Communications Branch

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# Auditor General's 2017 Annual Report

## Cabinet Office Briefing on Chapter 2, Public Accounts of the Province

November 22, 2017

# Overview

- The Auditor General’s Annual Report, Chapter 2, makes ten recommendations regarding the Public Accounts of the Province.

- The recommendations largely reflect opinions that have been expressed in previous reports, including the Auditor General’s audit opinion in the 2016-17 Public Accounts and the Special Report on the Fair Hydro Plan.

- Treasury Board Secretariat and Ministry of Finance disagree with the characterization of the majority of the recommendations, and re-iterates its commitment to producing high-quality financial reports on a timely basis and in accordance with Canadian Public Sector Accounting Standards (PSAS).

# Environmental Scan

- Public Accounts 2016-17 was tabled on September 7, 2017; the AG issued a qualified opinion on two matters (pension assets and IESO market accounts) and highlighted rate-regulated accounting and the OFHP in other matters.
  - Media coverage was short-term (24-hours), with 80% of coverage neutral in tone.
  - There was little uptake during Question Period (early references focused on infrastructure spending listed in Public Accounts).
- The AG released a Special Report on the Fair Hydro Plan on October 17, 2017, which was highly critical of the government’s proposed accounting treatment of the OFHP.
  - Media coverage was extensive and largely negative in tone, focusing on the perceived costly and unnecessary financing structure, reinforced by the Financial Accountability Office’s previous report released in May.
  - The topic was heavily featured during Question Period in the days following the release of the report.

# Issues Management Strategy

| Issue | Strategy | Key Messages |
|---|---|---|
| Perception of inappropriate/ “convenient” accounting and fiscal mismanagement | Reactive.<br>Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. | The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province’s finances fairly and accurately and in accordance with Canadian PSAS. |
| Perception that the government looks to external advisors to circumvent the Auditor General | Reactive.<br>Confirm that the province seeks external expertise when appropriate as a normal course of business. | The government’s use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. |
| Potential for adverse audit opinion due to OFHP accounting | Reactive.<br>Highlight due diligence included in OFHP decision making, and that the accounting structure is still being finalized. Refuse to speculate about AG’s potential audit opinion. | It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year.<br>The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized. |

# Issues Management Strategy (cont.)

| Issue | Strategy | Key Messages |
|---|---|---|
| Increasing debt burden of the province | Reactive.<br>Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan. | The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term. |
| Auditor General to audit IESO's 2017 consolidated financial statements | Reactive.<br>Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record. | The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. IESO's recent accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements. |

# Response to Recommendations

| AG Recommendation | Progress to Date | Summary of Response to be Published* |
|---|---|---|
| 1. Record valuation allowances to offset net pension assets from OTPP and OPSEUPP | N/A | TBS does not agree with the recommendation. |
| 2. Remove IESO market accounts from province's financial statements | N/A | TBS does not agree with the recommendation. |
| 3. Follow recommendations from Special Report on Fair Hydro Plan | N/A | TBS does not agree with the recommendation. |
| 4. Inform AG of contracts related to external advisors providing accounting advice, and ensure advisors notify AG of their involvement | Status quo. | Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis.<br><br>Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. |

**See Appendix A for complete management responses as submitted to OAGO. OAGO revised the responses that will be included in the Annual Report.*

# Response to Recommendations(cont.)

TBS

| AG Recommendation | Progress to Date | Summary of Response to be Published* |
| --- | --- | --- |
| 5. IESO should follow PSAS, and remove market accounts from financial statements and discontinue use of rate-regulated accounting. | N/A | TBS does not agree with the recommendation. |
| 6. Use PSAS instead of legislation and regulations to prescribe accounting treatments | N/A | TBS does not agree that they do not follow the accounting standards established by the Public Sector Accounting Board. |
| 7. Government should develop long-term debt reduction plan and discuss plan publicly | N/A | The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%, currently projected for 2029-30, together with an interim target of 35% by 2023-24. |
| 8. Office of the Provincial Controller should work with stakeholders to achieve earlier finalization of province's consolidated financial statements | Province will work with the Canada Revenue Agency (CRA) on this recommendation. | TBS and Ministry of Finance are supportive of the timely delivery of the Public Accounts.<br>Province will collaborate with OAG to support this recommendation, and work with the CRA, as reporting personal and corporate tax revenues is dependent on information they provide. |

**See Appendix A for complete management responses as submitted to OAGO. OAGO revised the responses that will be included in the Annual Report.*

# Response to Recommendations (cont.)

| AG Recommendation | Progress to Date | Summary of Response to be Published* |
|---|---|---|
| 9. Government should avoid establishing arm's length trusts in order to record expenses in financial statements before it is necessary | N/A | The government will continue to assess what vehicle should be used to transfer funding and provide appropriate oversight.<br><br>Note OAGO will be publishing:<br>The response received from TBS did not address the recommendation. |
| 10. Government should publicly communicate if and when it will file a regulation confirming the source of reference for the Pre-Election Report and timeline | Status quo. | Under the Fiscal Transparency and Accountability Act, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a review following the release of such a Pre-Election Report.<br><br>The government remains committed to meeting legislative requirements of the Fiscal Transparency and Accountability Act. |

**See Appendix A for complete management responses as submitted to OAGO. OAGO revised the responses that will be included in the Annual Report.*

# Anticipated Questions

**1. The government has received a second qualified audit opinion on its Public Accounts. 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.

**2. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments on the Fair Hydro Plan. Why should we believe this government when all independent auditors in the country say you are wrong?**

- In developing Ontario's Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.
- Our professional staff exercises judgment in applying the standards and as necessary consult 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.

**3. It seems like you use consultants to circumvent the Auditor General, when it looks like she may disagree with your accounting methods. Why don't you let the Auditor General know when you're using external advisors for something that impacts her Office's ability to do its job?**

- The government's use of external expertise for accounting and financial reporting matters is a normal course of business, and supplements its own resources on complex or emerging accounting and reporting matters.
- The government is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

# Anticipated Questions (cont.)

**4. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?**

- It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.
- The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.
- Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

**5. Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?**

- The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.
- The Ontario Fair Hydro Plan Act, 2017 and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

# Additional Considerations

- Auditor General endorsed the Workplace Safety and Insurance Board (WSIB) for addressing its unfunded liability
- Other chapters regarding TBS in the Auditor General's 2017 Annual Report include:
  - Government Advertising
  - Agency Annual Reports (Quality)
- Follow-up reports pertaining to TBS include:
  - Agency Annual Reports (Timing)
  - Infrastructure Planning
  - Contaminated Sites
- Ontario Fair Hydro Plan – finalization of accounting structure

# Communications Products

- Key Messages
- Issues Notes
    - Public Accounts
    - Balanced Budget
    - Fair Hydro Plan - Global Adjustment
    - Pension Asset Expert Advisory Panel
- Media Q&As