Office of the Provincial Controller Division

Accounting background re: unadjusted differences from 2016-17 Public Accounts Audit

August 29, 2017

2016-17 OAG Summary of Unadjusted Differences – Issues of Disagreement with Professional Staff

Issue	Explanation
Grassy Narrows contaminated sites liability ($85M) Government has not recorded the expense in 2016-17; AG's view is the expense should be recorded	AG believes that Province is liable for cleaning up Grassy Narrows contaminated sites and should accrue liability of $85M as of March 31, 2017. The AG's position is that the government has publicly communicated that they are responsible for remediating this site, an event that was in existence at March 31, 2017. On June 28, 2017, Glen Murray, Minister of Environment and Climate Change, made a public announcement to provide $85 million in dedicated funding for the remediation of the English-Wabigoon River system. Based on this public communication, the AG believes the government has created a constructive obligation and $85 million should be recorded in the 2016-17 fiscal year. The professional staff's view is that the Province did not accept responsibility for funding the cleanup of the site (for up to $85 million) until the announcement on June 28, 2017, which is in 2017-18. Prior to that date, based on legal analysis completed by MOECC, the statements made by the Minister and the Premier did not commit the government funding the cleanup.

2016-17 OAG Summary of Unadjusted Differences – Issues of Disagreement with Professional Staff

Issue	Explanation
ELHT Trusts -- Government has recorded contributions to trusts as expenses in 2016-17; AG's view is that expenses cannot be recorded if trusts were not established by March 31, 2017 ($47M)	The AG has linked the ability to record the expense to the requirement that the trust must be established by the year end. She believes that since some ELHT trusts have not been created by March 31, the eligibility criteria to report the expense is not met under PSAS. The negotiated terms with the bargaining agents under the 2015 Collective Agreement does not, in the opinion of the AG, create the necessary conditions to create a liability, and thus the obligation should not be recorded ($47M). The professional staff's view is that the 2015 Collective Agreement sets out the obligation of the Province, to the unions and therefore, members of the union. The Trust is simply a vehicle that is being used. The fact that some of the Trusts were not established by March 31, 2017 is not relevant to the assessment that the Province has lost its discretion regarding making this payment.

2016-17 OAG Summary of Unadjusted Differences

Issue	Explanation
Child Care Catch-up Payment -- Government has not recorded this expense in 2016-17; AG's view is that expense should have been recorded ($58M)	The AG believes that the government must report the expense since it has publicly communicated it's intention to fund this program through an announcement on Sept 23, 2016. On the same day, the Premier also mandated for additional child care spaces to be put into action. The AG's has cited that under PSAS, authorization to fund this program prior to the release of the financial statements (the "stub period") is further evidence that an expense has been committed in the 2016-17 fiscal year. Therefore, in the opinion of the AG, the TP expense and TP liability is understated by $58M. The increased funding is related to increasing the number of childcare spaces, which will not occur prior to the service providers receiving the increased funding. Professional staff's view is to accrue an expense for a transfer payment, the eligibility criteria for the transfer must be met during the year and the transfer must be authorized. The eligibility criteria were not met as the transfer agreement was not finalized with the Municipal Service Managers (CMSMs) and District Social Services Administration Boards (DSSABs) prior to the end of the year.

2016-17 OAG Summary of Unadjusted Differences

Issue	Explanation
IESO departure from GAAP – IESO has adopted rate regulated accounting; AG's view is that rate regulated accounting is not permitted under Public Sector Accounting Standards ($24M)	IESO has adopted rate regulated accounting in its December 31, 2016 financial statements applying rate-regulated guidance from United States Generally Accepted Accounting Principles. The AG has stated that it is inappropriate for the government to record regulatory deferral accounts in the Consolidated Financial Statements under Public Sector Accounting Standards. In her opinion, IESO's financial results should be not reflect rate regulated assets. The AG also emphasized that there is no "independent, third party regulator" on a consolidated basis as required under the criteria in US GAAP, as both the OEB and IESO are not independent from the government. As a result, the effects of the establishment of the rate regulated assets on IESO's financial statements should be reversed upon consolidation in the consolidated financial statements. Revenue is understated by $24M, and accumulated deficit is understated by $58M. The financial statements of the IESO are audited by KPMG under Public Sector Accounting Standards. KPMG issued a clean opinion on the financial statements and has drafted an opinion in connection with the accounting for the Fair Hydro Plan that supports the use of rate regulated accounting. KPMG has also obtained an opinion from another public accounting firm that supports the use of rate regulated accounting under Public Sector Accounting Standards.

