QUESTIONS & ANSWERS

Contents

PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

Key Messages

- The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).
- PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.
- The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.
- The province is open to continue to discuss the matter in the hopes of resolving this matter.
- For more information on pension asset accounting, I will now pass it over to:
    - Cindy Veinot, Provincial Controller

1. How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?

The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

To provide some context for how this issue arose, the Office of the Auditor General communicated its interpretation of PSAS requiring a full valuation allowance on the province's two jointly sponsored pension plans in September 2016, two weeks prior to the deadline for filing the Public Accounts.

At that time, the government passed a time-limited regulation on the accounting treatment of its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from the Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts.

During the 2016-17 year, the province's professional accounting staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans.

This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel, established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans.

  The panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017, which supported the position that a valuation is not required for these two plans under PSAS.

  Two key findings of the panel were:

  1) There is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record and asset, as the existing agreements in place between the parties support the recognition of an expected benefit; and

  2) Unilateral control is not required for asset recognition. Joint control with each party having the ability to deny the actions of the other sponsor provides evidence of shared control, supporting recognition of an asset.

- An opinion from Deloitte LLP on aspects of the province's accounting as of March 31, 2016, for the Ontario Teacher's Pension Plan (OTPP). The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under PSAS, even though the province did not have a unilateral right to reduce contributions. (The opinion did not address the value at which the asset should be recorded.)

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or Ontario Public Sector Employee's Union Pension Plan (OPSEUPP) as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

After significant deliberation, including consideration of the recommendations of the panel, Deloitte LLP and EY, the province confirmed that the accounting for these plans prior to 2015-16 was appropriate, and prepared in accordance with

PSAS 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.

PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.

The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.

I would add that the co-sponsors of the Teachers' Pension Plan announced in June 2017, that they would be reducing the contributions to the plan by both the employer and the employee effective January 1, 2018.

The province is open to continue discussions in the hopes of resolving this matter.

2. **Why are you still fighting with the Auditor General over pension accounting?**

In preparing the 2015-16 Public Accounts, 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, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the province 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.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and the government continues to apply the accounting treatment for net pension assets of the Teachers' Pension Plan and the OPSEU Pension Plan that the province has used consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

The Treasury Board Secretariat will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Advisory Panel Compensation

1. **How much did you pay the panel members? Do you think that money was justified?**

   The total cost of the panel was $221,113. This included compensation and travel expenses for the four panelists, as well as procurement. These rates are consistent with the Agencies and Appointments Directive, which specified up to $2,000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time.

   The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards, and provided independent advice on how to move forward with how Public Sector Accounting Board standards should be applied to current and potential future net pension assets.

2. **Why was Patricia O'Malley included in Public Accounts and not the other panel members?**

   Patricia O'Malley was the chair of the independent Pension Asset Expert Advisory Panel (PAEAP), which provided important advice to the province on how to account for jointly-sponsored pension plans. She is included in Public Accounts because her compensation for her work on the Panel was above the $50,000 threshold that must be reported in detail in Public Accounts.

   The other members of PAEAP were paid less than the $50,000 minimum threshold in fiscal 2016-17 that requires they be listed in Public Accounts. Their 2016-17 compensation is captured as part of the "Accounts Under $50,000" category.

   As Paul Martin is a member of the New Brunswick Public Service, he did not receive compensation for his role on the panel. He was only eligible for expense reimbursements.

IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

Key Messages

- 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.
- The province is open to continue to discuss the issue in the hopes of resolving this matter.
- For further details on the province's decision to accept IESO market accounts on the province's consolidated financial statements, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO's decision to adopt market accounts, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts	Ministry of Energy (IESO)

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 market 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.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

Key Messages

- The Independent Electricity System Operator (IESO) intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS), and will report on the results of its external auditor's audit in its 2017 financial statements by March 30, 2018.
- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.
- For further details on the province's decision to accept IESO market accounts and rate-regulated accounting, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	**See:**
IESO Market Accounts & Rate-Regulated Accounting	Ministry of Energy (IESO)

3. Does the Independent Electricity System Operator (IESO) use Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements?

To confirm whether IESO or TBS should answer this question.

Yes. The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Canadian Public Sector Accounting Standards

(PSAS).

The IESO's financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. The IESO received an unqualified, or clean, audit opinion on its 2016 financial statements.

