In-Depth Review of the Application of Accounting Standards

- The regulation for the legislated accounting treatment of jointly sponsored pension plans was made for 2015-16 only.
- The Province will conduct an in-depth review of the application of PSAB's pension accounting standards to Ontario's jointly sponsored pensioned plans and will conduct a valuation review of the pension asset.
- The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.
- To support an informed discussion, participants would have an in-depth knowledge of public sector accounting standards as related to pension accounting and/or the specifics of the OTPP and OPSEUPP joint sponsor arrangements, as well as similar pension plans in other jurisdictions.

Audited vs. Unaudited Financial Statements

- In practice, there should be no difference between audited and unaudited results.
- However, an independent audit of an entity's financial results provides assurance by an independent party that the results of the entity present fairly, in all material respects, the financial position of the entity and the results of its operations in accordance with generally accepted accounting principles.
- The Province's unaudited financial statements include a Statement of Responsibility which describes the basis upon which the financial statements are prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.
- The government also attests to its responsibility for maintaining systems of internal control which support the integrity and completeness of the financial information reported.

Independent Auditor’s Report

- An auditor communicates the results of the audit through a report
- A “**clean**” or **unqualified** audit report communicates that the auditor believes the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting standards, which in the case of the Province, is Public Sector Accounting Standards
- The Province has received **clean** audit opinions for the past 22 years
- If an auditor determines that a clean audit opinion cannot be issued, an auditor issues:
  - A qualified opinion,
  - An adverse opinion, or
  - A disclaimer of opinion

Meaning of a Qualified Audit Opinion

A "qualified opinion" indicates an auditor's concerns with

- the entity's reporting in accordance with public sector accounting standards (PSAB), or
- the availability of sufficient and appropriate information for users to make an informed decision.

In determining whether a qualification is necessary, an auditor considers the materiality of the misstated items, individually and collectively, in relation to the financial statements as a whole.

To issue a qualified opinion, the auditor concludes that the error or possible error is material to the financial statements, but not pervasive

The opinion states that **except for** the item noted, the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting standards

When the qualification relates to an accounting issue, the amount of the impact is quantified in the opinion

Meaning of an Adverse Opinion

An auditor issues an adverse opinion when the auditor:

- has sufficient and appropriate audit evidence, and
- concludes that the errors in the financial statements are both material and pervasive

The opinion paragraph of the auditor's report states that the financial statements do not present fairly in accordance with the accounting standards used

Meaning of a Disclaimer of Opinion

An auditor disclaims an opinion when the auditor:

- has not been able to obtain sufficient and appropriate audit evidence to form an opinion, and
- the auditor determines that the possible errors may be material and pervasive

The auditor's report explains the reason for the disclaimer of opinion and expresses no opinion on the financial statements