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

- **The Auditor General's 2015 Annual Report included references to provincial legislation, and states that if the difference between legislated accounting and PSAB based results is material, that she would issue a qualified opinion.**

- **Prior to 2015-16, the Province's only use of legislated accounting was in reference to the Investing in Ontario Act which the former Auditor General agreed was aligned with PSAB.**

- **For the 2015-16 Public Accounts, the Province introduced legislation related to the consolidated financial results of the province once more, but this time it is time-limited and aligns with the auditor's interpretation of PSAB for pension assets of jointly sponsored pension plans.**

The use of legislated accounting in the 2015-16 financial statements helped to mitigate confusion over the Province's reported results, while allowing time to further assess the application of PSAB to jointly sponsored pension plans. With the exception of legislated pension accounting, the remainder of the accounting policies

Commented [CV1]: are the two bullets speaking points? Not sure why we are opening with them -- I think they are confusing.

And if we are going to talk about legislated accounting why aren't we including DCCs, etc?

NPP – we need to acknowledge the AG's continued commentary on legislated accounting and her position in the past w.r.t. material differences from PSAB.

applicable to the Province's consolidated financial statements are aligned with PSAB.

- Any decisions to use legislation, whether in relation to the Province's consolidated financial statements or controlled organizations, 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 has used legislated accounting selectively to clarify and confirm the consistent application of accounting treatment for government organizations that is appropriate under PSAB across the many organizations included in the Province's financial results. An example includes direction on the use of deferred capital contribution accounting by controlled organizations. In this case, the use of legislated accounting was not intended to override PSAB, but rather to ensure consistent accounting among controlled organizations with the PSAB compliant accounting policy used by the Province.

Commented [CV2]: sentence needs to be reworked -- not sure also why we are talking about controlled organizations?

Commented [np3]: The accounting direction did not impact the CFS, but only the orgs that are controlled, to ensure consistent accounting treatment as the Province's

CURRENT STATUS

- The Province released its unaudited financial statements in the Annual Report on October 3rd. The financial statements reflected legislated accounting for pension assets related to jointly sponsored pension

plans which aligned with the Auditor General's proposed basis of accounting.

BACKGROUND

Although the Auditor General's 2015 Annual Report includes references to provincial legislation, until 2015-16, the measurement and reporting of the province's results was in accordance with Public Sector Accounting Standards. Prior to the introduction of time-limited legislated accounting for pension assets in the 2015-16 Annual Report, the only previous legislated accounting that has ever impacted the Province's Public Accounts was the Investing in Ontario Act which stipulated accounting treatment which was in alignment with PSAB standards. The Act was also time-limited and only applied to the 2008-09 Public Accounts. Until 2015-16, legislated accounting has never impacted the Province's Public Accounts either before or after that date.

In all 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.

With regards to the Investing in Ontario Act, 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 which was subsequently confirmed by the AG as being in accordance with PSAB. Direction provided to controlled entities was 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. In addition, both entities report on US GAAP as permitted by securities regulators.

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 have been consistently based on PSAB until 2015-16 when legislation was used to report pension assets related to jointly sponsored pension plans.

Prepared By: Ian Provis
Date Prepared: October 3, 2016