3. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

ASSOCIATE DEPUTY MINISTER KAREN HUGHES

ENGAGEMENT BETWEEN TBS AND OAGO

QUESTION

- We know there are a lot of things that go into producing the Public Accounts, but it seems like focus is always on a few items.
- I'd like to know a bit more about the broader context of the Treasury Board Secretariat's work on the Public Accounts, and specifically how TBS works with the Office of the Auditor General throughout that process.
- Can you describe how you engage with the Office of the Auditor General to produce the Public Accounts?

ANSWER

Deputy Minister Angus Introduction

- Thank you for your question.
- I'm going to pass it over to Associate Deputy Minister Karen Hughes to get into some of the details, but I'll just start by saying that TBS is committed to continuing to foster a collaborative relationship with the Office of the Auditor General.
- Our officials plan regular meetings with the Auditor General and her staff to make sure the Province is able to deliver the Public Accounts in a timely way.
- As I'm sure you can appreciate, there is a lot of work that happens behind the scenes, in the lead up to tabling the Public Accounts, much of it involving the Office of the Auditor General.
- This valuable interaction is not just limited to the Public Accounts report itself – there are many instances where the Office of the Auditor General provides input on things that feed into the Public Accounts to make sure that the internal controls on finances for ministries and agencies remain strong.
- I will now hand it over to Associate Deputy Minister Karen Hughes, and she can provide more detail on how our two offices work collaboratively together.

Karen Hughes, Associate Deputy Minister

- Thank you, Deputy Angus.
- The province works very hard to make sure we are keeping the lines of communication open between the Province and the Auditor General.
- As Deputy Angus mentioned, the province's relationship with the Office of the Auditor General extends beyond just the Public Accounts.

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How OPCD Works with OAGO Generally

- For example, one of the things that enables the Auditor General to have confidence in the results that are presented in the Public Accounts is the robust financial controls that are in place across the public service.
- When it comes time to compile the Public Accounts, the financial statements that the Treasury Board Secretariat relies on must be accurate and complete in order to make sure that the process works as it should.
- To do this, the Treasury Board Secretariat ensures that ministries and agencies follow financial best practices through what is referred to as the Certificate of Assurance Process.
- This process is undertaken by the Office of the Provincial Controller Division and affects all ministries.
- The Certificate of Assurance Process ensures that ministries are maintaining an effective system of internal controls to provide reasonable assurance that financial reporting is reliable and in compliance with all applicable legislation, regulations, directives and policies.
- The Certificate of Assurance process results in an attestation, signed by deputy ministers from every ministry, each ministry’s Chief Administrative Officer and each Director of Finance.
- The Certificate of Assurance attestations is used to support the Treasury Board Secretariat’s sign-off on the publication of the Consolidated Financial Statements.
- Those statements make up a major part of the Public Accounts.
- All ministry Certificate of Assurance submissions are provided to the Office of the Auditor General.
- Sharing these submissions with the Auditor General ensures that the Province is operating transparently when preparing its finances, including the Public Accounts.

- If there are any questions about a certificate, staff from the Office of the Provincial Controller are available to meet with the Office of the Auditor General to discuss it.
- Another example of this collaboration is an annual audit process undertaken by the Corporate Financial Assurance Audit team of the Treasury Board Secretariat.
- This audit evaluates the reliability of key controls over two key financial systems: the Integrated Financial Information System, known as IFIS, and the Workforce Information Network, known as WIN.
- The audit forms a part of the Certificate of Assurance attestation that I just described and is also provided to the Office of the Auditor General to help inform the office's Public Accounts audit.
- The staff at the Corporate Financial Assurance Audit team also correspond with the Office of the Auditor General on the results of the Audit to ensure a consistent understanding.
- These are just two examples of how our officials engage the Office of the Auditor General in processes that support the preparation of the Public Accounts, before the formal Public Accounts process even begins.

How OPCD Works with OAGO on Public Accounts

- Staff from the Office of the Provincial Controller and the Auditor General's Office have discussions throughout the year on matters that may impact the Public Accounts.
- The discussion becomes more frequent late in the fiscal year, prior to the Province's fiscal year end.
- In these meetings, representatives from both offices discuss areas of audit focus and what information is required for the audit to go smoothly.
- The Treasury Board Secretariat also reviews the Audit Planning Report produced by the Office of the Auditor General at the start of the audit, and works with the office to ensure the completeness of the audit plan.

