Top Media Qs&As

Releasing Public Accounts with a qualified audit opinion

1. **Why did you hold off tabling public accounts?**

   Timeliness of release of the Public Accounts is important to serve transparency and accountability to the public, the Legislature and other users.

   The Province was unable to meet the statutory tabling deadline of September 27th because it did not have the Auditor General's audit opinion.

   We received the Auditor's opinion on October 5, and were able to table Public Accounts on October 6.

2. **What is the difference between the Financial Statements that were released earlier this week, and the Public Accounts?**

   From a content perspective, the results presented in the Annual Report released earlier this week are the same as those in the Public Accounts.

   The only difference between what was released earlier this week and today is that the Auditor's qualified opinion is now included in the Annual Report. The financial results for 2015/16 are exactly the same as presented in Monday's release.

3. **What's the difference between a "qualified" and "unqualified" audit opinion?**

   We are disappointed that the Auditor General has chosen to issue a qualified opinion, but we point out that her qualification does not relate to the 2015-16 financial results which she says are fairly stated.

   Rather, her qualification is in relation to the 2014-15 results which she would have liked to see restated. Since the Province does not agree that the adjustment to 2015/16 is an error correction, the prior year's results have not been restated. Furthermore, the Province's accounting is in compliance with the Regulation.

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4. **Did you delay tabling because you didn't like the Auditor's opinion?**

   No. We were waiting to receive the Auditor's opinion, and that is why we were not able to table in time.

5. **Why has the auditor general given a qualified opinion?**

   The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment.
   The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General.

   In preparing the Public Account, the Province's professional accounting staff and the Auditor General's Office debated the appropriate application of the Public Sector Accounting Board's standards (PSAB) in relation to pension accounting.

   After careful consideration, the government adopted the Auditor General's fiscal interpretation for the treatment of jointly-held pension assets. In order to comply with the interpretation, a regulatory amendment was required to change its accounting policies for the 2015-16 Public Accounts. The impact of the change resulted added $10.7 billion to the net debt and accumulated deficit.

   The Auditor General's qualified opinion is based on the government's decision to report the liability in 2015-16 without restating previous years. The Province's accounting treatment for 2015/16 and 2014/15 are consistent with the regulation filed on September 30th .

   It would be inappropriate to restate the previous year's as the Province does not agree with the Auditor's position that the prior year's reported results reflected an error.

   The government is forming an expert panel to deliver advice and recommendations on the best practices for the accounting treatment of pension assets.

6. **Why is every page in Volumes 1 and 3 marked "unaudited"?**

   The Auditor General does not audit these volumes. Starting this year, she has asked that a footer on each page indicate it is 'unaudited'. We have complied with her request as it is factually accurate and supports transparency and accountability.

Financial Implications of Public Accounts results

7. **If the government had not accepted the Auditor General's approach, what would the differences have been in the deficit or net debt?**

   According to the Province's interpretation of Public Sector Accounting Board, the annual deficit would be $1.5 billion lower (at $3.5 billion), and net debt would be $10.7 billion lower.

8. **This looks like a $1.5 billion shortfall. How is the government going to make up the difference?**

   When the Budget was tabled in 2015, we projected that the 2015-16 year would result in a deficit of 8.5 billion. In the 2016 Budget, we said the interim projection for a deficit would be 5.5 billion. The Public Accounts show that we achieved a deficit of 5 billion. We beat the budget targets using the auditor general's numbers by $3.5 billion.

9. **The financial results show that the net debt and accumulated deficit has ballooned by $10.7 billion. How did this happen and what are you doing to address it?**

   This year, the Auditor General presented the province with a new fiscal interpretation of public sector accounting standards as it relates to the treatment of pension assets.

   After careful consideration, the Province agreed to adopt the Auditor General's fiscal interpretation. The government made a regulatory amendment to allow us to amend our accounting policies for the 2015-16 Public Accounts in order to comply with the Auditor's fiscal interpretation. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Despite this change, and as our results show, the government has once again beaten its annual deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Total debt remains unchanged by the pension adjustment.

The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.

10. How can the accumulated deficit and net debt increase by $10.7 billion without causing an increase in total debt?

Total debt is cash based – it is how much money we've borrowed and is owed to our creditors.

Net debt takes into account the difference between our financial assets and liabilities, whether they are cash or not.

The province has changed the valuation of the net pension liability by reducing the pension assets by $10.7 billion, but because there is no cash involved in that valuation, the total debt does not change.

11. Should taxpayers be concerned about the rise in net debt and accumulated deficit?

No. The Province's financial results show that the government has once again beaten its annual deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

The treatment of pension assets is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. PSAB will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

12. **How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?**

    The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

13. **What does this mean for the Fall Economic Statement?**

    Looking forward, as we prepare the 2016 Fall Economic Statement, the Auditor's revised interpretation of the accounting standard and the subsequent ongoing review of this will need to be taken into consideration, along with other emerging economic and fiscal information.

