Excerpt from G&M Article	Description of error in text	Response from G&M May 3, 2018	Additional comments from government
What she didn't know was that it represented a radical departure in how the government of Premier Kathleen Wynne – not just the IESO – planned to disclose its future borrowing activities to the public.	This statement is not accurate. The accounting for the Fair Hydro Plan does not change the way borrowing is recorded. Direct borrowing by the Province is and will continue to be recorded as gross debt of the Province. Borrowing by Ontario Power Generation (OPG), or the Fair Hydro Trust (which is consolidated with OPG) will be recorded on the financial statements of OPG and then included in the investment account for OPG on the Province, in the same way that OPG has been recorded for the last 18 years (since the government began including the results of the entities that made up the former Ontario Hydro in the consolidated financial statements of the province). The debt of the Fair Hydro Plan is not the only long term debt of OPG and is recorded in the statements of OPG in the same manner as its other long-term debt.	The words "a radical departure" are clearly representing the views of the AG. This is fair to say as well because the manner in which the borrowing associated with the Fair Hydro Plan would be disclosed would represent a departure from previous debt reporting.	This is not accurate – the borrowing associated with the Fair Hydro Plan is not a departure from previous debt reporting. The debt used to finance the Fair Hydro Trust will either be recorded on the statement of consolidated financial position of the province as debt (consistent with how other debt issued by the province is recorded) or on the consolidated balance sheet of OPG (consistent with how other debt issued by OPG is recorded). There is no "radical departure". If this is the opinion of the AG, it should be stated as such.
…..a discrepancy that will grow markedly as the government's off-balance-sheet borrowing continues.	This statement is not accurate – the borrowing for the Fair Hydro Plan is not off-balance-sheet. Direct borrowing by the Province is and will continue to be recorded as gross debt of the Province. Borrowing by OPG, or the Fair Hydro Trust (which is consolidated with OPG) will be recorded on the financial statements of OPG and then included in the investment account for OPG on the Province, in the same way that OPG has been recorded for the last 18 years (since the government began including the	"off-balance-sheet". Borrowing in this piece equates with net debt, and is a primary metric for measuring the province's debt. Also off-balance-sheet borrowing, which has no strict definition, was used to show that the full amount borrowed in connection with the Fair Hydro Plan does not appear in	Nowhere in the article is off-balance-sheet defined as net debt. Nowhere in PSAS is net debt equated to "off-balance-sheet". The use of the two terms as equivalents is inaccurate. Off-balance-sheet is a term that is generally used to describe assets or liabilities that are not recorded on the balance sheet (or statement of financial position) of an entity. The statement that the debt of the Fair Hydro

	results of the entities that made up the former Ontario Hydro in the consolidated financial statements of the province). The debt of the Fair Hydro Plan is not the only long term debt of OPG and is recorded in the statements of OPG in the same manner as its other long-term debt.	the net debt figure of the province. That is correct. Not only is borrowing for the Fair Hydro Plan not reflected in the net debt, but borrowing by OPG or the Trust shows up in investment in government business enterprises.	Plan is "off-balance-sheet" is factually inaccurate and misleading. As explained, the debt issued by the Province, will increase the debt of the province, and will be reflected on the line item labelled "Debt" of the consolidated statement of financial position. The debt issued by OPG and the Fair Hydro Trust will be recorded in the "Investment in Government Business Enterprises" line on the consolidated statement of financial position, consistent with the $16.7 Billion of debt of the government business enterprises. That accounting is required by PSAS. Section 1300 of PSAS states: **32.** Accounting for a government business enterprise by the equity method avoids commingling the independently-managed business enterprise's budget and actual results with those of other government organizations on a line-by-line basis**. It also avoids including the business enterprise's gross debt with that of other government organizations as the business enterprise is expected to repay that debt from its own revenues.** As highlighted above, the debt of the government business enterprise (OPG, which consolidates the Fair Hydro Trust) is not included with the debt of the other government organizations as the debt

			of the government business enterprise is not expected to be repaid with general revenue of the government. This rationale is consistent with the expected outcome of the debt issued by the Fair Hydro Trust. That debt will be repaid by amounts collected from the electricity ratepayers, and is not expected to be repaid with general revenue of the government. The debt issued by OPG and the Fair Hydro Trust as of March 31, 2018 of approximately $900 million, will increase the long-term debt disclosed for OPG in Schedule 9 to the consolidated financial statements, which as of March 31, 2017, was approximately $16.7 billion. The $900 million will not increase the debt on the consolidated statement of financial position. However, stating that debt of the province will not increase without explaining that the debt is recorded elsewhere in the consolidated statement of financial position is misleading.