- Reviewing the Audit Planning Report provides an opportunity for TBS to identify potential areas of improvement for future Public Accounts.
- Once the Office of the Provincial Controller knows what information the Office of the Auditor General needs to conduct the audit, it facilitates gathering the information from ministries and agencies.
- These meetings continue throughout the audit, culminating in the audit opinion of the Consolidated Financial Statements, the Audit Findings Report to management and the tabling of the Public Accounts in the legislature.
- All this usually occurs by the end of September at the latest, on or before 180 days have passed since the end of the fiscal year.
- The Office of the Provincial Controller also provides analysis related to any items identified while preparing the Public Accounts.
- The Treasury Board Secretariat also maintains a tracking list of items that arise during its preparations, along with the responses or resolutions to them.
- Throughout the audit, the Office of the Provincial Controller is engaged with the Office of the Auditor General to ensure that information from ministries is flowing freely.
- The offices also work toward finding resolution on how matters should be best reflected in the consolidated financial statements.
- These items can include how reporting works for new government policies, information on new government agencies, and new accounting standards that the province has adopted in presenting the Public Accounts.
- While the Public Accounts is being compiled, the Office of the Provincial Controller Division shares draft versions of the province's financial statements with the Auditor General's office.
- The Financial Statement Discussion and Analysis is also shared with the Office of the Auditor General to provide time for review and comment.
- This allows the Treasury Board Secretariat time to incorporate comments that improve the communication and clarity of the Annual Report and Consolidated Financial Statements.

- This approach ensures that the Office of the Auditor General is able to complete a full and thorough review of the Province's records.

Examples of Success in this Approach

- The Province and the Auditor General work closely to make sure that the Province is accountable when it comes to Ontario's finances.
- This constructive relationship has allowed Ontario to make great strides in how it presents the Public Accounts.
- I'll give some examples of times that collaboration with the Office of the Auditor General has helped TBS release a stronger, more transparent set of Public Accounts.

Changes to Third Party Revenues for Hospitals, School Boards and Colleges

- One change that the Province made is in how third party revenues are shown in the consolidated financial statements from hospitals, school boards and colleges, referred to collectively as the broader public sector, or BPS, in the Public Accounts.
- Third party revenues from the BPS, such as tuition fees, patient fees, research grants and donations, have been part of the Public Accounts since 2005-06 when it was recommended they be consolidated by the Office of the Auditor General.
- Previously, third party revenues were not reported separately as revenue, but were included against expenses reported by the hospitals, school boards and colleges.
- Starting in 2016-17, about $7.9 billion of third party revenues are now shown as a separate line as part of total revenues in the Public Accounts.
- Now, all assets, liabilities, revenues and expenses of hospitals, school boards and colleges appear in their corresponding categories in the consolidated financial statements in the Public Accounts.
- In addition to that, the interest on debt of these organizations, which was $591 million in 2016-17, has been combined with overall provincial interest expense.

- This debt used to be included in the expenses of the respective ministry that oversee the hospitals, school boards and colleges, namely Ministry of Health and Long-Term Care, Ministry of Education and the Ministry of Advanced Education and Skills Development.
- It's important to note that this presentation change does not affect the Province's annual deficit, accumulated deficit or debt. It is just a different way to show the same amount of money in a more transparent way.
- The change also brings Ontario in line with how other senior Canadian governments show third-party revenues in their accounting under Public Sector Accounting Standards.
- In the interest of transparency and comparability, we have changed last year's dollar amounts for this set of Public Accounts to reflect the new accounting.
- The same thing was done to the dollar amounts from the 2016-17 Budget. The budget numbers presented in the 2016-17 Public Accounts now align with this new accounting.
- Both these changes allow for an accurate and fair comparison of this year's Public Accounts to other related financial documents.
- The Office of the Auditor General was supportive of these changes.

The Adoption of International Financial Reporting Standards for Energy Sector

- Another change supported by the Auditor General is the adoption of International Financial Reporting Standards when accounting for rate-regulated government business enterprises.
- Let me give some quick context on what the International Financial Reporting Standards, or IFRS, are.
- The standards are set by the IFRS Foundation, a not-for-profit, public interest organization established to develop a single set of high-quality, understandable and globally accepted accounting standards.
- By developing these standards, the IFRS Foundation brings transparency, accountability and efficiency to financial reporting around the world.

