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?

SUGGESTED RESPONSE

- **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 of CPA Canada.**

- **The Province has been using the same accounting for pensions since 2001-02 and has received a clean audit opinion over the past 14 years.**

- **During the 2015-16 audit of the Province's financial statements, the AG challenged the Province's accounting practices in relation to Jointly Sponsored Pension Plans. Her concerns only crystalized late in the audit and centred around how the Province can recognize an expected future benefit from assets arising from these plans that it has a future claim to.**

- **Differences of opinion on how the pension assets for these plans should be accounted for under PSAB continued until late in the audit.**

- **In order to finalize the audit, a time-limited regulation was issued which would allow for the Province to reflect**

the AG's proposed accounting impact on the 2015-16 financial statements and professional staff being able to sign off on the financial results of the province.

- **Over the next several months, the Province will engage experts in accounting, pensions and audit to further assess the application of public sector accounting standards on the Province's jointly sponsored pension plans.**

CURRENT STATUS

- **The unaudited consolidated financial statements for the Province were released on October 3, 2016 and reflected the regulated accounting change for pension assets related to jointly sponsored pension plans that aligned with the views of the Auditor General.**

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.
- 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 professional accounting staff and the Auditor General have a different opinion on the application of the standards.
- The professional accounting staff position is that the asset balances (or plan surplus for accounting purposes) in Ontario Teachers' Pensions Plan (OTPP) and Ontario Public Service Employees Union Pension Plan (OPSEUPP) are assets 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 requested a valuation allowance to reduce the asset value to NIL which would result in an in-year expense.

- In order to produce the Public Accounts with accounting results consistent with the Auditor General's view for jointly sponsored pension plans, a regulation was necessary to enable staff to be able to sign off on the Statement of Responsibility and Management Letter of Representation.
- The regulation defines the accounting treatment for pension assets applicable to the 2015-16 consolidated financial statements in the Public Accounts. This avoids confusion to the users of the Province's financial statements that might otherwise be caused by the issue of the disagreement on the PSAB interpretation of the accounting between the Province and the Auditor General by legislating the treatment.
- The regulation is applicable for fiscal year 2015-16 only and results in financial results for 2015-16 which align with the Auditor's interpretation of PSAB.
- 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 the coming months.

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