    This is particularly important as we continue to track toward our commitment to balance the budget in 2017-18.

Difference of interpretation between the Province and AG

14. **It sounds like the government is yet again fighting with the Auditor General. What do you say to this?**

    This is not true from the government's perspective. Let me explain why: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. In this case, for this set of final accounts, while one specific issue is being sorted through, we actually are agreeing with the Auditor General's numbers.

    Given these differences of opinion, the Province filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

    We believe that this accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

15. **If the Public Sector Accounting Board is studying this issue, are other Canadian jurisdictions dealing with this as well?**

No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

<u>British Columbia</u>

Pension assets for BC's jointly sponsored pension plans are not reported on British Columbia's consolidated financial statements. The governance framework in BC is different than Ontario's and would appear to justify different accounting treatment under PSAB standards.

Specifically, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to use ongoing surpluses through the amendment of the Plan rules governing contributions and benefits, so long as the amendment of the Plan rules:

- Does not result in an increased contribution rate for employees or employers
- Does not create or increase an unfunded liability in the Plan, and
- Is otherwise compliant with applicable legislation and the Trustees' fiduciary obligations.

In contrast, the governance arrangements with respect to the Ontario Teachers' Pension (OTPP) provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may use ongoing surpluses as they believe appropriate, subject only to the Ontario *Pension Benefits Act.* The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses.

The OPTrust governing documents also stipulate that it is the Sponsors of the OPTrust, being the Province of Ontario and OPSEU, who have the authority to utilize ongoing Plan surpluses. OPTrust's Board of Trustees, being the OPTrust administrator for purposes of the Ontario PBA, has no authority to utilize ongoing Plan surpluses.

New Brunswick

As we understand it, New Brunswick converted four of its pension plans into what it refers to as target plans.

In the prior year, New Brunswick accounted for these plans as defined contribution plans, meaning it expensed the contributions to the plan and did not reflect its share of the net asset or net liability of the plan in its financial statements. The Auditor General of New Brunswick issued a qualified opinion on those financial statements.

In the 2015-16 fiscal year, New Brunswick changed its accounting for those plans to account for them as defined benefit plans and the Auditor General of New Brunswick issued a clean opinion.

Ontario has always accounted for its share of its jointly sponsored plans as defined benefit plans.

16. **What is the professional judgment that exists out there to interpreting jointly-sponsored pensions?**

A key consideration in exercising professional judgment is if the resulting financial information is both relevant and reliable and gives a fair presentation of the transaction.

This area of pension accounting is particularly complex, and it is important to consider the facts and circumstances when assessing the appropriate accounting treatment.

In this regard, the Province has assessed the appropriate accounting treatments based on the governance frameworks applicable to Ontario's jointly-sponsored pension plans. It would be inappropriate to assume that the governance frameworks of plans in other jurisdictions would necessarily result in the same accounting treatment.

17. **Are you saying the Auditor General is misinterpreting Public Sector Accounting Board standards?**

The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion on the interpretation of accounting standards is not unique to this situation. Other jurisdictions have also experienced differences of opinion between preparers and auditors on complex accounting matters.

Over the coming months we will undertake activities to further assess the application of PSAB standards to Ontario's accounting for jointly-sponsored pension plans. In the meantime, it remains the professional judgment of the professional staff that the accounting treatment in place since 2001 continues to be appropriate.

18. When did the Auditor General tell you about this new accounting treatment?

We only learned that the Auditor General was challenging the accounting treatment of the past 14 years very late in the audit. On September 13th the Auditor General communicated her position that the Province should write off the entire pension asset amount of $10.7 billion from the balance sheet.

19. The Auditor General says she raised this issue with you months ago. Why haven't you fixed this problem by now?

Until June, the Auditor General's audit plan for the 2015-16 Public Accounts only included a planned review of economic assumptions for pension plans. There were no significant issues raised by the Auditor's staff following their work on the assumptions.

The Province responded upon receiving the Auditor General's request for an actuarials valuation by procuring resources to complete the AG's request. The results were shared with the Auditor General's staff and only after several discussions did it become apparent that the Auditor General was challenging the accounting treatment that the Province had been following for the past 14 years.

On September 13th, the Auditor General communicated her position that the entire balance of pension assets ($10.7 billion) should be written off the Province's books. Despite our best efforts, the Province's professional accounting staff have not yet been able to reach a common interpretation of PSAB standards for the Province's jointly sponsored pension plans.

In light of the ongoing disagreement on interpretation of accounting standards, and the need to release the Province's financial results on a timely basis, Cabinet approved a regulation to allow for the results of the Province to be reported on a basis which reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension asset in question.

20. On what exactly do you disagree with the Auditor?

Both the Auditor General and the Province agree that the Province's results should reflect PSAB's standard on pension accounting. It is just a difference in interpretation of those standards, which is at the heart of the issue.

The nature of the difference in interpretation is disclosed in Note 18 of the consolidated financial statements.

