USE OF LEGISLATED ACCOUNTING STANDARDS (Past Use)

Question - Why has the Province found it necessary to deviate from Public Sector Accounting Standards (PSAB) for its own financial statements and for controlled entities?

SUGGESTED RESPONSE

- **Although the Auditor General's report referring to the 2014-15 Public Accounts includes references to provincial legislation, the measurement and reporting of the province's results had continued to be in accordance with Public Sector Accounting Standards until 2015-16.**

- **Our decisions to use legislation were always made in the public interest. Our goal has always been to ensure that our financial reporting supports transparency and accountably of the government and controlled entities' results.**

- **The Province works closely with the Auditor General's Office to assess standards and determine the most appropriate interpretation and application to the year's transactions so that the financial statements fairly reflect the results of the Province.**

- **The province has used regulation selectively when needed to clarify and confirm that accounting treatment for government organizations that is appropriate under PSAB to ensure consistency in application across the many organizations included in the Province's financial results.**

- **Legislation was not intended to override PSAB, but rather to ensure a clear understanding of how the province intended to account for the government's liability.**

- **However, over time understanding and practice does evolve in the application of accounting standards.**

- **In order to release the 2015-16 Public Accounts as soon as possible, the Province decided to use a regulation for the first time to facilitate an updated interpretation of the accounting standards to reflect the different view of the Auditor General, to provide the sufficient authority for the accounting until the province can either verify this interpretation or reject it.**

- **Using the regulation to produce the consolidated financial statements increased the Province's deficit by $1.5B compared to how the Province reported under unqualified audit opinions for the last 13 years.**

CURRENT STATUS

- **It is anticipated that the public accounts will be released within the next week.**

BACKGROUND

Although the Auditor General's report includes references to provincial legislation, the measurement and reporting of the province's results has continued to be in accordance with Public Sector Accounting Standards. The only legislated accounting that has ever impacted the Province's Public Accounts is the Investing in Ontario Act which stipulated accounting treatment which was in alignment with PSAB standards. The Act only applied to the 2008-09 Public Accounts. Otherwise, legislated accounting has never impacted the Province's Public Accounts either before or after that date.

In all other cases where we have used legislated accounting, our decisions were always made in the public interest. Our goal has always been to ensure that our financial reporting supports transparency and accountably of the government and controlled entities' results.

Furthermore, our direction has always been based on independently established, generally accepted accounting standards. For example, under the Investing in Ontario Act, the government's obligation to provide funding to municipalities was accounted for in accordance with PSAB, and the Act explicitly stated how the government was going to account for the transfers. The AG of the day confirmed that our accounting was in accordance with PSAB in his annual report.

Again, the legislation was not intended to override PSAB, but rather to ensure a clear understanding of how the province intended to account for the government's liability. Some of the changes reflect our desire to ensure consistency in accounting for similar transactions. As such, the government directed school boards and other controlled entities to follow accounting practices which mirror those of the Province related to accounting for capital transfers.

The province also directed Hydro One and OPG to follow US accounting standards at a time when these government business enterprises would have otherwise been required under PSAB standards to adopt international financial reporting standards (IFRS). This was done to mitigate risks related to uncertainty regarding the future of rate regulated accounting under International Financial Reporting Standards.

A number of other rate regulated entities in Canada also decided to adopt US GAAP at that time for this same reason. Both OPG and Hydro One are regulated based on US GAAP, which allows the regulator to rely upon the audited financial statements for regulatory submission purposes. User needs and public interest are both served by the direction given by the government for these entities to adopt US GAAP.

These limited instances of legislated accounting direction have been in the public interest and as noted earlier, do not impact the Province's consolidated financial results which are based on PSAB.

Prepared By:
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