AUDITOR GENERAL REPORT 2016

QUESTIONS AND ANSWERS

CHAPTER 2: PUBLIC ACCOUNTS OF THE PROVINCE

STATEMENT:

Our 2015-16 Public Accounts showed that we have once again beaten our deficit reduction targets this year by $3.5 billion.

This marks the seventh year in a row that we have beaten our deficit reduction targets.

In preparing the 2015–16 Public Accounts, a decision was made to enact a time-limited regulation to reflect a change in the government's accounting policy for pension assets, which increased the Province's accumulated deficit by $10.7 billion and increased the annual deficit by $1.5 billion.

While we are using the Auditor Generals numbers we have established a Pension Asset Expert Advisory Panel to provide advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.

Panel members will also provide advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

I look forward to receiving the panel's report which will help guide our discussions as we work toward agreement with the Auditor General of Ontario on the future preparation of the province's financial statements.

I want to be clear though that we will balance the budget in 2017-18, and remain balanced in 2018-19.

KEY MESSAGES:

- We thank the Auditor General for her report.
- In preparing the 2015-16 Public Accounts of Ontario, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the province's jointly sponsored pension plans.
- As a result of these conversations, the government committed to forming an independent expert panel to deliver advice and recommendations on this issue.
- Ontario has appointed four members to the Pension Asset Expert Advisory Panel. This short-term advisory body, chaired by Tricia O'Malley, has been appointed by the President of the Treasury Board, and comprises experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards (PSAS).
- The independent panel will look at the application of public sector accounting standards to Ontario's net pension assets. Panel members will also provide advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

- The panel's report is due to the President of the Treasury Board. It will be shared with the Auditor General of Ontario and be made public in early 2017.

TOP QUESTONS:

Q1: Why are you picking another fight with the Auditor General?

A1: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General.

In this case, the Province's professional accounting staff simply disagree with the Auditor General's interpretation of the Public Sector Accounting Standards.

Given the continuing differences of opinion, in order to enable management to sign off on the Public Accounts, the Province accepted the Auditor General's numbers without accepting her interpretation of the standards.

This was achieved through a time-limited regulation which legislates the accounting for net pension assets of jointly-sponsored pension plans.

The Auditor General did not qualify the government's 2015-16 results.

We believed that this complex and significant accounting matter would benefit from additional consideration, so we have established an Expert Advisory Panel to further assess the issue.

Q2. The Auditor General says you have the power to table the Public Accounts at any time. Why did you delay?

A2: Timeliness of release of the Public Accounts is important to serve transparency and accountability to the public, the Legislature and other users.

The Province was prepared to table by the statutory deadline of September 27th, but could not proceed because the Auditor General delayed providing her audit opinion. We received the Auditor's opinion on October 5, and were able to table Public Accounts on October 6.

Q3: The Auditor General says she raised her concerns with the accounting treatment in June. Why wasn't this resolved by September?

A3: In June, the Auditor General indicated that she wished to more closely examine the calculation of the pension assets. The results of an actuarial valuation were shared with the Auditor General's staff in mid-August, and only after several discussions did it become apparent that the Auditor General was challenging the accounting treatment that the Province had been following for the past 14 years.

More specifically, it was not until September 13th that the Auditor General communicated her position in writing that the Province should write off the entire pension asset amount of $10.7 billion from the balance sheet.

Q4: Why has the auditor general given a qualified opinion?

A4: I am disappointed that the Auditor General has chosen to issue a qualified opinion, but I want to stress that her qualification does not relate to the 2015-16 financial results, which she says are fairly stated.

Rather, her qualification is in relation to the 2014-15 results which she would have liked to see restated to reflect her interpretation of Public Sector Accounting Standards as they relate to pension accounting.

The government did not restate the 2014/15 results because the Province's professional accounting staff do not agree with the Auditor General's interpretation. If management did agree, a restatement to correct for an error in the comparative results would have been appropriate.

The government has formed an Expert Advisory Panel to provide advice on the interpretation of PSAS for the accounting of the province's net pension assets.

Difference of interpretation between the Province and AG

Q5: The Auditor General says that her interpretation of the rules is the same as that used by the governments of British Columbia and New Brunswick

A6: No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

British Columbia

The governance framework for BC's jointly sponsored pension plans is different than Ontario's. The Boards have different rights than the OTPP Board over decisions related to any surplus.

The Board of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to use ongoing surpluses through the amendment of the Plan rules governing contributions and benefits.

In contrast, the governance arrangements with respect to the Ontario Teachers' Pension (OTPP) provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may use ongoing surpluses as they believe appropriate, subject only to the Ontario *Pension Benefits Act.* The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses.

With regards to OPSEUPP, the OPTrust governing documents also stipulate that it is the sponsors of the OPTrust, being the Province of Ontario and OPSEU, who have the authority to utilize ongoing Plan surpluses. OPTrust's Board of Trustees, being the OPTrust administrator for purposes of the Ontario PBA, has no authority to utilize ongoing Plan surpluses.