Recording expenses as assets is perfectly legal in certain contexts, but the practice has been controversial in the private sector. In their book Easy Prey Investors, forensic accountants Al Rosen and Mark Rosen write that recording "fake assets" on corporate balance sheets is one of the "most common financial scams of the past 50 years."	Recording rate-regulated assets in the private sector is not controversial. The vast majority of Canadian companies who are subject to rate-regulation in Canada, prepare their financial statements using rate-regulated accounting, including many publicly traded companies. See the link to the report issued by the Chartered Professional Accountants of Canada (CPA Canada) providing an overview of those Canadian organizations following rate regulated accounting (http://www.ifrs.org/-/media/feature/meetings/2016/september/asaf/rate-regulated-activities/1609-asaf-03a-rate-regulated-activities-canada.pdf) and also the project update by Accounting Standards Board of CPA Canada which states, "The Accounting Standards Board (AcSB) is participating in the International Accounting Standards Board's (IASB) comprehensive project to determine whether (or how) IFRSs should be amended to provide guidance on rate-regulated activities." (http://www.frascanada.ca/international-financial-reporting-standards/projects/active/item79005.aspx)	The author did not write that recording rate-regulated assets has been controversial in the private sector. He wrote that recording expenses as assets has been controversial in the private sector.	The three paragraphs preceding that noted in the first column, include the phrases: • The IESO's new practice, rate-regulated accounting, is akin to accounts receivable on steroids. • The main criticism of the practice is that it can produce books bearing little resemblance to reality • And, therefore, there have been fairly large amounts of some regulatory assets that have been written off." This points all criticize the use of rate regulated accounting. The first sentence of the following paragraph notes, "Recording expenses as assets is perfectly legal in certain contexts, but the practice has been controversial in the private sector." Given there is no other discussion of accounting, other than rate-regulated accounting, the link made to rate-regulated accounting is clear. Communicating that recording rate-regulated assets is akin to recording "fake assets", is factually incorrect and misleading. If that is an opinion of the author, it would be more suitably stated in an opinion piece, as opposed to an article that is termed an investigation.

The official explanation is that in mid-January, 2017, at one of the earliest meetings to discuss the Fair Hydro Plan, Ontario Controller Cindy Veinot ordered Ms. Marshall to “take a closer look” at adopting rate-regulated accounting because she didn’t think the IESO’s existing policies were appropriate.	The statement is not accurate. There was no “order”, the request did not relate to rate-regulated accounting -- it related to the accounting for the market accounts, and Cindy Veinot expressed no opinion on IESO’s existing accounting policies. The “official” response was provided twice – on April 5, 2018 and again on April 20, 2018. Those responses are reproduced below: April 5, 2018 email to you from Lawvin Hadisi: *During the week of January 16, 2017, Cindy Veinot, Assistant Deputy Minister and Provincial Controller had a conversation with Kim Marshall, Vice President, Corporate Services and Chief Financial Officer regarding IESO’s financial reporting of market accounts. She requested IESO take a closer look at the accounting for market accounts on their financial statements. While no specific timeframe was discussed during the conversation, the intention of the request was to have this review completed before the province’s year-end of March 31, 2017.* April 20, 2018 email to you from Lawvin Hadisi:	The dictionary definition of “ordered” is a person in authority directing or instructing someone to do something. That is a fair word in this case. Ms. Veinot did express an opinion on IESO’s existing policies. (“I didn’t think it was appropriate,” she said.) However, as you correctly note, Ms. Veinot has testified that she asked the IESO to consider adopting market accounts, not rate-regulated accounting as the author stated. We have corrected this reference online and will include a correction in tomorrow’s paper.	Kim Marshall did not report to Ms. Veinot at any time, and therefore, “order” is inaccurate and misleading. In addition, Ms. Veinot expressed no overall view on IESO’s accounting policies. The context of her comments at the February 28, 2018 SCOPA meeting, from which one phrase is excerpted, is important as it is limited to the accounting for the market accounts by IESO. The context is as follows: “The IESO’s financial statements are prepared in accordance with PSAS. The issue that the Auditor General qualified the statements on, the inclusion of market accounts, is something that I directed them, I asked them to look at, because I didn’t think the accounting that they were doing, which was not showing any of the $17 billion in the transactions that they settled for the market—I didn’t think it was appropriate.”

