

Legislative
Assembly
of Ontario



Assemblée
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de l'Ontario

STANDING COMMITTEE ON PUBLIC ACCOUNTS

PUBLIC ACCOUNTS OF THE PROVINCE

(CHAPTER 2, 2015 ANNUAL REPORT OF THE OFFICE OF THE AUDITOR
GENERAL OF ONTARIO)

2nd Session, 41st Parliament
66 Elizabeth II

ISBN 978-1-4868-0118-3 (Print)
ISBN 978-1-4868-0120-6 [English] (PDF)
ISBN 978-1-4868-0122-0 [French] (PDF)
ISBN 978-1-4868-0119-0 [English] (HTML)
ISBN 978-1-4868-0121-3 [French] (HTML)

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The Honourable Dave Levac, MPP
Speaker of the Legislative Assembly

Sir,

Your Standing Committee on Public Accounts has the honour to present its Report entitled Public Accounts of the Province (Chapter 2, 2015 Annual Report of the Office of the Auditor General of Ontario) and commends it to the House.

Ernie Hardeman, MPP
Chair of the Committee

Queen's Park
May 2017

STANDING COMMITTEE ON PUBLIC ACCOUNTS
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Toronto, Ontario M7A 1A2



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PREAMBLE

On October 5, 2016 the Standing Committee on Public Accounts (the Committee) held public hearings on the audit of the Public Accounts of the Province, Chapter 2 of the Office of the Auditor General of Ontario (the Auditor)'s 2015 Annual Report. Senior officials from the Treasury Board Secretariat, the Ministry of Finance, the Ontario Financing Authority, and the Workplace Safety and Insurance Board participated in the hearings. (For a transcript of the Committee proceedings, please see Committee *Hansard*, October 5, 2016.)

The Committee endorses the Auditor's findings and recommendations and presents its own findings, views, and recommendations in this report. The Committee requests that the Treasury Board Secretariat provide the Committee Clerk with written responses to the recommendations within 120 calendar days of the tabling of this report with the Speaker of the Legislative Assembly, unless otherwise specified.

Acknowledgements

The Standing Committee on Public Accounts extends its appreciation to officials from the Treasury Board Secretariat, the Ministry of Finance, the Ontario Financing Authority, and the Workplace Safety and Insurance Board for their attendance at the hearings. The Committee also acknowledges the assistance provided during the hearings and report writing deliberations by the Office of the Auditor General of Ontario, the Clerk of the Committee, and staff in the Legislative Research Service.

OVERVIEW

Audit Objective and Scope

The Auditor examined the consolidated financial statements with the objective of providing reasonable assurance that the statements are free of material misstatements. The consolidated financial statements, along with the Independent Auditor's Report, are included in the Province's annual report.

The Auditor reviewed the Province's annual report, and volumes 1 and 2 of the Public Accounts, for consistency with the information presented in the Province's consolidated financial statements.

A major area of commentary in the Auditor's 2014 annual report focused on Ontario's growing debt burden. As a follow-up this was again discussed in the 2015 report, focusing on the critical implications of the growing debt for the Province's finances. Increases in the debt have been attributed to continued government borrowing to finance annual deficits and infrastructure spending.

In conducting the annual audit of the Public Accounts, the Auditor works closely with the Treasury Board Secretariat—particularly, the Office of the Provincial Controller—and the Ministry of Finance.

Background

Ontario's Public Accounts for the fiscal year ending March 31, 2015 were prepared under the direction of the Minister of Finance, as required by the *Financial Administration Act*, and the President of the Treasury Board. The Public Accounts consist of the Province's annual report, including the consolidated financial statements, and three supplementary volumes of additional financial information.

The annual report contains the Financial Statement Discussion and Analysis (FSD&A), which provides additional information on the Province's financial condition and fiscal results for the past year.

The government is responsible for preparing the consolidated financial statements and ensuring that this information is presented fairly. The government is also responsible for ensuring that an effective system of control is in place to authorize transactions, safeguard assets, and maintain proper records.

