TBS

Office of the Provincial Controller Division

Foundational Overview for Minister

Office of the Provincial Controller Division

Public Accounts Planning and Process

Public Accounts Deliverables

1. 2017-18 Annual Report and Consolidated Financial Statements

a) Financial Statement Discussion and Analysis (FSD&A)
   i. Narrative of the Province's actual results against Budget, prior year actuals and earlier years' actuals (5-year trend)
   ii. Discusses indicators of financial condition (e.g. net debt, debt to GDP, etc) and other information

b) Audited consolidated financial statements (CFS) prepared in accordance with Public Sector Accounting Standards (PSAS)

c) Management's Statement of Responsibility
   iii. Province's acknowledgement of responsibility for effectiveness of internal controls and the objectivity and integrity of the financial statements and related note disclosures

d) Auditor General's Opinion[1]
   iv. The Auditor General's opinion on the whether the financial statements are fairly stated and free from material misstatement

2. Supplementary Volumes 1, 2, 3

a) Volume 1 – expense summaries (summary schedules – revenue and expense, detailed ministry statements, schedules of debt, other schedules (loans, claims, etc.)

b) Volume 2 – consolidated entity statements (excl. hospitals, school boards, colleges)

c) Volume 3 – schedule of payments

3. Various Communication Products

d) News release, Q and As, briefing binders (limited distribution)

[1]In 2016-17, the Auditor General issued a qualified audit opinion for recognition of OTTP/OPSEU pension assets and inclusion of IESO market accounts in the Province's financial statements. A qualified opinion specifies the matters on which the Auditor General is not in agreement with the preparer on the current accounting application.

Key Dates & Considerations

- **Public Accounts Planning Meeting**
  - Finalized prior to the end of the fiscal year
  - Meeting occurs between AG and Deputy Ministers of TBS and MOF to discuss audit plan and select issues of focus during the audit

- **Ministers' Offices Briefings on Public Accounts**
  - Commence in early June
  - To provide overview of Public Accounts process and timelines

- **Public Accounts Steering Committee Meetings**
  - Kickoff meeting mid-June
  - Results meetings throughout July and early August
    - Historically, preliminary expenses and revenues (excluding corporate and personal income tax) are reported first week of July; tax revenues and further variance explanations are refined in late July

Key Dates & Considerations (cont.)

- **Fiscal Prep Committee Briefing** – mid to late August
  - Focus on consolidated results, including variance analysis

- **Expected audit opinion date** – as outlined in the Audit Plan
  - For 2016-17, audit opinion date was August 18, 2017
  - Management Representation Letter (to be signed by Deputy Ministers of TBS and MOF, as well as Provincial Controller)
  - Meeting between AG, Deputy Ministers of TBS and MOF, as well as OPCD to discuss audit findings and the AG's error summary (Summary of Unadjusted Differences) after which the signed audit opinion letter will be provided

- **Release date** – as determined by Ministers' Office
  - *Financial Administration Act* requires release of the Public Accounts within 180 days after the fiscal year-end (September 27, 2018)
    - For 2016/17, the Public Accounts was released on September 7, 2017

Office of the Provincial Controller Division

Standing Committee on Public Accounts

Standing Committee on Public Accounts

- TBS is to appear before the Standing Committee on Public Accounts (SCOPA) for consideration of Chapter 2 (Public Accounts of the Province of the 2017 Annual Report of the Auditor General of Ontario and Recommendations) on February 28, 2018, along with the following ministries and agencies:
  - Ministry of Finance
    - Ontario Financing Authority;
  - Ministry of Energy;
    - Ontario Power Generation; and
    - Independent Electricity System Operator.

- Briefing materials for the appearance are under development.

Auditor General (AG) 2017 Annual Report Chapter 2 Recommendations

The AG's 2017 Annual Report contained 10 recommendations for Chapter 2: Public Accounts of the Province, including:

1. We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.
2. We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.
3. We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows:
   - Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and
   - Use a financing structure to fund the rate reduction that is least costly for Ontarians.
4. The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:
   - Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and
   - Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.

Chapter 2 Recommendations Cont'd

5. We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:
   - Remove market accounts recorded on its financial statements; and
   - Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.