	"In January 2017, at one of the initial meetings that the Provincial Controller attended to discuss Ontario's Fair Hydro Plan (OFHP or "the Fair Hydro Plan"), she became aware of the accounting for the market accounts at the Independent Electricity System Operator (IESO). At that point she requested that IESO management review the accounting for these accounts. While no specific timeframe was discussed during the conversation, the intention was to have this review completed before the Province's year-end of March 31, 2017."		
With the provincial controller's encouragement, the agency's management had effectively adopted a new accounting policy on behalf of the entire province.	This statement is not accurate. The provincial controller neither encouraged nor discouraged IESO's management, its audit committee or its board regarding the adoption of rate-regulated accounting. Also, the use of rate-regulated accounting is not a new accounting policy. Both Hydro One and Ontario Power Generation use rate regulated accounting. Hydro One has over $3 billion in rate-regulated assets (2016 - $3 billion) and Ontario Power Generation has over $7 billion in rate regulated assets recorded (2016 -- $6 billion). Both of these entities have applied rate regulated accounting for more than a decade and the application of rate-regulated accounting by these entities has a direct impact on the determination on the surplus or deficit of the Province.	While the article does not provide the detailed breakdown you are providing, it is not wrong. Phrases such as "the government's books" are common phrases used to refer to Public Accounts. Also, Ms. Veinot has testified: Essentially, what's happening now with the fair hydro plan on that piece is that the period of settlement extends from 12 months to 30 years…That period stretches on for 30 years. Those amounts will be collected from ratepayers when the clean energy adjustment is charged to those ratepayers for electricity that	The statement is inaccurate and misleading. The use by IESO of rate-regulated accounting did not result in a "new accounting policy on behalf of the entire province." As discussed, $10 billion of rate-regulated assets were recorded in the consolidated financial statements of the Province. The change in those balances, which relate to Hydro One and OPG, has a direct impact on the determination of the surplus or deficit of the Province. In addition, the excerpt included from the February 28, 2018 appearance at SCOPA is Ms. Veinot's explanation of how rate regulated accounting is applied to the Fair Hydro Plan. Nothing in that excerpt comments on encouraging or discouraging its use.

		is consumed. Rate-regulated accounting permits you to record that amount as an asset. From an accounting perspective, that means that it does not impact the deficit or surplus of the province, which means it reflects that those costs are borne by the ratepayer and not by the taxpayer.	
The Ontario government's Fair Hydro Plan reduced Ontarian's electricity bills by about 25%. But the government's books don't reflect the costs.	This statement is not accurate. The average reduction of 25% is made up of a number of components including (1) the 8% reduction in rates, implemented in January 2017, (2) the transfer of the costs of specific social programs from the rate base to the tax base, and (3) the Global Adjustment Refinancing aspect of the plan, which reallocates costs from the electricity sector. Items (1) and (2) are recorded as expenses as incurred – e.g. they increase program expenses of the province. The Global Adjustment Refinancing aspect of the plan is recorded as a rate-regulated asset, as it will be recovered from future rate payers. The Global Adjustment Refinancing aspect of the plan represents approximately 17% of the average reduction in electricity bills.	No response provided	
Video – The end of the video states that none of the borrowing related to	This statement is inaccurate. Direct borrowing by the Province will continue to be	This issue seems to turn on the difference between gross and net debt, but net debt is common use.	Net debt is a defined term in PSAS and a calculation that is the net of all liabilities (e.g. debt, accounts payable, pension obligations,

the Fair Hydro Plan is recorded in the consolidated financial statements of the province.	included in gross debt of the Province, with all other borrowing of the Province. Borrowing by OPG, or the Fair Hydro Trust (which is consolidated with OPG) will be recorded on the financial statements of OPG and then included in the investment account for OPG on the Province, as OPG has been recorded for the last 18 years (since the government began including the results of the entities that made up the former Ontario Hydro in the consolidated financial statements of the province). The debt of the Fair Hydro Plan is not the only long term debt of OPG and is recorded in the statements of OPG in the same manner as its other long-term debt.	I note that yesterday, the FAO issued its latest Economic and Budget Outlook, which refers to net debt.	lease obligations, etc.) minus financial assets (e.g. cash in the bank, investments in government business enterprises, etc.) Net debt is used an as indicator, but is not the same as borrowing or debt. The statement is incorrect and misleading.
She had already issued a qualified opinion on a separate issue – the government's accounting for the assets of two pension funds, a matter of billions of dollars – but the government shrugged that off, too.	This statement is inaccurate. The government has been accounting for the net pension assets of Ontario Teachers' Pension Plan and OPSEU Pension Plan on a consistent basis for the last 17 years. Support for the government's accounting position includes: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals	No response provided.	

	with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any		

	valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. PSAS are principle based – they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment. Our professional staff exercise judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General. All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information. That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on		

	everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.		