- Ontario is now using the IFRS standards to account for its government business enterprises in the Public Accounts.
- It can sound like jargon, so in the interest of being clear let me give a breakdown of what a government business enterprise is.
- When I say government business enterprise, I mean government organizations that:
  - Are legal entities that are separate from the Province with the power to draw up and sign contracts in their own name. Government business enterprises can sue on their own behalf and be sued.
  - They have the financial and operating authority to do business without constantly seeking government permission.
  - They serve individuals and non-governmental organizations first and foremost, operating mostly off of money made selling their goods and services.
  - And finally, they can maintain their operations and meet their financial obligations without relying on the government ministry that they report to.
- The change implemented for 2016-17 related to rate-regulated government business enterprises.
- Rate-regulated government business enterprises are permitted to report under Generally Accepted Accounting Principles for rate-regulated companies in the United States in their own financial statements.
- This permission is in accordance with guidance provided by Chartered Professional Accountants Canada.
- Under Public Sector Accounting Standards, however, all government business enterprises must be reported under IFRS standards.
- Because of this difference between the government business enterprises internal accounting and the accounting they provide to the Province, it is necessary to make adjustments for any differences between the US Generally Accepted Accounting Principles and IFRS standards.

- The Government of Ontario has only two rate-regulated businesses included in the 2016-17 Public Accounts – Ontario Power Generation and Hydro One.
- The other government business enterprises that are included in the Public Accounts – the Ontario Lottery and Gaming Commission and the Liquor Control Board of Ontario – use IFRS for their statements, so no adjustments are required.
- The financial activities of these two government businesses are recorded in the Public Accounts using something called the "modified equity method."
- This means their combined assets are included in the government's financial statements under the line titled "Investment in Government Business."
- Their income is shown as a separate item from their assets. That line is called "Income from Investment in Government Business Enterprises."
- For government businesses that are not completely owned by the government, for example, Hydro One, the dollar amounts shown in the Public Accounts are calculated based on the percentage of the government business owned by the government during the fiscal year.
- So in simple terms, if the government owned 60 per cent of a rate-regulated business, and the income of that business was $100 for the year, the Public Accounts would reflect an income of $60.
- By adopting the IFRS standards in Ontario's presentation of rate-regulated government businesses, the province is bringing its reporting in line with international standards.
- In previous years, the Province has used the unadjusted statements of Ontario Power Generation and Hydro One prepared in accordance with Generally Accepted Accounting Principles in the United States to guide its accounting presentation.
- Historically, the two standards have shown the provincial deficit in pretty much the same way, so there is no significant change to the province's deficit.
- However the change brings us in line with the appropriate standards, and we are pleased to make it.

- In the future, the Province will continue to follow the IFRS standards for any rate-regulated government businesses.
- As I mentioned before, this change has the support of the Auditor General and is an example of how working closely with the Office of the Auditor General is ensuring Ontario remains transparent and open in the province's financial reporting.

Timely Release of the Public Accounts

- Finally, one change that the Province has suggested is releasing the Public Accounts earlier in the year.
- Usually, the Public Accounts are released in late August or early September.
- However, in order to provide that information to Ontarians in as timely a way as possible, the Province wants to ensure that the Public Accounts is ready to be released as soon as possible after the end of the fiscal year.
- Earlier release requires the Office of the Provincial Controller to connect early with many stakeholders, including the Auditor General, to make sure any audit questions are addressed as soon as possible.
- The Treasury Board Secretariat has been working closely with the Office of the Auditor General to identify potential audit items early, proactively answer any questions and engage stakeholders in the discussion.
- Another point that the Auditor General made about releasing the Public Accounts early is that Ontario relies on tax revenue data from the Canada Revenue Agency.
- Thanks in part to this flag, the province is considering opportunities to work with the Canada Revenue Agency to allow the Ministry of Finance to provide personal and corporate tax revenue information earlier.

Conclusion

- In conclusion, TBS remains committed to maintaining a collaborative relationship with the Office of the Auditor General.

- Many of the changes that the Province has suggested are supported by the Auditor General, and public servants work closely with their office throughout the year to keep the lines of communication open.
- The planning and preparation that both the Auditor General's office and the Treasury Board Secretariat are doing together allows us to have a smoother process each year.
- By working together on many items, including the audit of internal financial systems and the Certificate of Assurance process, the Treasury Board Secretariat is ensuring that the Public Accounts process operates smoothly on all levels.
- Thank you.