DM HELEN ANGUS

INTRODUCTORY REMARKS

STRATEGIC APPROACH

- Emphasize the role of a public servant is to provide non-partisan advice that is rooted in evidence to government decision-makers.

- Recognize the Auditor General's role and reaffirm the government's commitment to working with the Office of the Auditor General.

- Emphasize that the province follows Public Sector Accounting Standards (PSAS) and seeks appropriate expert guidance to supplement its own resources on complex or emerging accounting and reporting matters

- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).

INTRODUCTION

- Good afternoon and thank you to the members of the Committee for inviting us to be here.
- My name is Helen Angus and I am the Deputy Minister of the Treasury Board Secretariat.
- Before we begin, I'd like to take a moment to introduce the Secretary of Cabinet, Steve Orsini, who is here with us today.
- Sitting beside me are my colleagues:
    - Scott Thompson, Deputy Minister of Finance, and
    - Serge Imbrogno, Deputy Minister of Energy.
- At your invitation, we also have representatives here today from the Ontario Financing Authority, Ontario Power Generation, and the Independent Electricity System Operator.
- We also have other ministry officials, who are here to answer questions and would be pleased to join us at the table as needed.
- We welcome this opportunity to appear before the Committee to provide information and answer your questions regarding the consideration of chapter two, Public Accounts of the Province, of the Auditor General's 2017 Annual Report.
- As you know, Ontario's Public Accounts present the government's consolidated financial statements and give Ontarians an overview of how the province's finances were managed over the last fiscal year as compared to the Budget.
- Producing Public Accounts requires teamwork and the collaboration of many stakeholders across Ontario's public sector.
- It is a complex undertaking and we're proud of the work that goes into producing this important accountability document.
- The Office of the Auditor General plays a critical role in auditing and reporting on the province's consolidated financial statements.

- This Committee, too, is an integral part of the process, playing an important role in providing legislative oversight and guidance.
- Within the Treasury Board Secretariat, the Office of the Provincial Controller Division, or OPCD, helps the province to ensure transparency and accountability in its financial reporting through preparing the Public Accounts.

ROLE OF THE PUBLIC SERVICE

- I would like to take a moment to speak specifically about the role of OPCD and that of the other ministry officials who appear before you today.
- As you know, we're members of the Ontario Public Service, or OPS, a professional, non-partisan body.
- Our role is to support and provide impartial advice to the government elected by the people of Ontario.
- As public servants, we carry out the decisions and policies of the elected government, and work to ensure that activities are conducted in an open, fair, and transparent manner.
- We fulfill our duties in accordance with the law, including the Public Service of Ontario Act, and in compliance with our Public Service Oath.
- Members of other professional associations, such as Chartered Professional Accountants employed by the OPS, are also required to comply with their professional codes of conduct.
- It is our role as public servants to continuously conduct our due diligence, apply professional and impartial judgment, and provide our best, objective advice to the elected government to support its decision-making.
- This includes completing our own 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 and advice to the table.

Evidence-based Decision Making

- A big part of our role as public servants is designing and delivering programs and policies that are both efficient and effective.
- We do this by focusing on evidence-based decision making, and TBS is at the leading edge of a new effort to systematically boost this capacity across the entire OPS.
- Evidence-based decision making uses the best available analytics, research and information on program results to guide decisions at all stages of the policy process.
- It identifies what works, highlights gaps where evidence of program effectiveness is lacking, enables policymakers to use evidence in budget and policy decisions, and relies on systems to monitor implementation and measure key outcomes, using the information to continually improve program performance.
- This approach is helping the government build a better understanding of how its programs are performing by using rigorous evidence to inform choices and lead change in critical public services.
- It just one example of how public servants provide objective advice to the elected government to support its decision-making.
- This same objective lens is applied when we prepare the government's financial statements.

PREPARATION OF PUBLIC ACCOUNTS

- The province's consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards, also referred to as PSAS.
- These standards are set by an independent standard-setting body in Canada focused specifically on the public sector – the Canadian Public Sector Accounting Board.
- These standards are used by all senior governments in the country, and support informed decision-making and accountability.

- It is important to highlight that Public Sector Accounting Standards are principle-based. They are not a set of specific prescriptive rules, and using them requires the application of professional judgment.
- Our professional staff exercise this judgment in applying the standards, and, as necessary, consult with external experts and advisors.
- Our professional staff 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.
- In fact, there is an ongoing collaborative interchange during the Public Accounts process.
- TBS officials work closely with the Office of the Auditor General to release Public Accounts and to make sure the lines of communication between both offices are open.
- Our collaboration is not limited to Public Accounts.
- Where feasible and appropriate, our Internal Audit function assists with efforts on Public Accounts, as well as upcoming work on the Auditor General's follow up processes.
- We continue to build a constructive relationship between both offices, and to make every effort to provide the Auditor General with the information she needs in a full and timely basis in order to support her work and comply with requirements under the Auditor General Act

2016-17 Accounting Changes

- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted a number of changes to further enhance accountability and transparency in its financial reporting.
- These changes include:
    - The presentation of third party revenues for hospitals, school boards and colleges. The Office of the Auditor General is supportive of this change.

