



Office of the Provincial Controller Division

Accounting Updates

Briefing for the Secretary of Cabinet

October 6, 2017

Topics for Discussion



1. Accounting Issues – 2016-17 Public Accounts
2. Transit Infrastructure
3. Accounting Risks – 2017-18
4. PwC – Internal Control

1. ACCOUNTING ISSUES – 2016-17 PUBLIC ACCOUNTS

Accounting Issues – Update



2016-17 Public Accounts

- Highlights of AG Audit Findings Report
 - Two qualifications in the audit opinion
 - Pension assets (\$12.4 billion increase to net debt and accumulated deficit; \$1.4 billion increase to deficit → \$2.4 billion per AG)
 - » Pension Panel identified as a “non-authoritative” source on PSAS application
 - IESO reporting of \$1.6 billion market account assets and liabilities
 - » no impact to annual deficit, net debt or accumulated deficit
 - Other matters paragraph in opinion – rate-regulated accounting not permitted under PSAS; future material misstatement resulting from “legislated accounting”; FSD&A does not reflect pension accounting or market accounts appropriately
 - Statement that combination of pension accounting, market accounts and rate regulated accounting may result in an adverse opinion

Accounting Issues – Update



2016-17 Public Accounts (continued)

- Highlights of AG Audit Findings Report
 - Accounting for Fair Hydro Plan
 - Alleges management ignored requests for information; letter to DM Angus referenced
 - “disconcerting” that accounting is legislated under *Fair Hydro Act*
 - Identifies that IESO adoption of rate-regulated accounting is directly related
 - Indicates that accounting “opinion shopping” from private-sector firms not appropriate
 - Summary of unadjusted differences (SUDs)
 - 15 items totaling \$1.6 billion (including pensions) increase to deficit
 - » \$191 million (excluding pension) increase to deficit – in-year only
 - » \$136 million (excluding pension) decrease to deficit – including correction of prior year misstatements
 - Excluding pensions, SUDs within auditor performance materiality of \$440 million
 - » Reference to performance materiality new this year; prior year only referenced planning materiality (set at \$670M this year)

Accounting Issues – Update

2016-17 Summary of Unadjusted Differences



Issue – Incr/(decr) to in-year deficit	Description
Unadjusted differences to which there was no dispute – (\$10 million)	- Subsequent year-end tax receipts (EHT, Gas, Tobacco, Fuel, etc.) – (\$104 million) - Ontario Rebate for Electricity Consumers (OREC) over-accrual – (\$29 million) - Ontario Works – late claims not accrued - \$23 million - Drug rebate fiscalization – cutoff error (calendar versus fiscal year) - \$100 million - Consolidation of CCACs/CAS' – opening balance sheet impact (no deficit impact)
Unadjusted differences to which there was a disagreement between the AG and government accountants: \$201 million	
• Corporate tax fiscalization - \$94 million	• AG suggests a Q4 estimate based on 25% of the calendar year • OEP supports using 33% based on analysis; varying corporate tax year-end
• Algonquin land claim - \$200 million	• AG established probability of settlement based on a sample of past claims; assessed reasonable estimate is determinable from documents (Agreement in principle) • OPCD cited other jurisdiction (BC) accounting treatment; ratification is not determinable; reasonable estimate is not determinable (despite federal accrual)
• Remedy – (\$160 million)	• AG determined that lowest of three scenarios presented be accepted (accrual too high) • EDU supports the current remedy accrual pending final ruling given ETFO is returning to course – may have impacts on other settlements
• Grassy Narrows - \$85 million	• AG cites minister's June statement confirming responsibility at the fiscal year end • MOECC/OPCD view is that government did not accept responsibility at the year-end; the June announcement was a 2017-18 event
• Early Years / Child Care program - \$58 million	• AG cites Mandate letter and Budget announcements as establishing an obligation for a program that operates under a TP agreement on a calendar year with municipalities • EDU provides support that program enhancements don't come into effect until funding is approved and TP agreements are signed (July 2017)
• Employee Life and Health Trusts – (\$52 million)	• AG indicates that as some trusts were not established at year end, expense is disallowed • EDU emphasizes that the trust is a vehicle to satisfy an obligation to employees which existed at the year-end based on the agreement signed between EDU and the unions
• IESO rate-regulated accounting – (\$24 million)	• AG indicates that rate-regulated accounting is not permitted under PSAS • IESO received an unqualified opinion for use of rate-regulated accounting under PSAS
• Balance sheet classification of Ontario held debt	• AG suggests that amounts held as part of the OFA's cash management strategy results in an overstatement in assets and liabilities – no deficit or net debt impact -- \$8.8 billion

2. TRANSIT INFRASTRUCTURE

Status of Accounting

- Agreement in Principle (AIP) with the City of Toronto (“City”) in final stages (expecting to be signed in the near term)
- The determination of ownership of the various transit infrastructure projects is based upon where the risks and rewards associated with ownership reside
- Characteristics of an asset are:
 - Future economic benefit will result
 - Full control and access to the benefit
 - Event has already occurred
- For each transit project, access and control will be the main consideration to establish eligibility to capitalize an asset; the notion of control implies that benefits and risks associated with ownership are present (e.g.
- Under the AIP, all GO Regional Express Rail (RER) projects are deemed to be controlled by Metrolinx; LRT extension projects will be owned by the Province while operated by the TTC
 - City contributions relating to capital and incremental operating and maintenance costs; lifecycle costs funded by the Province
 - Includes Eglinton LRT extension and SmartTrack stations on GO RER
- Provincial contributions for the Scarborough subway extension do not currently reflect any risk transfer to Metrolinx; all associated ownership risks will reside with the City

3. OTHER ACCOUNTING ISSUES

Accounting Risks – 2017-18



- Hydro One – given the reduced ownership position, accounting for Hydro One as a government business organization is currently being assessed by KPMG
- Ontario Power Generation – as part of the translation from US GAAP to IFRS for government reporting, the discount rates used under IFRS result in an adjustment (increased expense) relating to asset retirement obligations reported
- Contingent liabilities – OPCD will work with MAG to review the accounting requirements under PS3300 (Contingent Liabilities) for assessment of litigations, including land settlement
- Currently engaged with MOECC re: English / Wabagoon River (Grassy Narrows) and the establishment of an \$85M fund and the mechanism by which that financial structure will be reported in the fiscal plan

WATCHLIST

- Waterfront Toronto – validating the appropriateness of the current 3-way proportionate consolidation
- Ontario Child Benefit – MOF/MCYS determining a method of measuring outstanding unclaimed benefits and the required adjustment to a portion of the expired accrued liability that will result in a recovery

4. OPCD INTERNAL CONTROL REVIEW

Purpose



To provide an update on the work currently underway to enhance OPCD internal control systems in support of the production of Public Accounts.