4. Why is the IESO now including market accounts on its financial statements? Does this go against PSAS?
To confirm whether IESO or TBS should answer this question.

The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS.

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. On its 2016 financial statements, IESO received an unqualified (clean) audit 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.

5. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

Canadian Public Sector Accounting Standards (PSAS) are silent on the issue of using rate regulated accounting – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The 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 management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America, including the:

- Alberta Electric System Operator (AESO)
- ISO New England
- New York Independent System Operator (NYISO)
- Midcontinent Independent System Operator (MISO)
- PJM Interconnection LLC and,
- Electric Reliability Council of Texas (ERCOT).

See last page of this document for "Comparison between IESO and the eight other ISO entities in North America" table.

6. 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 the 2017-18 Public Accounts, as the implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing.

The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

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 record of producing high-quality financial reports on a timely basis. We will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

AG Audit of 2017 IESO Financial Statements

Key Messages

- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.

For QAs related to:	See:
Audit of IESO's statements	Ministry of Energy (IESO)

ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

Key Messages

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance is clearly stated in the Public Sector Accounting Standards.
- The province's professional staff has appropriately applied this guidance in assessing the accounting for the OFHP.
- For further details on the province's decision to accept OFHP accounting, I will pass it over to:
  - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
  - Deputy Imbrogno

For QAs related to:	**See:**
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

7. Will the government follow Public Sector Accounting Standards (PSAS) for Ontario's Fair Hydro Plan?

The province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

The province's professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

8. Will the government follow the accounting standards set by historical precedent, as cited by the Auditor General?

Thank you for your question.

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. I will pass this over to my colleagues at the Ministry of Energy to provide further information.

9. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

The province thanks the Office of the Auditor General for its report.

In developing Ontario's Fair Hydro Plan (OFHP), 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.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

On the point of "true financial impact":

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

Ontario has a strong record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the province's finances fairly, accurately and in accordance with PSAS.

On the point of "a financing structure that is the least costly for Ontarians":

The OFHP financing structure has been designed to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.

The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. Having the rate-base pay is not a new policy, for example Hydro One has borrowed in the capital markets since 2000.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (the Fair Hydro Plan Trust) that will manage the debt obligations. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO).

The cost analysis in the Office of the Auditor General's report was sourced from the FAO's May 2017 report. Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Recent government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

The province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

10. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative 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.

Public Sector Accounting Standards (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 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.

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.

11. Both the Auditor General and the Financial Accountability Officer have raised serious concerns about the accounting treatment of the electricity

cost refinancing initiative. Why should Ontarians believe this government over two independent officers of the Legislature?

The province has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

In developing the Ontario 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.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

The province, as always, will prepare its consolidated financial statements in accordance with PSAS and continue to build on its track record of responsible fiscal management.

12. The Auditor General says that you are "obfuscating" the true financial impact of Ontario's Fair Hydro Plan through a "needlessly complex" accounting structure. How do you respond?

In developing Ontario's Fair Hydro Plan (OFHP), 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.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

OFHP is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

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.

13. How can you justify the $4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the province, instead of the province financing the entire electricity cost financing)?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

I will pass it over to my colleagues at the Ministry of Energy, who can provide further details on this matter.

14. The AG claims that when the government first gave Ontarians an eight per cent break on their bills, it was reported on the books properly. She says when it jumped to 25 per cent, the accounting changed. Isn't it obvious that the government is cooking the books to suit their needs?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The policy decision regarding the eight per cent rebate, which is borne by the taxpayers, differs from the policy decision on the Global Adjustment Refinancing, which is borne by the ratepayer. Accordingly, the accounting reflects the difference in the economic substance of the policy decisions.

As always, the province adheres to Canadian Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board.

The province will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.

It's important to note that while PSAS is the primary source of guidance for the government in the preparation of its financial statements, there are circumstances where governments may refer to other accounting frameworks for guidance where PSAS is silent and does not address specific transactions.

In this case where PSAS is silent on the use of rate-regulated accounting, U.S. accounting standards contain the most developed and appropriate guidance for this transaction.

15. The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?

In developing Ontario's Fair Hydro Plan (OFHP), 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.

Multiple options were considered in creating the OFHP framework – such as to have local distribution centres finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution centres to finance the balances.

Ultimately, OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.
I will pass it over to my colleagues at the Ministry of Energy to provide further details.

