TBS Communications Branch
Your Strategic Partner

Draft: November 20, 2017

Auditor General's 2017 Annual Report

Questions & Answers on
CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE

Contents

Key Messages

- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.
- The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- The province will continue to prepare financial statements in accordance with Canadian Public Sector Accounting Standards that support transparency and accountability in reporting to the public, the legislature, and other users.
- The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.
- The government will continue to build on its track record of responsible fiscal management.

AG Recommendation #1: Pension Asset Accounting

1. **How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?**

   The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

   The Office of the Auditor General communicated its interpretation of PSAS requiring a full valuation allowance on the province's two jointly sponsored pension plans in September 2016.

   At that time, the government passed a time-limited regulation on the accounting treatment of for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from the Treasury Board

Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts.

During the 2016-17 year, the province's professional accounting staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans.

This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel, established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans.

  The panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017, which supported the government's position that a valuation is not required for these two plans under PSAS.

  Two key findings of the panel were:

  1) There is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record and asset, as the existing agreements in place between the parties support the recognition of an expected benefit; and

  2) Unilateral control is not required for asset recognition. Joint control with each party having the ability to deny the actions of the other sponsor provides evidence of shared control, supporting recognition of an asset.

- An opinion from Deloitte LLP on aspects of the province's accounting as of March 31, 2016 for the Ontario Teacher's Pension Plan (OTPP). The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under PSAS, even though the province did not have a unilateral right to reduce contributions. (The opinion did not address the value at which the asset should be recorded.)

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or Ontario Public Sector Employee's Union Pension Plan (OPSEUPP) as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

After significant deliberation, including consideration of the recommendations of the panel, Deloitte LLP and EY, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and prepared in accordance with PSAS for pension asset accounting. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.

The government is open to continue to discuss the matter in hopes of resolving this matter.

AG Recommendation #2: Independent Electricity System Operator (IESO) Market Accounts

2. **How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?**

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

   The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

   This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

3. **The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?**

The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of PSAS for net pension assets and recognition of market accounts.

Last year there was a disagreement among the province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the province.

The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

4. **The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private**

sector this would be unacceptable. How do you figure you can get away with this?

The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.

PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consults with external experts and advisors. They 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.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

AG Recommendation #3: Ontario Fair Hydro Plan Accounting

5. **Will the government follow Public Sector Accounting Standards (PSAS) for Ontario's Fair Hydro Plan?**

The province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the statndards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

6. Will the government follow the accounting standards set by historical precedent, as cited by the Auditor General?

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

Commented [CV1]: To confirm this is consistent with the response provided to the AG in connection with her special report – experts on this topic are in OP

Commented [AT2]: Program area to confirm whether this is the historical precedent the AG is referring to in the 2017 Annual Report

Commented [HS(3]: This one is still outstanding.

For example, the OEFC stranded debt had already been incurred when the restructuring took place.

In the case of OFHP, the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the CEA.

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

The OFHP Global Adjustment deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

7. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

While the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

On the point of "true financial impact":

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the province's finances fairly, accurately and in accordance with PSAS.

On the point of "a financing structure that is the least costly for Ontarians":

The OFHP financing structure has been designed to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.

Ontario Power Generation (OPG) is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

The province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

Commented [AT4]: With MOF for OFA approval

8. **The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?**

In developing Ontario's Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They 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.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

AG Recommendation #4: External Advisors

9. **Will the government provide copies of contracts it enters into for accounting advice to the Auditor General?**

   The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

   The government is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.

10. **Will the government build into its contracts with external advisors a requirement to notify the Auditor General of their engagement?**

    When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.

11. **Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.**

    The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

    The government's use of external expertise for accounting and financial reporting matters is a normal course of business and supplements its own resources on complex or emerging accounting and reporting matters.

    External advisors are generally engaged to provide advice and guidance to supplement internal analysis.

12. **It seems like you use consultants to blindside the Auditor General, when it looks like she may disagree with your accounting methods. Why don't you let the Auditor General know when you're using external advisors for something that impacts her Office's ability to do their job?**

    The government's use of external expertise for accounting and financial reporting matters is a normal business practice and supplements its own resources on complex or emerging accounting and reporting matters.

    External advisors are generally engaged to provide advice and guidance to supplement internal analysis. The professional staff takes responsibility for the final decisions that are made with respect to the application of PSAS to the governments transactions.

The government is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.

AG Recommendation #5: Independent Electricity System Operator (IESO) Market Accounts and Rate-Regulated Accounting

13. Does the Independent Electricity System Operator (IESO) use Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements?

Yes. The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS).

The IESO's financial statements are audited by 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 IESO received an unqualified, or clean, audit opinion on its 2016 financial statements.

14. Why is the IESO now including market accounts on its financial statements? Does this go against PSAS?

The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by 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.

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion.
This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015)

in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

15. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

Canadian Public Sector Accounting Standards (PSAS) are silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America, including the:

- Alberta Electric System Operator (AESO)
- ISO New England
- New York Independent System Operator (NYISO)
- Midcontinent Independent System Operator (MISO)

- PJM Interconnection LLC and,
- Electric Reliability Council of Texas (ERCOT).

16. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

AG Recommendation #6: Legislated Accounting

17. Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?

The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

AG Recommendation #7: Province's Debt Burden

18. **Will the government develop a long-term total-debt reduction plan linked to its target of reducing debt-to-GDP ratio to its pre-recession level of 27 per cent? Will you be making this plan public?**

    The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected for 2029-30, together with an interim target of 35% by 2023-24.

    From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments.

    The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.

    Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended indicator by the Public Sector Accounting Board, will gradually diminish due to the province's GDP increasing at a faster rate than net debt.

    This will allow the government to continue to move towards its 27 per cent net debt-to-GDP target. The ratio has already commenced declining, falling to 37.3 per cent in 2017-18 from its 2014-15 peak of 39.3 per cent.

19. How can your debt reduction plan be trusted if you're not using proper accounting for pension assets and the Fair Hydro Plan?

The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.

PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.

PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consults with external experts and advisors. They 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.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

AG Recommendation #8: Earlier Finalization of Financial Statements

20. Will the government improve its planning across stakeholders so that the province's consolidated financial statements are finalized earlier?

The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts.

21. What will the government do to figure out estimation risks associated with corporations tax and personal income tax revenues earlier?

The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

The province will work with the Canada Revenue Agency (CRA) on the Auditor General's recommendation, as reporting personal and corporate taxation revenues is highly dependent on the information the CRA s.

AG Recommendation #9: Arm's Length Trusts

22. Will the government avoid establishing arm's length trusts in order to record an expense in its financial statements before it is necessary, given that it loses the ability to ensure funds are provided to the appropriate beneficiaries?

The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.

Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arm's length and is able to demonstrate proper oversight.

A trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the province to enter into agreements with each distributor.

The trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred, as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

AG Recommendation #10: Pre-Election Report on Ontario's Finances

23. When will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.