SCOPA report on AG's Public Accounts Chapter from her 2017 annual report

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Good afternoon,
The Standing Committee on Public Accounts tabled its report on its review of Chapter 2 of the Auditor General's 2017 Annual Report, on Public Accounts.

Below is the section of the report summarizing the issues raised in the audit and before the committee, along with the recommendations. The Official Opposition has provided a dissenting report in appendix.

The Official Opposition noted the following recommendations that should have been approved for inclusion in the final report to address these issues, but are not, include:
- Requiring that all subordinate entities of the legislature whose financial statements impact the consolidated financial statement require approval from the Auditor General on the appointment of their auditor;
- Requiring that any subordinate body of the legislature that employs the same firm to both provide accounting advice and to be their auditor, seek approval to do so from the Auditor General, and;
- That the Office of the Controller for the Province of Ontario should provide copies of all terms of reference to the Auditor General's office when other ministries or government agencies engage private sector firms for accounting advice or opinions.

For Bullet #3, the committee adopted the recommendation without the words "other ministries or government agencies."

Please follow the links for each section:

- Issues raised in the audit and before the committee
- Recommendations
- Dissenting report

ISSUES RAISED IN THE AUDIT AND BEFORE THE COMMITTEE

A number of issues were raised in the audit and before the Committee. The Committee considers the issues below to be of particular importance.

The Treasury Board Secretariat (TBS) stated the Province's consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS). Treasury Board representatives told the Committee that public sector accounting standards are principle-based and not a prescriptive set of rules. Further, the Committee heard that the PSAS require the application of professional judgement. The Treasury Board said it works closely with the Office of the Auditor General on public accounts.

The Treasury Board said it made several accounting changes in 2016/17, including accounting for market accounts and adopting the rate-regulated accounting used by the Independent Electricity System Operator (IESO), and reporting pension assets for jointly sponsored pension plans. The Treasury Board stated that if professional accountants in the public service do not agree with the Auditor General, it is “not as simple as agreeing to accept the Auditor General’s interpretation.”

The Committee asked if the Treasury Board, Ministries, or the IESO sought the Auditor General’s advice prior to drafting the legislation for the Fair Hydro Plan. The Treasury Board and the IESO responded that the Auditor’s feedback was sought after the policy decision was made. The Treasury Board indicated that it equipped itself to execute the government’s preferred policy direction to the best of its abilities. The audit noted the government did not inform the Auditor’s Office of its engagements with external advisors until after the Office became aware that significant discussions were being held on matters related to the Fair Hydro Plan.

The Committee asked if the Treasury Board and the Ministries’ staff gave the Ministries and the Premier their best impartial advice regarding the Fair Hydro Plan and rate-regulated accounting. The Committee was told that it is the role of the public service to provide the best objective advice to the elected government and to comply with codes of professional conduct. The Ministry of Energy stated that their advice was given in accordance with the government’s policy direction to provide rate relief for Ontario consumers by shifting the costs of social programs from the rate base to the tax base.

The Committee asked why the IESO made the decision to include market assets in 2017 and not five years earlier. The IESO said it had previously considered making the change to rate-regulated accounting when the Ontario Power Authority (OPA) and the IESO merged. The Committee asked if the Ministry of Energy directed the IESO to start using rate-regulated accounting. The IESO responded that it was its own decision to adopt rate-regulated accounting. The Controller for the Province of Ontario noted earlier that she asked the IESO to consider whether or not rate-regulated accounting was appropriate accounting treatment when she first learnt that the IESO had a second set of market accounts that were not reflected in the IESO’s financial statements. The President and CEO of the IESO stated that rate-regulated accounting has the added advantage of giving better visibility to the $17 billion from market activity that happens on an annual basis, and is in line with six of eight independent system operators across North America that also use rate-regulated accounting.

The IESO told the Committee that its financial statements are the purview and ownership of the management of the IESO, and that the IESO’s policies are agreed to by their external advisors, KPMG. The Committee questioned if the IESO can have sole ownership and purview of its financial statements if it is a subordinate body to the Legislature. The Committee then asked if the Province’s agencies, boards, commissions and crown corporations are independent from the Auditor General’s considerations. The Ministry of Finance responded that these entities have their own governance and their own boards from which they need approval.