- The adoption of International Financial Reporting Standards as the basis for accounting for energy sector government business enterprises, of which the Auditor General is also supportive.
- Accounting for market accounts by the Independent Electricity System Operator, also known as the IESO. The IESO is now recognizing its market accounts assets and liabilities in its financial results, and has adopted rate-regulated accounting.
- And finally, reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards, as well as the recommendations of the independent Pension Asset Expert Advisory Panel.

Open Data

- Transparency was also improved in terms of the presentation of the documents themselves.
- I would like to take a moment to mention the digital tools that were enhanced this past year, to help make the province's finances easier to understand, access, and use.
- These include:
  - Interactive data visualization tools that graphically present details on asset and expense information contained in volume one of Public Accounts;
  - Fully sortable data tables that summarize the financial statements from volume two, and the detailed scheduled payments from volume three; and
  - Downloadable open data sets that provide the five-year trend for government revenue by source, revenue by sector, and statement of operations.
- These data visualization tools help people to better understand the province's finances and are part of the commitment to creating an open and transparent government.

AUDITOR GENERAL ANNUAL REPORT

- Let's move to what we are here for today: consideration of chapter two, Public Accounts of the Province, of the Auditor General's 2017 Annual Report.
- As I mentioned, the Office of the Auditor General is an integral part of the Public Accounts process.
- In addition to the audit opinion, the Auditor's annual report provides a closer look at the province's finances and processes.
- In the 2017 Annual Report, the Office of the Auditor General makes ten recommendations regarding Public Accounts.
- The government has provided a summary of responses, including any next steps where applicable, in the Summary Status Table that was submitted to the Committee to support our appearance today.
- This table outlines the process and rationale as to why the government chose to either continue with, or adopt changes to accounting treatments.
- We're open to continue to discuss these recommendations and responses with the Office of the Auditor General, particularly regarding the interpretation and application of Public Sector Accounting Standards.
- As I mentioned earlier, it is the role of the public servant to provide our best, objective advice to the elected government, and to comply with codes of conduct, including for our CPAs, the CPA Ontario Code of Professional Conduct.
- This means that, if the professional accountants within the public service do not agree with the Office of the Auditor General, it is not as simple as just agreeing to accept the Auditor General's interpretation.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything, as is the case here.
- However I want to emphasize that we remain open to continuing the discussions with the Office of the Auditor General, in the hopes of achieving resolution.

MANAGEMENT RESPONSE

- Preparing Public Accounts is intensive, and the government has a great team of experts that lead this process every year.
- Putting this material together requires a lot of work on the part of many people.
- A key part of that is engaging stakeholders early and collaborating throughout the process.
- One of these crucial stakeholders is the Office of the Auditor General.
- During the last fiscal year, we worked closely with the Office of the Auditor General to release Public Accounts earlier, and to make sure the lines of communication between both offices were open.
- As I mentioned earlier, there was a regular dialogue with the Office of the Auditor General throughout the preparation of the 2016-17 Public Accounts.
- Throughout the process, there were regular meetings and touch points.
- These discussions were an opportunity seek the Auditor General's input early, and to ensure there were no barriers to information sharing.
- The government carefully reviewed the recommendations and provided detailed responses to the Auditor General for inclusion in her report in a timely fashion.
- I'd like to take this time to turn your attention to the Summary Status Table, which contains a summary of those responses.
- Because there are a number of subject matter experts here with us today, I will briefly speak to the government's responses, and point you to the appropriate expert should you need more information.
- We will make every effort to provide you with the information you request.
- If, for any reason, we're unable to answer your question here, we'll endeavour to follow up.

Pension Asset Accounting

- On the point of pension asset accounting: During 2016-17, the province's professional staff conducted additional research and analysis following the issuance of a qualified audit opinion from the Auditor General in 2015-16.

- It was determined that in applying Public Sector Accounting Standards, no valuation allowance was required this past year on either of the jointly sponsored pension plans in question, the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan. We will continue to evaluate the need for a valuation allowance on an annual basis, taking into consideration:
  - Changes, if any, in the governance structures of the plans
  - Decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and
  - Changes, if any, in Public Sector Accounting Standards.

