Ontario

BACKGROUNDER

Treasury Board Secretariat

Qualified Audit Opinion On Public Accounts 2016-17

September XX, 2017

For the 2016-17 Public Accounts, the Auditor General has issued a qualified audit opinion based on a different interpretation of Public Sector Accounting Board standards for net pension assets and the recognition of market accounts.

While not the subject of qualification, the Auditor General also commented in her letter of opinion on the use of rate regulated accounting.

Accounting for Net Pension Assets

In preparing last year's Public Accounts (for 2015-16), there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue. 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. Ernst and Young LLP provided additional analysis and concluded that no valuation allowance was required for either plan.

After significant deliberation, including considering the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Ontario continues to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

Recognition of Market Accounts

In 2017 the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets and liabilities in its financial results. IESO's role is to administer the electricity market in Ontario, acting as an intermediary between power producers and power distributors.

Market accounts assets are amounts due *from power distributors,* and market accounts liabilities are amounts due *to power producers*. The organization has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end. This change has no impact to the province's annual deficit, net debt or accumulated deficit.

Public Sector Accounting Board standards are silent on the use of market accounts. In such cases, the standards encourage preparers and auditors to consider guidance in other accounting frameworks in the service of transparency and accountability.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. Further, before the Ontario Power Authority merged with IESO in 2015, the OPA used the same accounting presentation in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

As such, this accounting change was accepted by the professional accounting staff of the Office of the Provincial Controller. The IESO highlighted this change in in its annual report which was published online in March 2017.

Rate Regulated Accounting

In her audit opinion, the Auditor General commented on the IESO's use of rate-regulated accounting. IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. The IESO highlighted this change in in its annual report which was published online in March 2017.

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