

AG RECOMMENDATION #2: INDEPENDENT ELECTRICITY SYSTEM OPERATOR (IESO) MARKET ACCOUNTS

Deputy Minister High-level Response

- Thank you for your question.
- The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit.
- In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements.
- The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.
- The government supports this enhanced reporting and greater transparency for the economic activities of the IESO.
- I will now pass it over to:
 - Cindy Veinot, Provincial Controller
 - Deputy Imrognoto provide more details.

Questions & Answers

- 1. How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?**

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

2. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of PSAS for net pension assets and recognition of market accounts.

Last year there was a disagreement among the province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the province.

The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

3. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.

PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consults with external experts and advisors. They 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, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.