Communications Branch
Your Strategic Partner

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

TBS ENVIRONMENTAL SCAN AND ISSUES OVERVIEW

Contents

Environmental Scan

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- **Pension asset accounting**
- **Ontario Fair Hydro Plan (OFHP) Accounting**
- **Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)**
- **Pre-Election Report**
- **Province's debt burden**

Following the release of the Auditor General's Annual Report on December 6, 2017, TBS-related issues were referenced in 41 per cent of articles, including specifically the "accounting disputes" between the Auditor General and the government, spending on government advertising, and the Auditor General's commitment to audit the IESO's consolidated financial statements. In the House, there were eight questions related to TBS issues: 50 per cent were related to the IESO/OPG "inappropriate expenses"; 25 per cent were related to government advertising; and the remaining two questions focused on the balanced budget narrative and the Pre-Election Report.

Overall, the focus on Public Accounts specifically has been limited in the media and the House alike: between September and December 2017, there were 12 mentions of Public Accounts. 50 per cent of mentions referenced "accounting rules" or the alleged existence of "multiple sets of books". Following the tabling of Public Accounts 2016-17, media coverage was limited and 80 per cent of coverage was neutral in tone.

Media Scan

Auditor General 2017 Annual Report

- **Media Events – December 6, 2017**
  - **Auditor General**
    - Overall, TBS-related issues represented 28% of the Auditor General's remarks.
    - Media questions on TBS-related issues represented 28% of all questions asked (7 out of 25)– **including on the planned audit of IESO's financial statements, government numbers vs. AG numbers being used for the PC's platform, and concerns regarding pre-election reports.**

  - **Government Response**
    - Overall, TBS-related issues represented approximately 20% of the discussion.

- Media questions on TBS-related issues represented 20.8% of all questions asked (5 out of 24) – questions focused on government advertising and **on comments made by the Auditor General to "address significant issues without fear of push-back and reprisal."**

- There were five questions posed to Minister Sandals:
  - Three were on government advertising
  - One was on the government's **relationship with the Auditor General**

Q. Smith Cross: Minister Sandals, the auditor says it takes fortitude for her to address significant issues without fear of push-back and reprisal. **Has there been push-back and reprisal for the auditor general?**	Sandals: Absolutely not. I mean certainly at Treasury Board Secretariat, we work with her very closely. There are all sorts of projects that we've worked on together. For example, if you were to read through the fine print in the fall economic bill that's before the House right now, you would see that the first report she did on agency annual reports, we actually have in that legislation the follow up on all the recommendations that she made on that report back in 2015. **So my office does work with her quite closely.**

  - The last question was inaudible, but the answer referenced **Public Accounts**

Q. Smith Cross: (Inaudible)	Sandals: Well, I...you'll have to ask her that because I...that's that's not something I can speak to. I mean, I think it's clear that there are some issues where we have some **differences in accounting.** Those have been discussed, you know, extensively previously in public venues. A lot of you have written about pensions and fair hydro accounting and various issues. **So those are ongoing discussions that we have with the auditor.** I don't think there's any particularly new information in her chapter 2 on public accounts. **Those are issues that you are already all aware of previously, as were we**. Actually, the think that is really new and interesting about the public accounts isn't so much in the auditor's report, **as it was in the PC platform that came out, where the PCs seem to have adopted our accounting. They agree we have a balanced budget. They've used our pension accounting. They've assumed our accounting for the hydro sector.** And, in case you think I made this up, Kevin Page who is the former federal budget officer, who reviewed the Conservative platform, says that he believes that using the economic and fiscal assumptions from the Ontario fall economic statement is a reasonable starting point for costing an election platform. **So he's acknowledging the fact that our accounting, in the fall economic statement is, in fact, the accounting that has been adopted by the Conservative Party.**

- **PC Response**
  - Introductory remarks focused generally on waste and mismanagement.
  - Media questions on TBS-related issues represented 17% of all questions asked (2 out of 12) – **questions focused on the PC's use of the government's numbers in their "People's Guarantee" platform**

- **NDP Response**
  - TBS-related issues related to 8% of the third party leader's remarks, particularly on government advertising
  - No direct mention of TBS-led chapters, **however 38% of questions (3 out of 8) focused on IESO expenditures**

- **Initial Media Coverage**
  - There were approximately 17 stories focusing on the Auditor Generals' 2017 Annual Report
  - 41% of articles referenced TBS-related issues
  - Key themes related to TBS issues include: **"accounting disputes" between the AG and the government** – and the effect it has on the balanced budget narrative, spending on government advertising, and **the AG's statement that she will audit the IESO's financial statements.**

- **Recent Media Coverage** (December 2017 – January 2018) has focused on the following key themes:
  - **The government's relationship with the Auditor General**
  - **Pre-election report**
  - **Distrust of government numbers/"two sets of books"**