AG Recommendation #6: "Legislated Accounting"

Key Messages

- 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.
- As always, we will prepare the province's consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS), including the transactions resulting from Ontario's Fair Hydro Plan (OFHP).
- For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets that differed from the Treasury Board Secretariat staff's interpretation of PSAS, in

order to allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of PSAS.
- This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.
- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting.
- For further details, I will pass it over to:
  - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
  - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

1. **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.

   For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.

   The province will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

2. **The Auditor General said that a similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity**

sector in the late 1990s, but the Auditor General's opinion at that time was that this would represent a departure from a central tenet of generally accepted accounting principles. The government at that time heard these concerns, and made the decision to not create an asset for future anticipated ratepayer payments. Why does the government think this is ok now?

Thank you for your question. I think my colleagues at the Ontario Financing Authority would be better positioned to answer this question. I will pass it over to them to provide further details to the Committee.

AG Recommendation #9: Arm's Length Trusts

Key Messages

- The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.
- Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight.
- The province will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
- For more information on arm's length trusts, I will pass it to:
    - Cindy Veinot, Provincial Controller
    - Deputy Imbrogno

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy

1. **Will the government avoid establishing arm's length trusts in order to record an expense in its financial statements before it is necessary, given that it loses the ability to ensure funds are provided to the appropriate beneficiaries?**

   The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.

   Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arm's length and is able to demonstrate proper oversight.

A trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the province to enter into agreements with each distributor.

The trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred, as well as the ability for the province to conduct an audit to gain assurance that the funds have been used for the purposes intended.

For more information about why a trust for the Affordability Fund, I will pass it over to Deputy Imbrogno, who will be able to provide further details to the Committee.

Records Disclosure/Process

Key Messages

- The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- Senior ministry officials have met and continue to work with the Office of the Auditor General by participating in interviews and providing documentation.

For QAs related to:	See:
MOE Records Disclosure	Ministry of Energy

1. The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?

The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

Treasury Board Secretariat has released all requested records.

Senior ministry officials have met with the Office of the Auditor General by participating in interviews and providing documentation.

If asked about the Ministry of Energy emails:

The Ministry of Energy, Finance, and the Treasury Board Secretariat are committed to assisting the Auditor General.

2. **In an email, a TBS official said [___], disagreeing with the government's policy decision. How do you respond?**

   As public servants, it is our role to provide our best advice and conduct our due diligence to inform decision-making. Part of this process includes questioning and deliberations.

   I am not sure which specific record you are referring to, but I would like to highlight that comments need to be considered as part of that discussion process, where we as public servants engage in deliberations and explore the options to get to the point of providing our best advice.

   It is important to keep in mind that an individual email represents a point in time of the discussion.

   That statement is not necessarily representative of the final advice put forward nor an endorsement of what the public service has identified as the best approach.

   The records must be considered in the context of discussion and deliberation, as an exercise in due diligence, and not as a final endorsement of an option or approach.

3. **The Auditor General mentioned emails and other documents that she reviewed to inform her Special Report on the Fair Hydro Plan. Can you provide the Committee with copies of those documents?**

   As always, we are committed to working constructively with the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

   We will look into this question, and make every effort to get the Committee as much information as we can.

4. **When does TBS not provide information through a Freedom of Information request?**

Since 2015, TBS has been 100 per cent compliant for all Freedom of Information requests it has received.

In some cases, records may contain information that will be withheld in accordance with the legislation, such as personal information about individuals, confidential business information, advice to government or information that is subject to solicitor client-privilege.

Re-Design of Hydro Bills

For QAs related to:	See:
Hydro Bills	Ministry of Energy

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

Key messages & QAs to continue to be reviewed for any Pre-Election Report updates.

Key Messages

- The province takes the Auditor's recommendations seriously and remains committed to working constructively with the Auditor General.
- The government has not yet made a decision on whether and when to release a Pre-Election report.
- We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

For QAs related to:	See:
Pre-Election Report	Ministry of Finance (Joint lead with Treasury Board Secretariat)

1. **Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?**

   The province remains committed to working constructively with the Office of the Auditor General.

   Under the *Fiscal Transparency and Accountability Act,* 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine whether it is reasonable and issue a Statement describing the results of the review.

Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.

2. Is the government required to issue a pre-Election Report?

Provisions in the Fiscal Transparency & Accountability Act, 2004 (FTAA) allow for – but do not require – a regulation to be filed requiring the release of a Pre-Election Report and a review of that report by the Auditor General.

