Implementation Note: Public Accounts / Auditor General's Opinion

Commitment: **[placeholder]**

Context: The Province prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) issued by CPA Canada. The Province's 2016-17 consolidated financial statements included two qualifications by the Auditor General on pension accounting and reporting the market accounts of the Independent Electricity System Operator (IESO). Additionally, as a result of the further proposed reporting of the electricity sector Global Adjustment Refinancing to be included in the 2017-18 Public Accounts, the Auditor General has indicated that an adverse opinion on the financial statements (i.e. material and pervasive misstatements) may result for this year.

Implementation Requirements: Resolution of one or more of these issues will require policy and/or legislative amendments to alter the transactions to facilitate a reassessment of the accounting. To align with the legislative release date of the Public Accounts, any changes that would result in updates to the accounting for the 2017-18 consolidated financial statements must be in effect prior to the release of the Public Accounts. The Public Accounts are required to be released within 180 days of the fiscal year end, (i.e., on or before September 27, 2018).

Implementation Plan:

Net Pension Assets
The Public Accounts currently recognize a net pension asset from the net surplus for accounting purposes of the jointly-sponsored pension plans -- Ontario Teachers' Pension Plan (OTPP) and the OPSEU Pension Plan (OPSEUPP). The accounting for these plans has been consistent since 2001, and was without qualification by the Auditor General until 2016. A discussion with the Office of the Auditor General (OAG) is planned to re-examine the OPSEUPP before the issuance of Public Accounts in an effort to resolve this issue.

Resolution regarding OTPP would require the government to commence dialogue with the Ontario Teachers' Federation on changes to the governance of the pension plan. These discussions could take the form of:

- Provide for independence with respect to contributions to allow the government to act unilaterally (similar to OPSEUPP);
- Determine and proceed with OTPP an additional reduction in contributions if the plan performance supports such action (as of January 1, 2018, contributions were reduced by 1.1%); or
- Amend the governance of the OTPP to remove the government's ability to participate decision-making and any determination of access a future economic benefit.

The first two options would seek to address concerns issued by the AG regarding the current treatment of the net pension asset to the government's books, while the third option would remove the net pension asset and the in-year surplus/(deficit) impact for the change in the net asset value.

Market Accounts / Global Adjustment Refinancing

The Auditor General is requiring that all debt, interest expense and timing differences related to the collection from electricity consumers and payments of power generation contracts be reported on a fully consolidated basis in the Public Accounts. The difference between the Province's accounting for the Global Adjustment Refinancing and that of the Auditor General is based on differing opinions on the application of rate-regulated accounting under PSAS. When PSAS is silent on an issue, professional judgment is applied in determining the appropriate financial statement presentation. Resolution of these accounting issues will require more than one action.

In reviewing any change in policy direction, some of the accounting considerations to resolve the reporting of the market accounts include:

- the adoption of provincial accounting policy to adjust the IESO financial statements and remove the market account (and any rate-regulated) balances from the consolidation financial statements;
- the review of the accounting classification of the IESO; change from an Other Government Organization to that of a Government Business Entity or a Trust Under Administration (reported under IFRS).

The following accounting considerations would be evaluated with respect to the Global Adjustment Refinancing:

- amend *Ontario Fair Hydro Plan Act* to replace the debt recovery from future ratepayers through the Clean Energy Adjustment with a mechanism similar to that of the former Debt Retirement Charge (which was reported in a manner consistent with the Auditor General's position);

- amend the terms of the trust agreements with the Financial Services Manager of the Fair Hydro Plan Trust (currently OPG) to bring the Fair Hydro Plan Trust under the direct control of the Province requiring the debt to be consolidated as a government organization (line-by-line); however, this option does not change the accounting by the IESO re: rate-regulated accounting.

The government may wish to create an Audit Committee composed of senior officials and the Auditor General to discuss emerging accounting issues and their impact on the Public Accounts. The purpose of this non-binding committee would be to bring forward items identified through the Public Accounts (and throughout the year) for a broader discussion of objectives and clarification in the government's reporting.