  Recent articles include:
  - Lorrie Goldstein: **"Clock ticking for Liberals as pre-election finance report deadline looms"** (Toronto Sun, December 16, 2017)

    - **Minister Sandals spokesperson quoted:** "A spokesperson for Treasury Board President Liz Sandals told the Sun in an email that **Sandals and Lysyk have, "spoken at length about the Pre-Election Report process, and agree that the past format and process won't work during the 2017 election cycle, given the proximity of the spring budget season to the early summer election date."**

      The email added: "In conversation with the Auditor, Minister Sandals has emphasized her commitment, and the commitment of our government, to openness and transparency. We will continue to work collaboratively with the

Office of the Auditor General to determine how we can best ensure that this commitment is fulfilled."

- Jim Warren: **"The role of auditor general is shifting in troubling ways"** (Toronto Sun, December 16, 2017)

    - "However, the role of the auditor general today has increasingly become one that embarrasses government and serves to point a finger of blame rather than show a new direction for the better. **This new role is actually further eroding trust in government and making matters worse.**

      We saw this trend alive and well last week in Ontario as provincial Auditor General Bonnie Lysyk released her annual report and held a media availability on Ontario Premier Kathleen Wynne's Liberal government.

      Lysyk identified some areas that the government must act and provided some useful information for the public. **But in some specific areas, she pushed the boundaries of what is an independent audit versus what should be kept in the political arena.**

      This continues a trend in Ontario that former ombudsman Andre Marin started when he took his role as an independent officer of the legislature and made it political. Marin was accused of crossing the boundary from independent officer of the legislature into partisan politics. When he eventually ran as a Progressive Conservative against the Liberal government he criticized, Marin lost."

- Lorrie Goldstein: **"Grit numbers don't add up; Independent financial officers say Wynne government's books can't be trusted"** (Ottawa Sun, December 17, 2017)

    - "Both the Auditor General and the Financial Accountability Office (FAO) say that despite claims by Wynne and Finance Minister Charles Sousa that the government's books are now balanced and will be for at least the next two years, **the reality is the Liberals are running multi-billion-dollar deficits that will only get bigger over time.**

      While the government predicted a balanced budget for the current 2017-18 fiscal year in its April 28 budget speech, FAO Chief Economist David West and Auditor General Bonnie Lysyk predict the actual deficit this year will be in the range of $4 billion to $4.5 billion."

Public Accounts

- **Media Coverage**
  - Media coverage was short-term (24-hours), with **80% of media coverage neutral in tone** (compared to 26% in 2016)
  - Government key messages were picked up 100% of the time
  - Balanced budget key messages were picked up in 60% of the coverage

- **Key Themes**
  - Top themes in the first 24 hours of media coverage of Public Accounts 2016-17:
    - **Disagreement between the government and auditor general**
      - "Lysyk disputes the government's figures and says "the statements were not prepared following Canadian Public Sector Accounting Standards." (Shawn Jeffords, "Ontario says 2016 deficit was $991 million, beating target by $3.3 billion," The Canadian Press, Sept. 7, 2017)
      - "Lysyk and the ministers have been volleying back and forth for a couple of years now over how to count assets on the government books." (David Reevely, "Ontario government's rosy financials grow in a bed of BS," Ottawa Citizen, Sept. 7, 2017)
      - **"Sandals maintains the government is following established accounting practices and people don't care about the on-going squabble."** (Shawn Jeffords, "Ontario says 2016 deficit was $991 million, beating target by $3.3 billion," The Canadian Press, Sept. 7, 2017)

    - **Ontario's fiscal position: government debt and deficit**
      - Canadian Press coverage focused on Minister Sandals' quote from the media event: "The public wants to know, are you managing your deficit?" she said. **"Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."** (Shawn Jeffords, "Ontario says 2016 deficit was $991 million, beating target by $3.3 billion," The Canadian Press, Sept. 7, 2017)
      - "Conservative finance critic Vic Fedeli says it is clear that the provincial debt is "out of control." He said in a statement Thursday that the Liberals are thumbing their nose at the legislature's independent experts and presenting their own version of the province's public accounts." Shawn Jeffords, "Ontario says 2016 deficit was $991M, auditor general says

government 'understating' deficit," The Canadian Press, Sept. 7, 2017)

- **The government's alleged continued dismissal of watchdogs**
  - "Auditor general Bonnie Lysyk said Thursday the government "significantly understated" its deficit - $1.4 billion in her view - while the Financial Accountability office this week called the Liberal plan to reduce the debt burden "unlikely."" (Christopher Reynolds, "Ontario's deficit drops to $1 billion, though fiscal watchdogs have a bone to pick," Queen's Park Briefing, Sept. 7, 2017)

Pre-Election Report

- **Media Coverage**
  - On December 17, 2017, the Toronto Sun published a column by Lorrie Goldstein, "Auditor General headed for a showdown with Wynne over financial vows Liberals made in 2004" focusing on the Pre-Election Report
  - On January 24, 2018, Minister Sousa was asked by Jessica Smith Cross (QP Briefing) about the plans for the Pre-Election Report. Minister Sousa signalled that plans were uncertain at this time: "What happens is, you produce a document then you provide the pre-election report. So I have to manage this concurrently. But again, we recognize the timing and the constraints that that brings. **So I have to find other ways** to ensure that full disclosure is given to her and the other legislative, to the FAO."