3. The Auditor General signalled her readiness to work with the government to examine the pre-election report. Why has the government waited this long to engage with the Auditor?

Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.

We continue to engage all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the Province's fiscal position in advance of the election.

4. Minister Sousa recently signalled that the government is not planning on issuing a Pre-Election Report. How do you feel about the government continuing to circumvent the Auditor General and avoiding accountability?

Under the *Fiscal Transparency and Accountability Act,* 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine whether it is reasonable and issue a Statement describing the results of the review.

Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.

The province remains committed to working constructively with the Office of the Auditor General.

PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

1. **How can your debt reduction plan be trusted if you're not using proper accounting for pension assets and the Fair Hydro Plan?**

   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 province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.

   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.

OPCD to add content re: transparency of the net pension assets and the Fair Hydro Debt.

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

1. **Does a qualified opinion from the Auditor General impact the province's credit rating?**

   The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the province. However, there were no credit rating implications in 2016 when the province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

Key Messages

- The Treasury Board Secretariat (TBS) will continue to take a proactive approach to raising issues with the Office of the Auditor General.
- The province'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, and in the normal course of business.
- When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

For QAs related to:	See:
Ministry use of external advisors	Ministry of Energy Ministry of Finance

1. **Will the government provide copies of contracts it enters into for accounting advice to the Auditor General?**

   The province'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, and in the normal course of business.

   The province 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.

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

   When copies of contracts have been requested by the Auditor General, they have and will continue to be provided.

2. **Will the government build into its contracts with external advisors a requirement to notify the Auditor General of their engagement?**

When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

3. **Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.**

   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 Public Sector Accounting Standards.

   As public servants, it is our role to ensure due diligence and provide our best, objective advice to support government decision-making.

   Due diligence includes completing internal analysis, building prudence into financial forecasts, looking to other jurisdictions or external advisors to supplement our own analysis, and always bringing our best professional judgment to the table.

   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.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis.

4. **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 their job?**

   The government's use of external expertise for accounting and financial reporting matters is a normal business practice and 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. The professional staff takes responsibility for the final decisions that are made with respect to the application of PSAS to the government's transactions.

The province 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.

When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.

5. **Are you going to hire an expert advisory panel, as you did on the pension asset accounting matter, to settle disputes with the Auditor General? If so, what authority would this panel have?**

   There are no plans to establish a panel at this time.

   If applicable: In developing Ontario's Fair Hydro Plan (OFHP), 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.

   The province will continue to work with the Auditor General to build on its record of responsible fiscal management and high quality financial reporting.

6. **Can you tell us how many consultants are being paid high salaries with public money while keeping themselves off the sunshine list?**

   The government continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

   Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

   Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

7. **How much did the Treasury Board Secretariat spend on consultants?**

   The Treasury Board Secretariat (TBS) spent approximately $202 million in 2016-17 on consulting services:

- $167M (or 83 per cent) is procured by IT Source, Central Agencies Cluster for Ontario Public Service (OPS) ministries. TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries.
- $36M is for services procured by TBS programs primarily for IT enhancement, management and other consulting services.

Consultants are used in the OPS when the organization needs to gain external advice and specialized expertise not already available in the OPS, or for short-term and non-recurring projects and initiatives.

TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries as a cost-saving strategy.

Whenever the OPS need IT consulting services, the first thing we do is look for expertise within the organization. The government turns to IT consultants when it doesn't have the expertise in house, when it needs to gain external advice and specialized expertise, or when the need is short-term and non-recurring. This is true for one-time projects that launch new programs or when Cyber Security staff combine with external experts to carry out Threat Risk Assessments to ensure personal information is safe.

AG Recommendation #8: Timeline of Finalization of Financial Statements

Key Messages

- The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.
- The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.
- Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General.
- As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.
- For further details, I will pass it over to:
    - Karen Hughes, Associate Deputy Minister, Office of the Treasury Board
    - Deputy Thompson

For QAs related to:	See:
Finalization of Financial Statements – Tax Revenues	Ministry of Finance

1. **Will the government improve its planning across stakeholders so that the province's consolidated financial statements are finalized earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

   The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

   The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts.

   Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

2. **What will the government do to figure out estimation risks associated with corporate tax and personal income tax revenues earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

   The province will work with the Canada Revenue Agency (CRA) on the Auditor General's recommendation, as reporting personal and corporate taxation revenues is highly dependent on information from the CRA.

   Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

Adverse or Qualified Audit Opinion

Key Messages

- It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year.
- The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

- As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.
- PSAS are principle based – they 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 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.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller

1. **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).

    As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

    PSAS are principle based -- they 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 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.

    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.

2. 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?

As you can appreciate, it would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year.

The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

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.

3. The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?

TBS leads the overall Public Accounts process. Public Accounts is a major accountability document which presents the financial statements of the province, provides financial highlights of the past fiscal year, and reports on performance against the goals set out in the Budget.

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

Last year there was a disagreement between 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 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 were prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and TBS continues 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 their 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.

Relationship with the Auditor General

4. **What is your relationship with the Auditor General?**

The province has the utmost respect for all independent officers of the legislature, and we value the important and necessary perspective they bring.

The province's professional staff works closely and constructively with the Office of the Auditor General on a number of matters, including the preparation of Public Accounts.

We will continue to work closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

As public servants, we will continue to ensure due diligence and provide our best, objective advice to support decision-making. In addition, we will continue to work with all officers of the legislature to keep them informed and engage constructively on considerations and approaches.

2016-17 Overall Accounting Changes

1. **Why have you restated prior year's financial statements?**

When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

These changes include:

a. **A change in the presentation of accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
b. **The adoption of International Financial Reporting Standards as the basis for accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.
c. **Accounting for market accounts by Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
d. **Accounting for net pension assets of jointly sponsored pension plans** - the province is reporting net pension assets for jointly sponsored pension

plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

2. **Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?**

   To increase transparency, in 2016-17 we have made a simple change to how we are reporting third-party revenues for broader public sector organizations.

   For the first time, Public Accounts are presenting third-party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

   This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

   The Auditor General supports the province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

3. **What is consolidated reporting?**

   The Province's consolidated financial statements are presented on a consolidated basis, meaning that the Statement of Financial Position (or balance sheet) and the Statement of Operations (or statement of revenues and expenses) reflect the combination of ministry results as well as the financial results for organizations that are controlled under the guidance established under PSAS.

   Prior to 2016-17, the Province reported the expenses and third-party revenues of hospitals, colleges and school boards on a net basis. This was changed for 2016-17 to reflect expenses and third-party revenues as separate items (on a gross basis), as opposed to being reported together (on a net basis).This affects what you see for the expense reported for the responsible ministries (Health and Long-term Care, Education, and Advanced Education and Skills Development) and the breakdown of figures for hospitals, school boards, and colleges. However this has no impact to the annual deficit, net debt or accumulated deficit.

Line-by-line consolidated reporting is in keeping with Public Sector Accounting Board standards and will mean that our presentation for Public Accounts is consistent with other governments across Canada. The Auditor General is supportive of this change.

4. Why is there a change to the accounting for Ontario Power Generation (OPG) and Hydro One?

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards (IFRS). Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board requirements and is supported by the Auditor General.

This change has resulted in an adjustment to the opening accumulated deficit and net debt of $1,163 million. The impact of this change to the annual deficit is not material to the province in 2016-17.

OTHER

1. **How does the Treasury Board Secretariat ensure transparency and accountability in financial reporting?**

   The province continues to strengthen its financial management, ensure clear and consistent accounting practices, enhance oversight and accountability and provide better data and information to the public through more channels.

   The Office of the Provincial Controller Division (OPCD) plays a key role in ensuring this transparency and accountability in the province's financial reporting through its major functions, including:
   - Providing the Ontario Public Service (OPS) and Broader Public Sector with accounting and financial management policy and controllership advice;
   - Maintaining the Public Accounts and preparing the Annual Report and Consolidated Statements and the Public Sector Salary Disclosure;
   - Liaising with the Auditor General of Ontario, as well as other jurisdictions and the Chartered Professional Accountants of Ontario and Canada, on the development of public sector accounting standards;
   - Supporting the development of financial management and controllership capacity across the OPS; and,
   - Supporting the modernization of government by improving the efficiency, effectiveness, and integrity of its financial systems and processes.

   Treasury Board Secretariat (TBS) also works with the Ministry of Finance to help them prepare key documents like the Budget and the Fall Economic Statement.

   TBS does have a leadership role on some financial items like Public Accounts. But for other things, TBS is mostly in a support role.