   To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."

6. We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.

7. We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.

8. We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and personal income tax revenues.

Chapter 2 Recommendations Cont'd

9. We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.

10. We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.

Office of the Provincial Controller Division

Public Sector Salary Disclosure 2017

Background

The *Public Sector Salary Disclosure Act* (PSSDA) requires that public sector organizations (including non-profit organizations that receive significant funding from the Province) make public the names, position titles, salaries and taxable benefits paid to anyone defined as an “employee” under the PSSDA who earned $100,000 or more in the previous calendar year.

- In addition to providing reporting templates and instructions on its website, TBS releases a Compendium of all PSSD information from ministries and accountable organizations for ease of public access. This is done in addition to any separate reporting that accountable organizations may choose to undertake.
- Organizations subject to the *French Language Services Act* (FLSA), including the OPS, are also required to report in French.

Timing of Release

- Current year disclosure must take place by March 31, 2018 as per the PSSDA.
- Under s. 3(1) of the PSSDA:

  "Not later than March 31 of each year every employer shall make available for inspection by the public without charge a written record of the amount of salary and benefits paid in the previous year by the employer to or in respect of an employee to whom the employer paid at least $100,000 as salary."
- The Compendium has normally been released on the last business day of March and Addendum has normally been released in fall (Nov/Dec).
- New Online Tool to report PSSD data is under development for Accountable Organization and will be used starting current year.

Communication Considerations

- PSSD receives the greatest number of hits on the Ontario.ca website
- OPCD prepares and briefs TBS DMO and TBS MO on the Compendium results, including analysis of year-over-year changes, list of seconded employees, and Top 10 lists of employees/salaries for each sector and overall.
- TBS Communications prepares news release to announce availability of the Compendium, including the President of the Treasury Board speaking to overall results and disclosure requirement.
- OPCD and TBS Communications prepare supporting Q&As and Corporate Issues Note (CIN).
- Ministries and BPS organizations are responsible for their own communications.
  - Ministries' communication branches develop communications materials for their respective ministries and reporting entries.
  - Treasury Board Secretariat advises ministries on the date and time of the Compendium release to ensure they are prepared for associated enquiries, as well as other pertinent information (e.g. relevant "Top 10" salaries).

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Accounting for Jointly-Sponsored Pensions

Accounting for Jointly-Sponsored Pensions

- Since 2001-02, the Province’s share of the jointly-sponsored pension assets of the Ontario Teachers’ Pension Plan (OTPP) and the Ontario Public Service Employees’ Union Pension Plan (OPSEUPP) have been reflected on the audited consolidated financial statements of the Province (except 2015-16) based on a policy considered to be consistent with Public Sector Accounting Standards (PSAS) related to accounting for retirement benefits.
  - In 2015-16, the government passed a time-limited regulation to require the full write-off of the net assets of both of these plans for the 2015-16 Public Accounts (consistent with the AG’s interpretation in 2015-16), pending further consultation
- Under Canadian PSAS, an asset arises when the government's total contributions to a plan, including interest earned thereon, are greater than the pension expense recognized since the start of the plan
  - The standards have not changed since their issuance in 2001
- Based on professional staff’s interpretation of Canadian PSAS, supported by
  - The report of the Pension Asset Expert Advisory Panel released in February 2017 stating that the Government should record an asset for its share of the surplus reported in the accounting valuations for each plan and that no valuation allowance is required;
  - An opinion from Deloitte LLP dated October 2, 2016 on OTPP supporting the ability to recognize a pension asset in the absence of having a unilateral right to reduce contributions to the plan;
  - Analysis completed by EY confirming no valuation allowance was required for either plan at March 31, 2017;

  the government believes that pension assets for OPSEUPP and OTPP should be reported in order to fairly present the Province’s financial position