2016-17 OAG Summary of Unadjusted Differences

Issue	Explanation
IESO Market Accounts – IESO has changed is accounting policy during the year to include in its financial statements the amounts due from power distributors and due to power generators. The AG does not believe that these amounts meet the definitions of assets or liabilities respectively	Independent Electricity System Operator (IESO) is recording market account balances which relate to the transactions between electricity market participants (generators and distributors). The AG's view is that the Province has no access to use the market account assets for their own benefit nor does the Province have an obligation to settle the market account liabilities. Therefore, to include them is an overstatement of assets and liabilities by $1.65B. Including the market account balances has no impact on the annual deficit, net debt or accumulated deficit. The financial statements of the IESO are audited by KPMG under Public Sector Accounting Standards. KPMG issued a clean opinion on the financial statements. In conducting their analysis, IESO reviewed the financial statement of eight other independent system operators in North America and all but one record the market accounts on their financial statements. IESO's view is that this change in accounting is more transparent.

2016-17 OAG Summary of Unadjusted Differences

Issue	Explanation
Remedy accrual ($160M) – EDU has not adjusted the accrual from Remedy from the prior year; the AG's view is that the accrual is over-stated and should be reduced.	The AG assessed the various scenarios prepared by the Ministry of Education as possible estimates of what the potential cost of remedy will be. Upon review, the AG has estimated that the reasonable estimate of the cost of remedy will be based upon the scenario which settlement will be similar to what has been awarded to other bargaining agents, which is the lowest of the three scenarios. As a result, the AG has determined that the remedy accrual is over-estimated at the year end. The professional staff's view is that the lowest estimate is not necessarily more likely than the other scenarios that EDU prepared. If ETFO were willing to accept a comparable settlement to the other unions, they would not likely have decided to return to court to determine the settlement. Given the decision of ETFO to return to court, there is a sufficient amount of uncertainty in what the court will decide. The average of the three scenarios modeled by EDU is slightly above the original amount expensed, supporting not adjusting the accrual until the ETFO settlement is finalized.

2016-17 OAG Summary of Unadjusted Differences

Issue	Explanation
Algonquin land claim ($200M) – MAG has not accrued any amount for this land claim. The AG's view is that an amount should be expensed in 2016-17.	On October 18, 2016, Canada, Ontario and Algonquin of Ontario (AOO) signed a final Agreement in Principle (AIP) to establish a mandate for treaty negotiations. Included in the AIP is an estimate of a settlement value of $425 million in cash and land. The AG has looked at other First Nation negotiations and determined a likelihood estimate that the agreement will be ratified (18 out of 22, 82%). The AG has also determined that a reasonable amount can be estimated (1/2 of $425M is Ontario's share), and has also taken into consideration that the Federal government has recorded a liability for this land claim for approximately $200 million. Therefore, the AG has determined that a contingent liability of approximately $200M needs to be recorded as at March 31, 2017. Ontario's historical policy has been to record land claims at the date of ratification. This policy is consistent with that of British Columbia, the other province that has a number of these types of claims (comprehensive claim vs. a breach of treaty claim.). Based on the uncertainty in the ratification process (e.g. the level of agreement required of the First Nations communities) and the difference between the Provincial Government and the Federal Government with respect to the ratification process, the professional staff does not believe the there is sufficient certainty with respect to outcome and estimate to record a liability in the 2016-17 year.

2016-17 OAG Summary of Unadjusted Differences (not disputed by the Province)

Issue	Explanation
Subsequent year-end tax receipts (EHT, Gas, Tobacco, Fuel,etc.) – ($104 million)	The AG identified unaccrued revenues that were received after the year-end that related to 2016-17
Personal Income Tax ($312 million)	The AG was presented with updated data based on July data from the Canada Revenue Agency which indicated personal tax revenue may have been over estimated for 2016-17. The AG was satisfied not to make any changes to the revenue estimate currently based on June data.
Ontario Rebate for Electricity Consumers (OREC) over-accrual – ($29 million)	The AG detected an over-accrual for expense related to OREC in the fiscal year that was not justifiable given past level of expense for the program.
Ontario Works – late claims not accrued - $23 million	The AG identified unaccrued claims relating to 2016-17 that were not reported as expense by the program.
Drug rebate fiscalization – cutoff error (calendar versus fiscal year) - $100 million	The AG reviewed the timeliness of the claims made to pharmaceutical manufacturers and determined that claims made for the claims over the calendar year (January – December) were booked as fiscal year recoveries (April – March).
Consolidation of CCACs/CAS' – opening balance sheet impact (no deficit impact)	The AG has deemed that these groups of organizations are controlled by the Province and should be consolidated.

2016-17 OAG Summary of Unadjusted Differences

AG Concern or Area of Interest	Explanation
Personal Income Tax ($312M)	The AG was presented with updated data based on July data from the Canada Revenue Agency. Upon analysis, it was determined by the Office of Economic Policy that initial revenues from personal taxes may have been over estimated. The AG was satisfied not to make any changes to the revenue estimate based on June data as there was additional information outstanding that was not determinable as to whether any adjustment was appropriate.