Hansard Scan

Auditor General 2017 Annual Report

Following the release of the Auditor General's 2017 Annual Report, there were eight questions in the House relating to TBS issues:

- 50% (4/8) were related to **OPG/IESO "inappropriate expenses"**
- 25% referenced the FAO - one on balanced budget, one on the **pre-election report**

On February 20, 2018, during Concurrence in Supply, MPP MacLeod referenced the Auditor General's annual value-for-money audits:

> "But one of the things that I would like to do as I conclude is to talk a little bit more about value-for-money audits in the province of Ontario and where we can find waste. We know, for example—**Speaker, as you know, I'm the Vice-Chair of the public accounts committee and I'm the Treasury Board critic, as well as the finance critic—that one of the things that we see each and every time that there is an auditor's report is, sometimes, billions in waste.**
>
> Before we left at Christmas, a few days before we left and recessed for the time being, the Auditor General came out—an independent officer of this Legislative

Assembly—and indicated to all of us that there was at least $1 billion in waste throughout the system that could be absorbed in other ways and in better spending in the province of Ontario for programs."

Public Accounts

Public Accounts were mentioned in the House at least 12 times between September and December 2017:

- 50% mention some form of "accounting rules" / two sets of books
- 42% (5/12) related to infrastructure spending
- 25% (3/12) mention FAO and AG together
- 25% regarding Fair Hydro Plan accounting
- One reference to pre-election finance report

Pre-Election Report

Most recently, MPP Vic Fedeli questioned Minister Charles Sousa in the House on **October 23 and December 12, 2017** as to when the government would be bringing the regulation forward confirming it will release a pre-election finance report and when they will be presenting the AG with a copy as per the *Fiscal Transparency and Accountability Act.* MPP Fedeli was critical of the government's transparency and questioned whether Ontarians could trust the government's numbers.

FOIs/OPQs

There is one FOI and one OPQ currently in progress with TBS related to Ontario Fair Hydro Plan accounting.

Overview	Key Issues	Key Dates	Next Steps
FOI Request TBS 2018-007 (Media) In October 2017, the Office of the Auditor General of Ontario published a report entitled The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money. In preparing the report, the Auditor General's office reviewed "emails and other documents" provided by a number of provincial departments, including the Treasury Board Secretariat. I request all documents provided by the Treasury Board Secretariat to the Auditor General's office in connection with that report.	**Ontario Fair Hydro Plan Accounting**	March 12, 2018	**Request also received by Ministry of Finance and Ministry of Energy.** TBD

OPQ #700 **MPP Vic Fedeli** Would the President of the Treasury Board state whether the government is in possession of an opinion from KPMG or E&Y on how the Fair Hydro Plan transaction should be recorded in the government's Consolidated Financial Statements, and further state precisely where they disagree with the Auditor General	**Ontario Fair Hydro Plan Accounting** **Relationship with the Auditor General** **Use of external advisors**	OPQ will be formally filed on February 20, 2018	In progress – **Products:** Response to OPQ. **Notes:** Draft will be sent first week of January 2018 to OPCD to draft response. OPQ will be formally filed on February 20, 2018 TBS is the only ministry to have received this OPQ. **Next Steps:** Develop and approve response

Other Considerations

- Stakeholder reports and commentaries (e.g. Ontario Chamber of Commerce Economic report; FAO report on Hydro One; Fraser Institute commentaries on fiscal situation)
- Third Quarter Ontario Finances
- Executive compensation (e.g. OPG & IESO)
- IESO/OPG "inappropriate expenses"
- IESO Audit Committee meeting
- OPG Financing of Regulatory Assets

Recent TBS SCOPA Appearances

November 15, 2017
2016 Annual Report, Auditor General
Consideration of chapter 5, Review of Government Advertising

May 31, 2017
2016 Annual Report, Auditor General
Consideration of section 4.03, Information and Information Technology General Controls

October 5, 2016
2015 Annual Report, Auditor General
Consideration of chapter 2, Public Accounts of the Province
- Report published on May 17, 2017

April 13, 2016
2015 Annual Report, Auditor General
Consideration of chapter 5, "Toward Better Accountability"

- Report published on December 5, 2016