The three supplementary volumes of the Public Accounts consist of the following:

- **Volume 1:** Unaudited statements from all ministries and a number of schedules providing details of the Province's revenue and expenses, its debts and other liabilities, its loans and investments, and other financial information;
- **Volume 2:** Audited financial statements of significant provincial corporations, boards and commissions whose activities are included in the Province's consolidated financial statements, as well as other miscellaneous audited financial statements; and
- **Volume 3:** Detailed unaudited schedules of ministry payments to vendors and transfer payment recipients.

ISSUES RAISED IN THE AUDIT AND BEFORE THE COMMITTEE

Ontario's Debt Burden

The Auditor recommended the government work toward developing a long-term total debt reduction plan that is linked to its target of reducing its net debt-to-GDP ratio to its pre-recession level of 27%. As of March 31, 2015, the net debt-to-GDP ratio was, at 39.5%, the second-highest in Canada after Quebec at 50.7%. It has been increasing since 2007-08.

The Treasury Board Secretariat responded by stating that the government remains committed to achieving its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% after eliminating its annual deficit in 2017-18, and added the following:

- The first step in returning to a 27% net debt-to-GDP ratio is to balance the budget. Debt is incurred primarily for two reasons: to finance deficits and to make investments in capital assets. The government has a plan to invest more than \$130-billion in capital over 10 years, and \$160 billion over the 12-year period starting in 2014-15. These capital investments are amortized over a period of

time corresponding to the useful life of these assets. Once a balanced budget is achieved, the cash investment to build the assets will continue to increase the debt.

- One of the objectives of investment in capital is to improve the economic growth of the province. As that investment increases growth, it should contribute to GDP growth and the net debt-to-GDP ratio should then decline more quickly than it would without these investments in capital assets. A report issued in 2015 found that on average, investing \$1 in public infrastructure in Canada raises GDP by \$1.43 in the short term and up to \$3.83 in the long term. The government's plan therefore hinges on balancing the budget in 2017-18, while making investments in capital assets that should contribute to economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio to the government's 27% target.
- The Province has indicated it is on target to balance its budget in 2017-18. As a result, net debt-to-GDP is forecast to peak in 2015-16 at 39.6%, remain unchanged in 2016-17 and begin to decline to 38.9% in 2017-18. The Province's track record of beating its deficit targets seven years in a row has contributed to net debt-to-GDP ratios that are consistently lower than forecast. For example, the 2014-15 Public Accounts forecasted peak net debt-to-GDP of 39.9% in 2015-16 declining to 39.3% in 2017-18.

The Auditor added that there is no targeted achievement date for the debt reduction plan. These figures for net debt-to-GDP do not reflect a retroactive adjustment for the effects of the pension adjustment made in 2015-16, as per the Auditor.

Committee Recommendation

The Standing Committee on Public Accounts recommends that

1. **Treasury Board Secretariat provide the Committee with a long-term debt reduction plan (medium and long term) that is linked to the government's target of 27% for the net debt-to-GDP ratio, based on the facts presented in the Auditor General's report.**

Financial Statement Discussion and Analysis

The Auditor recommended the government consider the guidance outlined in the Public Sector Accounting Board (PSAB)'s Statements of Recommended Practice in preparing its Financial Statement Discussion and Analysis (FSD&A) for its annual report.

The Treasury Board Secretariat noted that the Province continues to strive to provide high-quality financial reports that support transparency and accountability in reporting to the public, the Legislature, and other users. In preparing the 2015-16 annual report, the government reviewed reporting practices of other Canadian governments and also referenced recommended practices issued by the PSAB. The Treasury Board Secretariat also cited the following enhancements it made to the Province's 2015-16 annual report and accompanying data visualizations, which are intended to improve the transparency and accountability in the government's financial reporting:

- an expanded comparison of the current year's results to those of the prior year, including analysis of the trends over a five-year period as related to several financial items, including an expanded discussion on balance sheet items;
- a description of the Province's capital assets, reflecting their importance in service delivery and their impact on the Province's financial condition;
- a description of risks and uncertainties that impact the government's financial results and details on how the government manages those risks; and
- supplementary data visualization on the Ontario.ca website which will graphically present more details on the financial information contained in the annual report and supporting volumes.

