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Sessional Paper No. Q-17

17: Mr. Fedeli, MPP - 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. (Tabled March 21, 2018)

Response

The Treasury Board Secretariat works closely with the Auditor General of Ontario on a wide variety of issues on a regular basis, and her oversight and insight is welcomed both during our regular interactions and during the release of special reports.

There is one issue in dispute when it comes to the Fair Hydro Plan, and it is a matter of technical accounting differences – the use of rate-regulated accounting by the Independent Electricity System Operator (IESO). Many other jurisdictions in North America including: Alberta, New York, New England, Texas and more, use rate-regulated accounting, which is something that is well understood in the electricity sector.The government's opinions on this matter is well supported by internal and external experts. In this case, our government has presented the provinces finances fairly and accurately and in accordance with the Canadian Public Sector Accounting Standards (PSAS).

The government, including IESO and Ontario Power Generation (OPG), engaged external accounting advisors to assist in the review of appropriate accounting standards, specifically the application of rate regulated accounting. The financial statements of the Province are prepared in accordance with PSAS, which are silent on this matter. Where PSAS are silent, standard accounting practice dictates that an entity should consult other accounting frameworks to determine the appropriate accounting for the transaction. That is exactly what we did, we turned to the U.S. Generally Accepted Accounting Principle's framework. The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.

The policies and implementation process for the Fair Hydro Plan were designed and extensively reviewed by:

- Senior staff from the Ministry of Energy, Ministry of Finance, Treasury Board Secretariat, Office of the Provincial Controller and Cabinet Office.
- The Ontario Financial Authority, the Independent Electricity System Operator, and Ontario Power Generation.
- And third-party experts from firms such as KPMG, E&Y, and Deloitte.

The financial statements of IESO are audited by KPMG, a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. The 2017 IESO Annual Report, which is available on IESO's website, includes KPMG's audit opinion stating that the financial statements of IESO are presented fairly, in all material respects, and in accordance with Canadian Public Sector Accounting Standards.

The financial statements of the OPG are audited by EY, a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with accounting standards generally accepted in the United States (US GAAP). The 2017 Financial Results of OPG, which are available on OPG's website, includes EY's audit opinion stating that the financial statements of OPG are presented fairly, in all material respect, and in accordance with US GAAP.

The professional accounting staff of the Office of the Provincial Controller agree with the treatment of the Fair Hydro Plan as reported in the audited financial statements of both IESO and OPG for the year ended December 31, 2017, and will provide its analysis to the Office of the Auditor General outlining the supporting rationale for the accounting treatment in connection with the audit of the 2017-18 Public Accounts.

Our government presents the provinces finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards. And we will continue to do so.

Eleanor McMahon
President of the Treasury Board
Minister Responsible for Digital Government