TBS

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

AG Concern or Area of Interest	Explanation
Grassy Narrows contaminated sites liability ($85M)	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 government has created a constructive obligation and $85 million should be recorded in the 2016-17 fiscal year.
ELHT Trust not established and transition costs should not be accrued ($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). An accrual for one-time transition cost was made to transition employee benefits into the trust of $5M. However, there is no commitment for this cost and therefore no accrual should be made. Her view is total $52M overstatement of expense and liabilities.

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AG Concern or Area of Interest	Explanation
Child Care Catch-up Payment not accrued (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 with authority 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.
Pension Assets Valuation Allowance (1.4B)	Included in the consolidated financial statements is a net pension asset related to the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan. The AG has publicly stated that Canadian public sector accounting standards require a valuation allowance to be recorded where there is uncertainty as to the Province's legal right to use the net pension asset. Her view is the Province does not have the unilateral legal right to use this asset because its ability to reduce future minimum contributions or withdraw any pension plan surplus is subject to agreement with the respective pension plans' joint sponsors. As at March 31, 2017, there were no such agreements in place. Expense is understated by $1.4B, and accumulated deficit is understated by $12.4B.

2016-17 OAG Summary of Unadjusted Differences

IESO departure from GAAP - rate regulated deferral accounts. ($24M)	IESO has adopted rate regulated accounting in its December 31, 2016 financial statements has applied rate-regulated guidance from United States Generally Accepted Accounting Principles. The AG has stated that it is inappropriate to a 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 prior to consolidation in the Annual Report. Revenue is understated by $24M, and accumulated deficit is understated by $58M.
IESO Market Accounts other assets and other liabilities overstated (no deficit impact)	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.

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ODB rebate calendar vs. fiscal ($104M)	ODB rebate currently calculated based on calendar year instead of fiscal year. There are two errors: 1) Recording 2015-16 revenue in 2016-17 $259,647,401, 2) Not recording 3 months of 2016-17 revenue of $ 159,293,890.
Remedy accrual ($160M)	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.
Algonquin land claim ($200M)	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 package. 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). Therefore, the AG has determined that a contingent liability of approximately $200M needs to be recorded as at March 31, 2017.

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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.