The IESO also indicated that PSAS neither explicitly permit nor prohibit the recognition, measurement, presentation, or disclosure of rate-regulated activities. The Auditor’s report stated that “the silence of Canadian PSAS on rate-regulated accounting means that rate-regulated accounting is not permitted.” As noted earlier, the Auditor’s report added, “This view is and has been supported by many public-sector accounting experts in Canada including Auditors General across Canada, private accounting firms, and others, such as the recently retired Director of the Public Sector Accounting Standards Board, who have extensive experience in developing and applying Canadian PSAS.”

The Committee pressed the IESO if it could follow the Auditor General’s second recommendation to remove Market Accounts. The IESO noted there is a “disagreement” between the IESO and Auditor General on which type of accounting treatment is most appropriate for the IESO. The IESO stated that rate-regulated accounting is the most appropriate way of representing its financials. The audit noted that the Market Accounts do not meet the criteria for recognition as assets and liabilities in the Province’s consolidated financial statements.

CONSOLIDATED LIST OF COMMITTEE RECOMMENDATION S

The Standing Committee on Public Accounts recommends that:

1. **Government accounting practices, and those of its agencies, that affect the consolidated financial statements of the Province, must be carried out in accordance with Canadian Public Sector Accounting Standards.**

2. **The Office of the Controller for the Province of Ontario should provide copies of all terms of reference to the Auditor General's Office when they engage private sector firms for accounting advice or opinions.**

APPENDIX – DISSENTING OPINION OF THE MEMBERS OF THE PROGRESSIVE CONSERVATIVE PARTY

Dissenting Opinion of the Members of the Progressive Conservative Party.

The inclusion of a dissenting opinion in a majority report at Public Accounts Committee is a rare occurrence, and is normally only pursued as a symptomatic response to a failure of one or more parties to abide by the generally accepted principles that guide the committee to work effectively and in a non-partisan fashion.

The first of these principles is a clear understanding of the Auditor General's role, and a deference to the impartiality of their office. A core tenant of the Public Accounts Committee is that its members recognize that the opinions and recommendations put forward by the Auditor General are independent and reputable. Proper consideration is meant to be given in response to the Auditor General's findings, and any conflicting conclusions by the committee need to concretely justified and discussed openly.

The second principle is one of constraining partisanship, a concept where in members of the committee are strong and secure in their ability to be non-partisan, and able to collaboratively construct solutions and recommendations.

If one or both of these principles is not respected, than the integrity of the committee, and its reports, come in to question.

In the case of this report, the committee has not addressed the Auditor General's concerns in a manner that could be at all considered effective, particularly in regard to the issues arising from the Government's use of external advisors and accounting firms when developing accounting and financial structures and positions. Concern was raised in the Auditor's report on how the activities of these external advisors were not brought to the attention of their office until that information was specifically requested. These issues were identified as being related to other significant concerns in the report, including with those involving the IESO and the inappropriate accounting of market account assets and liabilities.

Recommendations that should have been approved for inclusion in the final report to address these issues, but are not, include:

- Requiring that all subordinate entities of the legislature whose financial statements impact the consolidated financial statement require approval from the Auditor General on the appointment of their auditor;
- Requiring that any subordinate body of the legislature that employs the same firm

to both provide accounting advice and to be their auditor, seek approval to do so from the Auditor General, and;

- That the Office of the Controller for the Province of Ontario should provide copies of all terms of reference to the Auditor General's office when other ministries or government agencies engage private sector firms for accounting advice or opinions.

The implementation of effective recommendations such as these was frustrated by the government's lack of motivation or interest to engage in thoughtful discussion on these issues, which is contrary to the principles and objectives of the committee.

As such no other option was left but to officially state on the record, through a dissenting report, that due to partisanship throughout the committee process this report does not fulfil its responsibility to provide effective and non-partisan recommendations to the government.