Implementation Note: Overview of Key Accounting Issues

Commitment:
Order a line-by-line audit of government spending to bring an end to the culture of waste and mismanagement in government.
Source: For the People: A Plan for Ontario, May 2018

Context: Ontario prepares its financial statements in accordance with Public Sector Accounting Standards, issued by the Public Sector Accounting Board.

The audit opinion on the Province's 2016-17 consolidated financial statements included two qualifications by the Auditor General related to:

- Pension accounting; and
- Reporting the market accounts of the Independent Electricity System Operator.

Additionally, as a result of proposed reporting of the Global Adjustment Refinancing, (a component of the plan to reduce current electricity prices), the Auditor General has indicated that she may issue an adverse opinion on the 2017-18 financial statements.

Implementation Requirements: Resolution of these issues will require policy and/or legislative amendments to alter the program design and facilitate a reassessment of the accounting. Any changes that would result in updates to the accounting for the 2017-18 consolidated financial statements must be in effect prior to the release of the Public Accounts (on or before September 27th, 2018).

A review of key accounting issues, including pensions and electricity refinancing, can be included as part of the scope of the independent commission and completed as an early deliverable in July to inform public accounts.

Implementation Plan:

1. Net Pension Assets

The 2016-17 Public Accounts recognized a net pension asset from the net surplus for accounting purposes of the jointly-sponsored pension plans: Ontario Teachers' Pension Plan and the Ontario Public Service Employees Union Pension Plan. The accounting for these plans has been consistent since 2001, and was without qualification by the Auditor General until 2016.

Treasury Board Secretariat – the Office of the Provincial Controller is planning to have a discussion with the Office of the Auditor General to re-examine the Ontario Public Service Employees Union Pension Plan before the Public Accounts are finalized.

Resolution regarding Ontario Teachers' Pension Plan would require the government to commence dialogue with the Ontario Teachers' Federation on changes to the governance of the pension plan. Changes in governance could either focus on addressing concerns raised by the Auditor General in an effort to have the Auditor General agree with the current application, or could focus on reducing the Province's decision-making power with respect to contributions and benefits, which would remove the net pension asset from the financial statements and impact the annual deficit by the write-down of the asset each year.

2. Independent Electricity System Operator's Reporting of Market Accounts

The Independent Electricity System Operator prepares its financial statements in accordance with Public Sector Accounting Standards. It administers a $17 billion annual electricity market reflecting the amounts *due to* entities providing electricity to the market (e.g. power generators) and *due from* entities consuming electricity (e.g. local distribution companies on behalf of their consumers).

In 2016, the Independent Electricity System Operator changed the accounting for the market accounts, recognizing these amounts due from and due to the market participants as assets and liabilities respectively. A qualified opinion was issued by the Office of the Auditor General on the 2016-17 consolidated financial statements regarding the change in the Independent Electricity System Operator's accounting for the market accounts.

As part of a change to the program, accounting considerations to resolve the reporting of the market accounts include:

- the adoption of a provincial accounting policy to adjust the Independent Electricity System Operator's financial statements and remove the market accounts (and any rate-regulated) balances from the consolidated financial statements;
- the review of the accounting classification of the Independent Electricity System Operator; assessing if it can be classified as a Government Business Entity or a Trust Under Administration (reported under International Financial Reporting Standards), which would change the reporting of the Independent Electricity System Operator.

3. Global Adjustment Refinancing

The difference between the Province's accounting for the Global Adjustment Refinancing and the Auditor General's is based on differing opinions on the application of rate-regulated accounting under Public Sector Accounting Standards. When these standards are silent on an issue (as is the case here), professional judgment is applied in determining the appropriate financial statement presentation.

The following policy decisions would impact the accounting for the Global Adjustment Refinancing:

- amend *Ontario Fair Hydro Plan Act* to remove the debt recovery from future ratepayers through the Clean Energy Adjustment, thus providing a permanent rather than temporary reduction. The lack of a recovery mechanism would result in the impact of the reduction in electricity pricing from the Global Adjustment Refinancing being recorded as an increase to the annual deficit; and
- amend the terms of the trust agreements with the Financial Services Manager of the Fair Hydro Plan Trust (currently Ontario Power Generation) to bring the Fair Hydro Plan Trust under the direct control of the Province requiring the debt to be consolidated as a government organization.

Both of these changes would be required to eliminate the accounting dispute.