Accounting for Multi-Employer Pension Plans

- HOOPP is a multi-employer pension plan covering employees of Ontario's health care community.
- CAATPP is a multi-employer pension plan covering employees of the Colleges of Applied Arts and Technology in Ontario.
- Both of these plans are accounted for as multi-employer defined benefit plans that provide eligible members with a retirement income based on a formula that takes into account a member's earnings history and length of service in the plan.
- The plans are financed by contributions from participating members and employers, and by investment earnings.
- The Province records a percentage of the net obligation of HOOPP and net asset of CAATPP, based on the ratio of employer to employee contributions and excludes those employers not consolidated by the Province.
- The Province does not have control or joint control over the decisions regarding contribution levels or benefit changes for either the HOOPP or CAATPP multi-employer plans, as the Province is not a member of the committees responsible for these decisions. Therefore, a valuation allowance will be recorded to write down the net asset position in these plans, if any, until the net pension assets are used to reduce future contributions.

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Ontario’s Fair Hydro Plan

Ontario’s Fair Hydro Plan

- The Global Adjustment component of the Ontario Fair Hydro Plan Act (OFHPA) provides Ontario ratepayers with a portion of the average 25% reduction in their electricity bills (approximately 18%) by way of spreading the cost of Ontario's clean energy investments over the expected lifecycle of the benefit to ratepayers.
- As amounts collected from ratepayers will occur over a longer timeframe than payments to generators under current contracts, the OFHPA requires the IESO to create and maintain a variance account (referred to in the OFHPA as a ‘regulatory asset’) for the shortfall to be recovered from the ratepayers over the long term
- The OFHPA does <u>not</u> establish any accounting definitions for this variance for financial reporting purposes, nor does is prescribe any specific accounting to be applied
- Using accounting principles issued in the United States (US) for regulated entities (which the IESO is considered), the regulatory asset created under the OFHPA satisfies the definition of an asset under Canadian public sector accounting standards (PSAS) as a direct result of the legislative right to collect past costs through rate setting based on expected power consumption from future ratepayers (referred to as rate-regulated accounting)
- While PSAS does not address the specific accounting issue of rate-regulated accounting, preparers are permitted to apply professional judgment in the application of other sources of Generally Accepted Accounting Principles (GAAP), including US GAAP which is the only North American guidance on rate-regulated activities provided it is consistent with the concepts under Canadian PSAS
- US GAAP on rate-regulated accounting is widely used in North America in the utility sector

Ontario's Fair Hydro Plan

- As outlined in the Special Report on the Fair Hydro Plan, the Office of the Auditor General (OAGO) disagrees that rate-regulated accounting is permitted under Canadian PSAS
- The position of the OAGO is that all amounts related to the shortfall are an **expense** to the government in the period they occur and would increase the deficit. The subsequent recovery from ratepayers would constitute a **revenue** which would reduce the deficit in the later years
- In the opinion of the OAGO, the accounting treatment for the OFHPA is a result of the direction under the *Act* to report the shortfall as a regulatory asset (i.e. legislated accounting)
  - While the Act names the shortfall a regulatory asset, it is not prescribing any specific accounting for the item; the accounting has been established through the application of generally accepted accounting principles for government and professional judgment
- The OPG Trust (a subsidiary of Ontario Power Generation (OPG)), which will fund the shortfall to the IESO in part through debt, is consolidated with the results of OPG in the Province's financial statements on a one-line basis in accordance with Canadian PSAS (i.e. the assets and liabilities are combined with OPG's assets and liabilities and shown as a single number)
  - The Trust will purchase the right given to the IESO to collect from ratepayers legislated under the OFHPA (the regulatory asset), thereby making the IESO whole
- In the 2017-18 Public Accounts, OPCD is exploring additional voluntary disclosures to provide greater transparency of the details relating to the Fair Hydro Plan

IESO Market accounts – assets and liabilities

- In 2016, IESO changed its accounting policy regarding the recognition of market accounts assets and liabilities on its financial statements, and adopted rate-regulated accounting.
- The change was made to better reflect the assets and liabilities and amounts due to and from market participants held by IESO on behalf of IESO-administered markets at year-end.
- Recognition of the market accounts increases both other assets and other liabilities for the Province's Consolidated Financial Statements at March 31, 2017, by $1.6B.
- There is no impact on the Province's accumulated deficit, net debt or revenue and expense as a result of recognizing the market accounts.