   TBS collaborates with other senior level governments to assess the impact of proposed standards by the Public Sector Accounting Board and how specific transactions are reported within the accounting frameworks.

2. **Does the province direct organizations on what accounting standards to use or how to apply them?**

   OPCD to provide response.

Executive Compensation

1. **How can you justify the exorbitant salaries paid to Hydro One executives when families are struggling to pay their hydro bills?**

   The province remains committed to ensuring transparency and accountability in how broader public sector employers manage executive compensation.

   However, Hydro One is now a publicly traded company, and decisions regarding compensation are not made directly by the government.

   For further questions about executive compensation and oversight of specific organizations, please contact the ministry responsible.

2. **Why are Hydro One employees not captured by the Sunshine List? MPP Todd Smith is demanding that the government add Hydro One employees back onto the list. Will you do this?**

   Only public sector employees are included on the Sunshine List.

   As a publicly-traded entity, Hydro One is no longer required to report salaries or benefits earned after December 31, 2014 under the PSSDA.

   However, similar to the Ontario Securities Commission requirements, Hydro One must disclose the total compensation levels of the CEO, CFO and three other highest-paid executives of the corporation each year. This information is available to the public online. Top executive salaries are posted on SEDAR in the Management Information Circular.

   As an Ontario Business Corporation Act (OBCA) company subject to Canadian Securities law, Hydro One continues to comply with rigorous governance requirements that include:

   - Disclosure of board-approved annual financial statements along with quarterly updates;
   - CEO and CFO Certifications and Associated Controls certifying that there are no misrepresentations in the annual or quarterly materials;
   - Shareholders' meetings requirements and rules;
   - Disclosure requirements with respect to management circulars (including information about senior management, such as share ownership, any indebtedness to the company and any interest in material transactions) as well as compensation circulars (executive compensation disclosures including shares awarded, perks and incentives).

3. How do you justify the upward trend of public sector employees making more than $100,000 across all sectors in 2016?

Overall, for 2016 the total number of employees disclosed in the Compendium has increased by 6.6 per cent, to 123,410 employees in 2016, from 115,746 in 2015.

There are a number of reasons why employees may appear on the list, including:

- Employees who are progressing in their career to more challenging positions;
- Natural progression through salary ranges;
- Overtime payments;
- Retroactive pay awards;
- Performance payments; and,
- Payments that may be required on retirement (e.g. to reimburse the employee for unused vacation credits).

In addition, there were some pay-outs that impacted the 2016 salaries for reported employees, including an increase to base salaries for non-bargaining employees paid as a retroactive lump sum in December 2016 and an arbitration award which provided retroactive pay to members of the OPP.

The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was enacted in 1996 and has not been adjusted to keep up with inflation. If the salary threshold was adjusted for inflation, it would be $149,424 in today's dollars, reducing the number of employees included in the compendium by 84 per cent.

The province is committed to providing high-quality public services. The employees on this list:

- Deliver key government services;
- Make sure Ontario's food and water is safe;
- Make sure quality health care is available to every resident in the province;
- Make sure quality education is available to every child in the province;
- Make sure Ontario's roads and workplaces are safe; and,
- Bring jobs and investment into Ontario.

The province needs to pay salaries which are competitive in order to attract and retain top talent to deliver quality public services.

4. Who were the top 10 employees on the entire list and what were their salaries?

The top 10 earners all work largely in the health sector and in Ontario Power Generation. These people all hold executive positions:

- six of the 10 are in the health sector;
- two are from Ontario Power Generation;
- one is at the University of Toronto; and,
- one is at the Ontario Pension Board.

Questions about specific public sector organizations should be directed to the organization or ministry responsible.

5. We learned that the president of OPG, who was the top earner on the province's payroll in 2016, actually made $700,000 more than the sunshine list that was disclosed earlier this year. The difference was a bonus that showed up on OPG's books, but was suspiciously left off the government's books. How many more six-figure bonuses have been hidden from the people of Ontario?

The province continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

For 2016, the Treasury Board Secretariat as a ministry reported 996 employees compared to 875 in 2015, an increase of 13.8 per cent. The number increased primarily due to compensation changes, retirement pay-outs, severance payments, overtime and reorganizations.

The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was introduced in 1996. In today's money the threshold would be $149,424 and would include only 56 (5.6 per cent) of the 996 TBS employees on this year's list, and exclude 940 (94.4 per cent).

