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Ms. Bonnie Lysyk
Auditor General of Ontario
Office of the Auditor General of Ontario
20 Dundas Street West, Suite 1530
Toronto, Ontario M5G 2C2

October 3, 2016

Dear Ms. ~~Lysyk~~: Bonnie

Re: Finalizing 2015-16 Public Accounts

We would like to thank you for meeting with us last week and for the various conversations and email exchanges since that meeting as we work to finalize the 2015-16 Public Accounts. We appreciate the work of you and your staff to finalize the audit work on the Public Accounts, save for the issue discussed below.

As discussed at our in person meeting last week, we appreciate your interpretation of Public Sector Accounting Standards (PSAS) as it relates to the application of the standards to pension asset recognition for jointly sponsored pension plans. Unfortunately, we are not in agreement with that interpretation. As you are aware, the Province has applied consistent accounting treatment for these plans for the past 14 years and has consistently received unqualified audit opinions, without exception.

Based on our respective positions at this time, we believe that this particularly complex accounting matter would benefit from additional discussions, information and consideration prior to making an accounting change. However, we also need to balance the time needed to further consider the issue with the need for timely tabling of the Public Accounts to ensure transparency about the Province's financial position.

The President of the Treasury Board has notified the Legislature last week that there will be a delay in tabling Public Accounts with the Lieutenant-Governor-in Council past the September 27, 2016 deadline. A lengthy delay in tabling the Public Accounts is not in the public interest. The Province believes that it is imperative for the Public Accounts to be tabled as soon as possible this week.

To that end, the government has decided to use legislated accounting for the pension assets related to the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Pension Plan (OPSEUPP) for the 2015-16 Public Accounts. As we discussed at length at our meeting on September 27, and in subsequent conversations, the legislated accounting would result in the same valuation of the pension assets that you deem appropriate, and thus lead to the same fiscal results that you consider accurate for 2015-16.

We appreciate you proposing legislated accounting as a solution in our discussions with you during the evening of September 27th.

We have shared the regulation with you on September 28 that provides for the legislative accounting treatment. The regulation enables the public service to take responsibility for the preparation of the Public Accounts in accordance with both legislation and PSAS. In addition and as noted earlier, the resulting fiscal results are consistent with your interpretation of PSAS, thereby eliminating any confusion for the public with respect to the results for the year.

On September 29, 2016, we provided your office with the following documents:

- Consolidated Financial Statements;
- Financial Statement Discussion & Analysis and the remainder of the Annual Report; and
- Management letter of representation as agreed to in our telephone discussion with you on September 28, 2016.

Based on subsequent discussions with you and as well as email exchanges, we understand that you are of the view that the Consolidated Financial Statements and the balance of the Annual Report should not make reference to the use of legislation to explain the change in the accounting for pension assets related to the jointly sponsored pension plans. As you are aware, the use of legislation enables the public service to take responsibility for the preparation of the Public Accounts as being in accordance with legislation and PSAS, and, therefore, we believe it would be disingenuous to not disclose to the users the reason for the legislation. We have also communicated to you that the Province intends to continue to review the accounting treatment of pension assets related to jointly sponsored pension plans in the future. As you also know, the Public Sector Accounting Board (PSAB) has also formed a task force as part of its review of the retirement and post-employment benefits. Two of our advisors are members of that task force and we will work with PSAB to encourage additional clarity with respect to the intersection of the accounting for jointly sponsored pension plans and the application of the asset ceiling test.

As discussed in our conversation on September 30, the government has not referred to legislated accounting in the past because there was no difference between the legislation and the public service's interpretation of PSAB, however, this situation is different. The Province does not agree with your proposal to restate the prior year and treat that adjustment as the correction of an error, and in addition this would not be consistent with the regulation, which you have seen.

We understand from our recent discussions that you may decide not to issue an opinion on the Consolidated Financial Statements. We believe that together, we have a legislated responsibility to table Public Accounts, including an audit opinion on the consolidated financial statements, within the deadline imposed by legislation. We noted that you referenced professional standards as preventing you from issuing an opinion as a result of the use of legislation. In this regard, we would also point out that the Province's financial statements have noted that they were prepared in accordance with legislation and PSAS since 2011-12, including both years on which you have already signed a clean audit report.

We appreciate that resolution of this last issue has been difficult for all parties and in bringing it to a close, we are looking for your confirmation that you are prepared to issue an audit opinion on the financial statements and annual report submitted to you on September 29, 2016.

We appreciate you meeting with us and Ministers Sandals and Sousa today.

Scott Thompson
Deputy Minister
Ministry of Finance

Greg Orencsak
Deputy Minister, Treasury Board and Secretary to
Treasury Board/Management Board of Cabinet
Treasury Board Secretariat

c. The Honourable Charles Sousa, Minister of Finance
The Honourable Liz Sandals, President of the Treasury Board