<u>Public Accounts – Communications Contingency Planning</u>

DRAFT – CONFIDENTIAL ADVICE TO CABINET

Issue:

There is potential that the Auditor General will issue a qualified audit opinion on the 2015-16 Public Accounts of Ontario.

Strategic Approach:

- Communications approach is to remain **neutral and factual -** balancing the need for the government to state its position, **while demonstrating respect for all parties involved**, i.e. AG, members of the Legislative Assembly and public.

- Position government as **cooperative and diligent** and acting with **integrity** in its attempt to resolve the issue.

- Narrative will **highlight complexity** of the issue and that it **requires ongoing deliberations** to reach a mutually agreeable solution.

- Communications tactics will be **scalable and flexible** to give the government the ability to **employ multiple channels to communicate** its position.

- Government can also **leverage** new tools like **data visualizations** and a new whiteboard video **to demonstrate its commitment to transparency** (optional).

- To the extent that circumstances allow, the communications approach and tactics will **leverage third party advice** in its messaging.

Communications objectives:

1. **Communicate clearly** the government's position on the treatment for pension assets **without overcomplicating the issue.**
2. **Reassure** the public and stakeholders that the province's fiscal situation is accurate as portrayed in the Public Accounts and stable in regards to the fiscal plan.
3. **Demonstrate** the government's commitment to **openness and transparency**.

Scenarios:

Three scenarios are currently under consideration:

1. <u>Accept a qualified audit opinion and **establish panel** to review issue</u>

   OR

2. <u>**Amend** the Financial Accountability Act</u> to allow the government to table Public Accounts beyond the legislated deadline of Sept. 27 so that discussions on the issue can continue.

   OR

3. <u>Accept a qualified audit opinion with a **commitment** to work with Auditor General</u>

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Scenario 1 – Accept a qualified audit opinion and establish panel to review issue

Overview:

- Government accepts a **qualified audit opinion** and reports the **results based on its interpretation** of the Public Sector Accounting Standards.

- This means the **financial results** reported in Public Accounts, including the 2015-16 deficit of $3.5 billion **remain unchanged**.

- AG's audit opinion would **disclose her estimate** of the impact on the province's results (that the overall **deficit should be higher by $1.5 billion and that the currently reported pension assets ($10.6 billion)** should be written off and added to the accumulated deficit and net debt).

- Tone is **respectful,** but highlights that the **government does not agree** with the Auditor General and **will be seeking independent advice** on the issue.

Key Considerations:

- Buys time to have panel review issue but external panel may ultimately agree with the Auditor General's reasons to qualify the Province's Public Accounts.

Communications Tactics and Products:

- Use all of the existing communications materials being planned for the release of Public Accounts (news release, backgrounder, data visualization tools, etc.)
- Supplement existing products with messaging specifically on this issue (qualification) and outlining next steps for the panel for use in scrums as well as a statement to be issued.

- Government could consider organizing a technical briefing on the pension asset issue

Top line key messages:

- The Public Accounts is a central document to demonstrating the province's transparency in reporting the province's financial activities and position. It is a retrospective document that compares Ontario's actual performance to what was planned in the Budget.

- We have a responsibility in ensuring that the financial information as presented in Public Accounts best reflects the underlying economic substance of the government's activities in serving the needs of users of the government's financial statements

- The province has received a qualified audit opinion from the Auditor General on the 2015-16 Public Accounts regarding the Province's treatment of pension assets.

- It is our view that the Public Accounts are presented in a way that fairly presents the underlying economic substance of the Province's financial activities – including its pension assets.

- Ontario has followed the same pension accounting treatment for the past 15 years. This had been accepted by the current Auditor General for the last two years.

- Going forward, the Province will be establishing a panel to review the issue that the Auditor General has raised and determine the best practices for government regarding the accounting treatment of pension assets.

Scenario 2 – Amend the Financial Accountability Act

Overview:

- Amend the Financial Accountability Act to allow the government to table Public Accounts beyond the legislated deadline of Sept. 27. 2.Amendments could be made to:
    a. Implement a new deadline
    b. Change the definition of "extraordinary circumstances"
    c. Allow the Minister to make a statement to explain why the deadline wasn't met

- Tone is **cooperative and respectful** and demonstrates government's **commitment to the integrity** of the Public Accounts by taking time to resolve issue

Key Considerations:

- Media and Opposition will call into question the government's reason for delaying the publication of Public Accounts. They may also imply that the government is hiding the Province's books for more reasons than resolving the issue with the Auditor General.

- Delaying the Public Accounts may not necessarily lead to a resolution of the issue with the Auditor General causing the government to still receive a qualified audit opinion as an end result.