Questions about specific public sector organizations should be directed to the organization or ministry responsible.

6. **How does this government allow salaries that are completely excessive when the average Ontarian can't afford their hydro bill/is working twice as hard because of government cuts/is not part of this millionaire's club?**

   In the 2017 Budget, the government announced that it will continue to take a balanced approach to managing compensation. This approach will recognize the need to maintain a stable, flexible and high-performing public-sector workforce that supports the government's transformational priorities and at the same time ensures that public services continue to remain affordable.

   With recent efforts to reduce spending through compensation restraint and program transformation, the government has delivered on its commitment to balance the budget by 2017-18, while making program spending more sustainable and also protecting the important public services that Ontarians rely on.

   A balanced approach to compensation recognizes the need to attract and retain talented leaders and individuals to ensure a modern, sustainable, and inclusive Ontario Public Service, while also remaining competitive with public sector peers.

   To this end, the province will continue to provide effective and affordable public services, while recognizing the need for fair compensation.

Government Advertising

1. **What is the Treasury Board Secretariat's role in government advertising?**

   The Treasury Board Secretariat (TBS) is a ministry within the government responsible for leading efforts on accountability, openness and modernization. TBS' role is to deliver good government and public services in the most effective and efficient way possible, which includes providing advisory services and support to Treasury Board/Management Board of Cabinet.

   As a central agency, TBS has the overall policy responsibility for the Government Advertising Act.

   TBS administers the Bulk Media Buy Fund and processes transactions in accordance with the Financial Administration Act.

   The Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

TBS sets processes to guide ministries in how to account for and determine their spending. However, the actual expenditure that occurs remains the responsibility of the ministries that come to Treasury Board and Management Board of Cabinet for approval.

Stated another way, TBS sets the rules, but ultimately the spending is done by the ministries it oversees.

Questions about specific advertising campaigns should be directed to the appropriate ministry.

2. **As the ministry with oversight over government financials, how can you justify the increased expenditure on government advertising?**

   At this point, it is worth clarifying that TBS, as a ministry, does not undertake any advertising campaigns.

   TBS administers the Bulk Media Buy Fund and processes transactions in accordance with the Financial Administration Act.

   The Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

   TBS sets processes to guide ministries in how to account for and determine their spending. However, the actual expenditure that occurs remains the responsibility of the ministries that come to Treasury Board and Management Board of Cabinet for approval.

   On a year-over-year basis, the allocation of Bulk Media Buy has increased by $6M.

   In last year's Printed Estimates (2016-17), there was an in-year transfer of existing funds from individual ministry budgets into the Bulk Media Buy Fund. This consolidation increased the fund to about $50 million. This was done to drive efficiencies.

   The government is continuing that practice this year, in 2017-18. The change from last year's adjusted allocation to this year is $6 million, bringing the balance to $56.7 million.

This increase is attributed to anticipated increases associated with advertising and media costs in three key areas: commercialization of digital platforms, expanded translations and accessibility.

1. With regards to the **commercialization of digital platforms**:
    - The advertising landscape has changed, and the province needs to ensure that its messages reach people in a way that is relevant and accessible to them. Part of the Bulk Media Buy increase is to allow the government to respond to the tools Ontarians are accessing in the digital sphere, including search engine advertising on Google, promoted tweets on Twitter, short advertisements on YouTube, and banner ads on multicultural news websites. For example, the promotion of Ontario's Student Assistance Program campaign included two distinct creative concepts, one aimed at parents for TV and digital and another aimed directly at youth/students on a multitude of digital channels.

2. The second area of increase is due to **expanded translations** for government advertising campaigns:
    - The province continues to work to ensure that campaigns are offered in the languages that are accessible to the people of Ontario. This not only includes expanded translations to reach French-speaking Ontarians, but also Indigenous languages, and others that reflect the multiculturalism in this province, such as Tagalog, Punjabi, Cantonese, Arabic, Portuguese, Polish and many others.

3. The third area reflected in the Bulk Media Buy increase is related to **ensuring compliance with requirements of the Accessibility for Ontarians with Disabilities Act**, or AODA:
    - When the government communicates about important policy changes or what programs and services are available – like vaccinations or new post-secondary programs – it's important that information is accessible to all Ontarians. When we talk about accessibility we mean for example ensure things like closed captioning. The province continues to work to ensure that government advertisements are in compliance with the AODA requirements, which aim to identify, remove, and prevent barriers for people with disabilities.