New Brunswick

As we understand it, New Brunswick converted four of its pension plans into what it refers to as target plans.

In the prior year, New Brunswick accounted for these plans as defined contribution plans, meaning it expensed the contributions to the plan and did not reflect its share of the net asset or net liability of the plan in its financial statements. The Auditor General of New Brunswick issued a qualified opinion on those financial statements.

In the 2015-16 fiscal year, New Brunswick changed its accounting for those plans to account for them as defined benefit plans and the Auditor General of New Brunswick issued a clean opinion. The governance structures of the New Brunswick plans as well as the contribution requirements differ from those in Ontario, resulting in a different accounting treatment for net pension assets.

Ontario has always accounted for its share of its jointly sponsored plans as defined benefit plans.

Q7: Are you saying the Auditor General is misinterpreting Public Sector Accounting Board standards?

A7: The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion on the interpretation of accounting standards is not unique to this situation.

Over the coming months we will undertake activities to further assess the application of PSAB standards to Ontario's accounting for jointly-sponsored pension plans. In the meantime, it remains the professional judgment of the professional staff that the accounting treatment in place since 2001 continues to be appropriate.

Q8: If you think you're right, why would you change the numbers?

A8: By adopting the Auditor General's numbers through legislation, the financial statements could be finalized and signed off in order to enable the Public Accounts to be tabled. This allowed the government to maintain financial transparency while we work through this disagreement on the interpretation of the standards.

Q9: Was there something wrong with the accounting rules that the government was using before?

A9: No. Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

Expert Panel

Q10: The panel won't have the authority to overrule the AG – what's the point?

A10: The outcome of the Panel's work will help to inform the government's decisions on future accounting policies related to pension plans.

The role of the Auditor General will continue to be one of reviewing the Province's financial statements to ensure that they fairly reflect the financial position and activities of the government.

Q11: What will the Expert Advisory Panel do?

A11: The Pension Asset Expert Advisory Panel will deliver advice and recommendations to the government on the application of Public Sector Accounting Standards (PSAS) to Ontario's net pension assets for defined benefit pension plans. The Panel will also provide advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plans' sponsors.

Q12: When will the Panel's report be ready? Will this report be made public? What happens after that?

A12: The panel's report is due to the President of the Treasury Board. It will be shared with the Auditor General of Ontario and be made public in early 2017 in both English and French.

Q13: Who will be on the Panel?

A13: The membership of the Pension Asset Expert Advisory Panel is comprised of accounting, legal, and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

The following four members have been appointed to the Pension Asset Expert Advisory Panel:
Tricia O'Malley (Chair)
Murray Gold
Uros Karadzic
Paul Martin

Q14: How much are they going to be paid?

A14: The Chair will be compensated at $2,000 per diem for the Chair and $1,900 per diem for the members. Panel members will also be reimbursed for reasonable expenses incurred in connection with their duties in accordance with Treasury Board/Management Board of Cabinet Directives and Guidelines.

Compensation for short-term advisory bodies such as this are set out in the Agencies and Appointments Directive. The compensation rates established for this panel comply with the directive and were also approved by Treasury Board.

The panel members have a very broad range of skills as well as practical nd experience which will help us fully assess the accounting challenges around pension assets. The panel members have deep skill sets in accounting and legal, as well as pension expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

IF ASKED ABOUT PAUL MARTIN
As a member of the public service of the Province of New Brunswick it would be inappropriate for Mr. Martin to receive compensation. He will be eligible for the expense reimbursements.

Financial Implications of Public Accounts results

Q15: If the government had not accepted the Auditor General's approach, what would the differences have been in the deficit or net debt?

A15: According to the Province's interpretation of Public Sector Accounting Standards, the annual deficit would be $1.5 billion lower (at $3.5 billion), and net debt would be $10.7 billion lower.

Q16: This looks like a $1.5 billion shortfall. How is the government going to make up the difference?

A16: When the Budget was tabled in 2015, we projected that the 2015-16 year would result in a deficit of $8.5 billion. The Public Accounts show that we achieved a deficit of $5 billion. Using the auditor general's numbers, we beat our target by $3.5 billion.

Q17: Net debt and accumulated deficit has ballooned by $10.7 billion. What are you doing to address it?

A17: As the Auditor General's numbers show, the government once again beat its annual deficit targets in 2015-16.

While the change in the Province's accounting treatment for pension assets of jointly sponsored pension plans does increase net debt, total debt remains unchanged. As a result, this disagreement has no impact on the Province's borrowing requirements.

Q18: **How can the accumulated deficit and net debt increase by $10.7 billion without causing an increase in total debt?**

A18: Total debt is cash based – it is how much money we've borrowed and is owed to our creditors.

Net debt takes into account the difference between our financial assets and liabilities, whether they are cash or not.

The province has changed the valuation of the net pension liability by reducing the net pension assets by $10.7 billion, but because there is no cash involved in that valuation, the total debt does not change.