Summary: Standing Committee on Public Accounts

Public Accounts of the Province

(Chapter 2, 2017 Annual Report of the Office of the Auditor General of Ontario)

Ministry of Finance - February 28, 2018

Time / Location:

12:30 p.m. / Committee Room 151

Attendees:

Committee Members
Ernie Hardeman, PC
John Vanthof, NDP
Randy Hillier, PC
Liz Sandals, LIB

Treasury Board Secretariat
Helen Angus, Deputy Minister
Karen Hughes, Associate Deputy Minister
Cindy Veinot, Assistant Deputy Minister and Provincial Controller
Mark Donaldson, Director, Office of the Provincial Controller

Ministry of Finance
Scott Thompson, Deputy Minister
Tim Schuuman, Assistant Deputy Minister
Gadi Mayman, Chief Executive Officer, Ontario Financing Authority
Ken Kandeepan, Chief Financial and Risk Officer, Ontario Financing Authority

Ministry of Energy
Serge Imbrogno, Deputy Minister
Steen Hume, Assistant Deputy Minister
Ken Hartwick, Chief Financial Officer and Senior Vice President, Ontario Power Generation
John Mauti, Vice President, Chief Controller and Accounting Officer, Ontario Power Generation
Peter Gregg, President and Chief Executive Officer, Independent Electricity System Operator
Kimberly Marshall, Vice President, Corporate Services and Chief Financial Officer, Independent Electricity System Operator

Cabinet Office
Steve Orsini, Secretary of Cabinet

Summary

- DM Angus provided an overview of the role of the public service, the provincial controller, the relationship with the Auditor General of Ontario, the preparation of public accounts and the use of third-party advisers.
- DM Angus also explained what typically happens when the government and the Auditor General disagree. DM Angus provided a summary of the information provided to the Auditor General and overview of the key issues to be discussed.
- Questions focused mainly on the following:
  - when TBS or the IESO consulted the Auditor General before implementing rate regulated accounting and the Fair Hydro Plan
  - whether any government ministry or the IESO were directed to ensure the cost of the Fair Hydro Plan would not be reflected on the province's books
  - if the Fair Hydro Plan was in fact the government's best advice on rate reduction
  - the IESO's accounting practices and how accountable the IESO is to the

legislature
    - the preparation of the public accounts and the relationship with the Auditor General of Ontario
- The Minister of Finance was asked **3** questions:
    - Did the Ministry of Finance tell the Ministry of Energy that the Fair Hydro Plan cannot add additional cost the province's books?
    - What is your expectation of subordinate bodies of the legislature, like the IESO, in terms of compliance and independence?
    - Is the budget in fact balanced, considering the Auditor General's opinions in Chapter 2?

Questions

PC Caucus: MPP Randy Hillier

The Auditor General and SCOPA are two of the safeguards to ensure the integrity of the province's financial statements, but it's hard to be non-partisan in the case of the Fair Hydro Plan. The actions of the Fair Hydro Plan have put the integrity of our financial statements at risk.

Why was the Auditor General not brought in until after the policy decision was made?

Was the Fair Hydro Plan your best advice on how to construct hydro rate reduction? Was it your preferred mechanism to achieve it, or were you pressured?

- TBS and Energy: We provide the best advice to the government within the policy direction, within the bounds of cabinet confidentiality.

Do you think inserting private sector accounting practices into the province's sector? No other province in Canada uses this type of accounting?

- TBS: Rate regulated accounting is already used in the province, but has not used in the IESO before. The province of BC uses rate regulated accounting for BC Hydro.

I find it troubling that two years in a row, this government has put our financial statements at risk. It seems that the government is willing to circumvent the safeguards of the province's finances.

Is this committee and the Auditor General just a standard for you to meet?

- TBS: Meeting public sector accounting standards, the auditor general's standards and this committee's standards is of utmost importance to us.