Use of External Advisors

- On the subject of external advisors – our responsibility as public servants is to get the best advice we can in order to help the government make well-informed decisions.
- Sometimes this means seeking independent expertise, for their unique professional skillsets and perspectives.
- It's not unusual for ministries to seek third-party advice on complex matters.
- For example, looking to lawyers for a legal opinion on new legislation.
- This is not different in the world of accounting.
- The Treasury Board Secretariat uses external expertise for accounting and financial reporting matters to supplement our own resources, particularly on complex or emerging accounting and reporting matters.
- As I mentioned earlier, this is part of our role as public servants in conducting due diligence and providing our best, objective advice to the government.
- I would like to emphasize that external advisors are used to *supplement* our own internal analysis.
- Where required by the CPA Ontario Code of Professional Conduct, our staff have, and will continue to advise the Office of the Auditor General, of external advisor involvement.
- We're committed to proactively working with the Office of the Auditor General.

Arm's Length Trusts

- With regards to the Annual Report's recommendation on Arm's Length Trusts – we will continue to assess the most appropriate vehicle for meeting policy objectives, which include appropriate oversight and ensuring good value for money with respect to how transfer payments are spent.
- If you have any questions about **Pension Asset Accounting, Use of External Advisors, and Arm's Length Trusts, our TBS representatives** who are here today would be happy to provide further information.

Fair Hydro Plan Accounting

- Shifting to accounting for the Ontario Fair Hydro Plan, I would like to re-iterate that the province has, and will continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

"Legislated Accounting"

- Regarding legislation and accounting treatments – the province will continue to prepare its financial statements in accordance with Public Sector Accounting Standards.
- Legislation was used to prescribe accounting that did not align with Public Sector Accounting Standards once, for the 2015-16 Public Accounts.
- At that time, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets to reflect an accounting interpretation consistent with the Office of the Auditor General's, in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign the Statement of Responsibility for the 2015-16 Public Accounts..
- In the context of the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in the legislation that prescribe the accounting treatment that the province must follow.
- We have **Deputy Imbrogno and representatives from the Ministry of Energy** here who would be pleased to provide additional context and information on the **Fair Hydro Plan.**

IESO Accounting

- With regards to IESO accounting: like the Province, the IESO prepares its financial statements in accordance with PSAS.
- We have **representatives from IESO** here today who would be pleased to provide the Committee with more details about why they opted to make **accounting changes on their 2016 financial statements**.

Earlier Finalization of Financial Statements

- On the point of earlier finalization of the province's consolidated financial statements, I am pleased to say that planning has already begun between the Office of the Provincial Controller and the Office of the Auditor General for the 2017-18 fiscal year.
- The Office of Economic Policy has also been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.
- We will continue to collaborate in order to support the timely and transparent delivery of Public Accounts.

Province's Debt

- Moving to the recommendation regarding the province's debt, I have my colleague **Deputy Minister of Finance, Scott Thompson**, here beside me.
- Deputy Thompson would be happy to provide more details about the **province's plan to address the debt**, should the Committee wish.
- He would also be able to answer any questions you may have on how we're working towards **finalizing our financial statements earlier**, as it relates to estimating personal and corporate income tax revenue.

Pre-Election Report

- And finally, speaking to the Pre-Election Report –

- On February 26, 2018, the government posted a regulation under the *Fiscal Transparency and Accountability Act, 2004,* that requires the government to issue a pre-election report on Ontario's finances.
- The purpose of the pre-election report is to outline the province's estimated revenues and expenses and other details of the fiscal plan before the start of the provincial election.
- The Ministry of Finance and Treasury Board Secretariat are responsible for releasing the report, which must include the following information, updated from the most recent fiscal plan:
    - The macroeconomic forecasts and assumptions that were used to prepare the fiscal plan and any significant differences from those forecasts and assumptions;
    - An estimate of Ontario's revenues and expenses, including estimates of the major components of those revenues and expenses;
    - Details of the reserve; and
    - Information about the ratio of provincial debt to Ontario's gross domestic product.
- The government intends to release the pre-election report concurrently with the 2018 Budget.
- Both the 2018 Budget and pre-election report will be available to the Office of the Auditor General for review in the coming weeks.
- Either Deputy Thompson or I would be pleased to answer questions regarding the report.

Conclusion

- In summary, I want to emphasize that we, as public servants, remain committed to following Public Sector Accounting Standards, and providing high-quality financial reporting for the province.

- We exercise our due diligence, and, where necessary, look to other accounting frameworks, external expert analysis to supplement our own, and to other government jurisdictions.
- As public servants, it is our role to provide our best, objective advice to support government decision making.
- We are pleased to provide explanations in response to questions regarding policy matters.
- Finally, as professionals, and as public servants, we respect the Office of the Auditor General and the legislature, and we are committed to continuing to work together constructively.
- I want to thank the Committee for your time, and we'd be pleased to answer your questions.
- Thank you.