2. How can you justify spending $5.5 million on self-congratulatory advertising for Ontario's Fair Hydro Plan?

Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

Ontario needs government advertising that is appropriate, reasonable and effective because the public has a right to know how public money is being spent, and why the government is bringing forward policy changes.

At this time, I would like to clarify that the Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

For further questions about specific advertisements or advertising campaigns, please contact the ministry responsible.

3. **For the Hydro Bill partisan inserts – the Auditor General points out that "addressed mail" is non-reviewable (i.e., something was sent to a household by name) as compared to bulk mail which is reviewable. Will you continue to overlook this loophole so that public money can be used to send partisan messages directly to Ontarians?**

   Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

   This legislation was introduced in 2004 to prevent government use of taxpayer dollars for partisan advertising.

   Ministries still abide by the principles of the Government Advertising Act in all paid advertising, whether it goes to the Office of the Auditor General or not.

SCENARIO QUESTIONS

Speculation

1. **What do you think the intentions of the government were when they…**

   As you can appreciate, as a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   As a public servant, it is my role to provide my best, objective advice to support decision-making.

2. **What do you think the Auditor General will do…**

   As you can appreciate, it would be inappropriate for me to speculate on how the Auditor General may issue a future opinion.

3. **Other requests for speculation…**

   I'm not able to comment on something that may or may not happen.

   I'm happy to speak to the contents of chapter two of the Auditor General's report.

Cabinet Confidential

1. **Can you tell us about the advice you provided to the government…**

   I believe this may be considered confidential advice provided to Cabinet. However, I will look into it and make every effort to get information back to the Committee.

Confidential

1. **Can you tell us about the advice you provided to your minister…**

   I believe this matter could be considered confidential advice provided. However, we will look into this question, and make every effort to get the Committee as much information as we can.

Insisting a Specific Official Answer

1. **I do not want [____] to answer, I want to hear the response from you.**

   I am happy to provide a response to the question in my role as a public servant for the Treasury Board Secretariat.

   [Provide response as within your position's scope.]

   I cannot speak to the specific point you are raising, and as mentioned, [____] would be more appropriate to respond.

   What I can tell you is [____]

Insisting on Commitment

1. **Can you give us an exact figure on…**

   I want to be absolutely precise and specific, so I will need to get back to you with the exact number.

Politicization

1. **Why did the government make [____] decision?**

   As a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   It is our role to provide our best, objective advice to support government decision-making.

Comparison between IESO and the eight other ISO entities in North America (Based on ISO entities' 2015 financial statements)

	IESO	AESO	ISO New England	NYISO	MISO	PJM	CAISO	ERCOT	Southwest Power Pool
Location	Ontario	Alberta	US	US	US	US	US	US	US
Accounting framework	PSAS	IFRS (transitioned in 2015)	US GAAP	US GAAP	US GAAP	US GAAP	GASB	US GAAP	US GAAP
Auditors	KPMG	EY	KPMG	KPMG	EY	PWC	PWC	Baker Tilly	BKD
Type of organization	Not-for-profit	Not-for-profit	Not-for-profit	Not-for-profit	Not-for-profit	LLC, non-stock company	Not-for-profit	Not-for-profit	Not-for-profit
Subject to income tax	No	No	No	No	No	Yes	No	No	No
Capital structure	No share capital, accumulated deficit of $97m	No share capital and no equity	No share capital and no equity	No share capital and no equity	No share capital and no equity	Paid in capital of $1m and retained earnings of $7m	No share capital, unrestricted net assets of $125m	No share capital, unrestricted net assets of $8m	No share capital, accumulated deficit of $129m
Governance	Independent board	Independent board	Independent board	Independent board	Independent board	Independent board and Members committee	Independent board	Independent board	Independent board
Regulator	OEB	AUB	FERC	FERC, NY State Dept. of Public Service Commission	FERC	FERC	FERC	Interstate (no FERC), PUCT	FERC issued an order - Fees are regulated by the Board of directors
Recognized regulatory balances	Recognized as from 2016	Assets: $25m; Liabilities: $1m	Assets: $65m; Liabilities: $2m	Assets: $14m; Liabilities: $15m	Assets: $24m; Liabilities: $-m	Assets: $12m; Liabilities: $7m	**Not recognized**	Recognized in 2014 a liability of $34m but nil in 2015	**Not recognized**