USE OF LEGISLATED ACCOUNTING STANDARD in 2015-16

Question - Why did the government pass a regulation for 2015-16 to change the accounting for pensions?

<u>SUGGESTED RESPONSE</u>

- **The province is committed to accountability and transparency in financial reporting to the public.**

- **The Province reports under Public Sector Accounting Standards which are independently set by the Public Sector Accounting Board part of CPA Canada.**

- **The Province has been using the same accounting for pensions since XXXX and has received a clean audit opinion every year.**

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

- **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 was open to re-evaluate if the accounting remained the most appropriate for transparency and accountability.**

- **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.

- **In order to release 2015-16 Public Accounts to the public, it was decided to use a regulation to define the accounting for pensions for 2015-16 under the potentially new interpretation, while further evidence and analysis is performed to ensure that this treatment is appropriate under Public Sector Accounting Standards.**

- **Using the regulation to produce the consolidated financial statements increased the Province's deficit by $1.5B compared to how the Province would have reported under the past accounting practices.**

CURRENT STATUS

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

BACKGROUND

- Under the Financial Administration Act ("FAA") Treasury Board, subject to the approval of the LGIC, has the power to make regulations with regard to the accounting policies and practices used to prepare the Consolidated Financial Statements
- The government has used regulatory powers under the FAA in the past to direct the accounting for government organizations. These regulations were used to address uncertainty and risk related to how government organizations were to prepare their financial statements. Ultimately the regulation confirmed accounting that was acceptable under Public Sector Accounting Standards.
- Our current situation is somewhat similar. In applying principled based accounting standards there is a degree of professional judgement required. In the current situation, in accounting for pension plans jointly sponsored by the Province, included in the

Consolidated Financial Statements of the Province, the Province and the Auditor General have a different opinion on the application of the standards.

- The Province's position is that the asset balance (or plan surplus for accounting purposes) in Ontario Teachers' Pensions Plan (OTPP) and Ontario Public Service Employees Union Pension Plan (OPSEUPP) are an asset to the province and it is suitable to reflect them in the financial results. The Office of the Auditor General disagrees with this position and is requesting a valuation allowance to reduce the asset value which would result in an in-year expense.
- In order to produce the Public Accounts with accounting that supports the Auditor General's view for jointly sponsored pension plans, it is recommended to clarify the accounting through a regulation.
- The regulation will define the accounting for the consolidated financial statements in the Public Accounts. This will avoid the issue of the disagreement on the PSAB interpretation of the accounting between the Province and the Auditor by legislating the treatment.
- The regulation is applicable for fiscal year 2015-16 and will align with the Auditor's interpretation of PSAB without the Province needing to agree with interpretation but still achieving the Auditor's desired treatment.
- The Province will work with external consultants and the Office of the Auditor General to determine if an agreement can be reached on the appropriate accounting treatment in future years.

Prepared By:
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