21. Why hasn't the Auditor General raised this with you in the past two years?

I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

22. The Auditor General has implied your Provincial Controller is in a position of conflict because she used to work for Deloitte. How do you respond?

All employees that are hired into the Ontario Public Service swear two oaths, an Oath of Allegiance and an Oath of Office. These oaths affirm that public servants will faithfully discharge their duties, and comply with all laws and confidentiality obligations.

23. Has this ever happened before in Ontario? Anywhere else in Canada?

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and meeting its statutory tabling requirements. Ontario has had clean audit opinions for the past 22 years.

That said, differences of opinion between preparers and auditors do occasionally occur, and have occurred in other jurisdictions in Canada.

24. If you think you're right, why would you change the numbers?

To clarify, the 2015-16 results are based on legislation and PSAB. Although they reflect the same fiscal results, which would be presented according to the Auditor General's proposed interpretation of the standards, the results as presented do not represent our professional staff's interpretation of PSAB standards for jointly sponsored pension plans.

By adopting the Auditor General's interpretation, the financial statements could be finalized and signed off in order to complete the financial reporting process and enable Public Accounts to be completed. Unfortunately, the Auditor General's audit opinion remains outstanding at this time so the Public Accounts have yet to be finalized**.**

25. Was there something wrong with the accounting rules that the government was using before?

No. Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

That said, the Province believes that this complex accounting area would benefit from additional discussion and analysis. Over the coming months, efforts will be made to engage experts to assist with further analysis of the application of PSAB to accounting for jointly-sponsored pension plans on the Province's books.

26. Does the change in accounting regarding the assets of the Teachers' or OPSEU pensions plans mean those plans might be financially threatened?

Absolutely not. This issue relates solely to the Province's reported financial results and the Province's historical practices of reporting pension assets.

The two pension plans in the Ontario Public Service – which are of the defined benefit type – are healthy and well-funded.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Ontario Teachers' Pension Plan has a funding surplus of $13.2 billion.

27. How different are the Auditor General's numbers from the Government's?

There is no difference in the unaudited financial statements released and the Auditor General's view of the results for the Province for fiscal 2015-16. The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

28. The Auditor General claims you have been using creative accounting to overstate your numbers – how do you respond to that?

That is simply not true. The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General.
Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It has also been accepted by three previous Auditors General.
There has been no change to the relevant accounting standards over the past 14 years.
That said, given the particularly complex area of pension accounting, further analysis of the impact of PSAB standards on the Province's books will be undertaken over the coming months.

29. So at the end of the day if your numbers are the same as the Auditor General's what's the issue?

Professional accounting staff and the Auditor General have a difference of interpretation as it relates to the application of public sector accounting standards to pension assets resulting from jointly-sponsored pension plans.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

The Auditor General has declined to issue an opinion on the financial statements. In the absence of the Auditor's opinion, the Province is not able to table the Public Accounts as required by law.

30. What is a jointly-sponsored pension plan?

The Ontario Public Service Employees Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

During the 2015-16 Public Accounts audit, the Auditor General raised some questions about Ontario's past accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

31. How does the Auditor General want you to account for jointly-sponsored pension plans?

During the 2015-16 Public Accounts audit, the Auditor General expressed a different interpretation of the existing PSAB standards, which would impact the accounting for pension assets of jointly-sponsored pension plans.

The Auditor General's view is that the government does not have legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the Auditor General believes that the pension asset should be removed from the Province's balance sheet.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. We believe that this reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

Expert Panel

32. What will the expert panel do?

The Expert Panel's mandate is to deliver advice and recommendations to the government on determine the best practices for government regarding the accounting treatment of pension assets. The Expert Panel's advice and recommendations to the government will consider:

- Under what circumstances the government can pension assets from jointly sponsored and other pension plans,
- How to value pension assets in a way that takes into consideration future decisions made by the plan's sponsor or sponsors, and
- Recommendations the government could take to the Public Sector Accounting Board for consideration in its review of public sector retirement and post-employment benefits standards.

The final report will be submitted to the President of the Treasury Board and provided to the Auditor General of Ontario.

33. When will the Panel's report be ready? Will this report be made public? What happens after that?

A report to the President of the Treasury Board and the Auditor General of Ontario is expected later this year.

Other details for this response are in development.

34. Who will be on the Panel? How much are they going to be paid?

Members will be appointed by the President of the Treasury Board and consist of experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

Response about pay is in development.

35. How much is this panel going to cost?

The Province will be responsible only for the costs of the appointed members to attend the meetings and any people supporting the work of panel.

Once the number of members, the frequency and location of meetings are established, we will be able to provide an estimate for the cost of obtaining the panel's recommendations.

34. The panel won't have the authority to overrule the AG – what's the point?

Response in development.

35. Has the AG endorsed this panel? Will she be a part of it?

Response in development.

36. Isn't the Public Sector Accounting Board looking into this issue? Why create a panel?

Response in development.