Communications Tactics and Products:

For each of options the following tactics would be considered:

- Minister's statement in the house to introduce amendments
- Issue a media bulletin on Newsroom (web posting only, no email distribution to subscribers) following introduction to provide a record the government can point to.
- Supplementary messaging and Qs&As on the reason for delay for use in media scrums, as well as a statement to be issued.

Top line key messages:

- The Public Accounts is a central document to demonstrating the province's transparency in reporting the province's financial activities and position. It is a retrospective document that compares Ontario's actual performance to what was planned in the Budget.

- We have a responsibility in ensuring that the financial information as presented in Public Accounts best reflects the underlying economic substance of the government's activities in serving the needs of users of the government's financial statements.

- As part of this year's Public Accounts work, the Auditor General has raised some questions regarding the Province's historical practices of reporting pension assets. We believe that this particularly complex accounting matter would benefit from additional discussions and consideration before finalizing this year's Public Accounts, [which the Auditor General has agreed to through a joint process TBC].

- *[We have agreed to a joint process with the Auditor General to review the accounting treatment of pension assets on the Province's books. TBC] OR [In light of this, the province is proposing to defer the tabling of Public Accounts until this issue is resolved or by date TBC.]*

Scenario 3 – Accept a qualified audit opinion with commitment to continue to work with Auditor General over the next year to resolve issue

Overview:

- Government accepts a **qualified audit opinion** and reports the **results based on its interpretation** of the Public Sector Accounting Standards.
- This means the financial results reported in Public Accounts, including the 2015-16 **deficit of $3.5 billion remain unchanged**.
- However, the **AG's audit opinion would disclose her estimate** of the impact on the province's results
- Government would focus on the fact that this is a **complex issue** and that they will continue to work with PSAB to determine best practice for the accounting treatment of pension assets.
- Tone is respectful, but highlights that the government **does not agree** with the Auditor General.

Key Considerations:

- Because this would be the **first time the Province has received a qualified audit opinion in 23 years**, it will attract **negative media and opposition reaction**. The public will also be confused as to what this means for the province's finances as well as pension plans.
- Allows opposition and media to call into question the Province's financial position and reporting. Puts onus on the government to explain the nuances of a complex accounting procedure – which the public is unlikely to understand

Communications Tactics and Products:

For each of options the following tactics would be considered:

- Use all of the existing communications materials being planned for the release of Public Accounts (news release, backgrounder, data visualization tools, etc
- Supplement existing products with messaging specifically on this issue (qualification) and outlining next steps for the panel for use in scrums as well as a statement to be issued.
- Government could consider organizing a technical briefing on the pension asset issue – TBC

Top line key messages:

- The Public Accounts is a central document to demonstrating the province's transparency in reporting the province's financial activities and position. It is a retrospective document that compares Ontario's actual performance to what was planned in the Budget.
- We have a responsibility in ensuring that the financial information as presented in Public Accounts best reflects the underlying economic substance of the government's activities in serving the needs of users of the government's financial statements.
- As part of this year's Public Accounts work, the Auditor General has raised some questions regarding the Province's historical practices of reporting pension assets.

- The treatment of pension assets is a complex accounting issue, The Public Sector Accounting Board has identified the accounting standards of reporting pension assets as a current issue and they are working with governments across Canada to set an appropriate standard. Ontario will be part of this national discussion.
- We look forward to working with the Auditor General and the Public Sector Accounting Board to resolve this issue.

Scenario 4 – Accept Auditor's interpretation of PSAB standard for pension assets – Unqualified Audit Opinion

Overview:

- **Government accepts Auditor's interpretation of PSAB accounting standard** for pension assets and adjusts its financial information

- This means the financial results reported in **Public Accounts would reflect 10.5B increase on debt and 1.5B increase of deficit**

Key Considerations:

- While deficit number would still be lower than projected in the 2016 Budget there would be a significant impact to the overall fiscal narrative

- May raise further questions about the government's long term deficit reduction plans and ability to achieve balance by 2018

Communications Tactics and Products:

- Use all of the existing communications materials being planned for the release of Public Accounts (news release, backgrounder, data visualization tools)

Top line key messages:

- Prior to this year's Public Accounts, Ontario had received 22 years of clean audit opinions on its financial statements.
- CD Howe Institute has commented favourably on the transparency and accountability in Ontario's reporting practices in its Public Accounts, Budgets and Estimates.
- A review was done on the Province's accounting policies for pension assets related to joint sponsored pension plans.
- Following the review, a decision was made to implement a change in the government's accounting policy for pension assets which resulted in an adjustment in the Province's reportable pension assets as at March 31, 2016 to XXX. The impact of the change also resulted in an additional $XX change to the reported annual deficit.
- Due to the complex and challenging nature of the specific issue, the Province will continue to work with the standard setters, other jurisdictions and the audit community to ensure that pension accounting standards best reflect the underlying economic substance of the government's activities in order to best serve user needs.