The IESO is subordinate to the legislature. It is not independent. This is the body that created it and that it reports to, and we are having this opinion because of a distorted attitude and view within the IESO because of who they report to.

Did the Ministry of Energy direct the IESO to start using rate regulated accounting in market accounts?

- Energy: No, not that I'm aware of. We worked on the Fair Hydro Plan and it was an IESO decision to use rate regulated accounting.

Were you directed to hide the additional cost of the Fair Hydro Plan from appearing on the public accounts? Were you told that your policy for hydro rate reduction could not add to the public debt or deficit?

- Energy: No, the policy direction was to keep those costs within the rate base, not the tax base. The policy decides what makes sense for the rate payer to pay and what makes sense for the taxpayer to pay, and then the accounting follows that. It was always a ratepayer cost that would be borne by the ratepayer. The plan does show up on the books in the OPG's consolidated statements – it's all transparent.

The Auditor said it is not open and transparent and it is a very convoluted scheme.

Did TBS tell the Ministry of Energy that the Fair Hydro Plan cannot add additional cost the province's books?

- Energy: No, it did not.

Did the Ministry of Finance tell the Ministry of Energy that the Fair Hydro Plan cannot add additional cost the province's books?

- MOF: MOF worked very closely with Energy on this and it never gave this direction.
- MOF was not asked to approve this plan, but it gave advice along with Energy and TBS on the options provided to government to reduce hydro rates.
- MOF was agreeable to this plan after we talked to the controller's office and understood their analysis and they assured us this was a viable way.

Is that your expectation of subordinate bodies of the legislature, that they only comply with their own boards and they are independent? Is the IESO an outlier here, as none of the other agencies have put the reliability of the financial statements of this province at risk?

- MOF: Agencies need their own governance and their own boards and need to seek advice from their own. All accountability provisions are in place for all of our agencies and entities.

<u>NDP Caucus: MPP John Vanthof</u>

The public does not trust any government's numbers, but the Auditor General is a source that can be trusted.

If the IESO follows public sector accounting standards and is committed to accountability, why didn't you speak to the Auditor General before making these accounting changes?

- IESO: The financial statements and accounting practices of the IESO are under the purview of the IESO. We look to a number of advisors/sources, including other jurisdictions. We speak to the Auditor General once we reach a conclusion.

Is it possible for the IESO to follow the Auditor General's recommendation and present your statements in a way for the general public to follow? KPMG is not Ontario's independent auditor.

- IESO: We believe that our statements are presented in an open and transparent way and in line with KPMG, our external auditor.
- It is possible. As management of the IESO, we have selected what we believe is most appropriate for the organization. We disagree with the Auditor. It's no disrespect to the Auditor, but we stand behind our judgement on this and we take it very seriously.

Was the decision to adopt rate regulated accounting based on the government of the day? Why not 5 years ago? Did the Fair Hydro Plan have an impact on this?

- IESO: The audit committee, when considering the change, did not do it on the basis of having to do it on the Fair Hydro Plan. We looked at it as is this the right thing to do. That's what we asked KPMG to look at, and 6 of the 8 other IESO's in North America do this type of accounting. We believe this way is more transparent.

Does rate regulated accounting make the Fair Hydro Plan look better from a policy perspective?

Were the terms of reference for external auditors the same as the terms of reference for the Auditor General, who is looking out for the good of the province?

- IESO: The IESO will send the committee the terms of reference and the external auditors' opinions.

Liberal Caucus: MPP Liz Sandals

How would the government be able to release the Public Accounts earlier in the year, as per the Auditor's recommendation?

- TBS: agrees that it is important to release public accounts earlier and is working with partners to determine how that would work.

Is the budget in fact balanced, considering the Auditor General's opinions in Chapter 2?

- MOF: DM Thompson responded with standard budget messaging.

N.B.: Comments captured are not verbatim quotes. A complete transcript will be sent later on.

Prepared by: Deepika Shewaramani