The Committee learned that Ontario has consistently earned high scores of A or A- in recent years in an annual survey and assessment of the fiscal accountability of Canada's senior governments conducted by the C.D. Howe Institute. The Institute considers various factors, both in terms of the variance between projections and actual results and how accurately governments have been forecasting their expenditure needs and their revenue expectations. The Institute's most recent report highlighted the strength of Ontario's presentation of its consolidated financial statements (a component of the annual report):

The top presentation marks go to Alberta and Saskatchewan, with Ontario not far behind. British Columbia and New Brunswick also earn high marks for consistent and clear presentations, but auditor reservations push them out of the top tier. The federal government provides reliable numbers, but its budgets do not display them prominently, and the spending estimates members of parliament review are on an incompatible basis of accounting.¹

¹ C.D. Howe Institute, *Controlling the Public Purse: The Fiscal Accountability of Canada's Senior Governments, 2016*, April 2016, p. 1, accessed April 12, 2017, https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/commentary_448.pdf.

Committee Recommendation

The Standing Committee on Public Accounts recommends that

2. **Treasury Board Secretariat provide the Committee with details on how it has or will incorporate the Public Sector Accounting Board (PSAB)'s Statements of Recommended Practice (SORP) into the Province's Financial Statement Discussion and Analysis (FSD&A).**

Other Matters

As an update, the Auditor noted that as a result of the government's and the Workplace Safety and Insurance Board (WSIB)'s commitments to address the unfunded liability and progress made, she supported the continued classification of the WSIB as a trust for the 2014-15 fiscal year and therefore the exclusion of the unfunded liability from the Province's liabilities. The Auditor added that she will continue to monitor the WSIB's progress on meeting the required funding sufficiency ratios and re-evaluate her position as necessary.

Committee Recommendation

The Standing Committee on Public Accounts recommends that

3. **Treasury Board Secretariat provide the Committee with its rationale for excluding the WSIB's financial results from the Province's consolidated financial statements.**

The *Trillium Trust Act, 2014* (Act) provides for an account to be maintained in the Public Accounts to track the prescribed amounts of financial benefits to Ontario from the sale of qualifying assets under the Act. The Act also requires the account to record all expenditures made under the Act to support infrastructure investments. It should be noted that the Ontario Trillium Trust is not a separate legal trust with its own funds; it is the name of an account within the consolidated revenue fund set up to track transactions in accordance with the Act.

Committee Recommendation

The Standing Committee on Public Accounts recommends that

4. **Treasury Board Secretariat provide the Committee with its rationale for presenting the Trillium Trust transactions in its own schedule.**

A PSAB standard, entitled PS 3260, Liability for Contaminated Sites, addresses ways to account for, and report on, liabilities associated with contaminated sites, and their remediation. This standard was in effect for the Province's fiscal year ending March 31, 2015. Under PS 3260, a liability for remediation of contaminated sites must be recognized when certain criteria have been met. Specifically, under PS 3260, a liability for remediation of contaminated sites must be recognized when, as of the financial statement reporting date, all of the following criteria have been met:

- an environmental standard exists;
- contamination exceeds the environmental standard;
- the government or government organization is directly responsible for or has accepted responsibility for the site;
- it is expected that future economic benefits will be given up to remediate the contamination; and
- a reasonable estimate of the cost of remediation can be made.

The resulting implementation of PS 3260 and the recognition of its liability for contaminated sites increased the environmental liabilities recognized in the Province's consolidated financial statements by \$1.685 billion, from \$107.0 million in previous years. The new total liability as at March 31, 2015, was \$1.792 billion.

Committee Recommendation

The Standing Committee on Public Accounts recommends that

- 5. Treasury Board Secretariat provide the Committee with the plan for funding the liability for contaminated sites for \$1.79 billion.**

Some Canadian governments have begun in certain circumstances to legislate specific accounting treatments rather than apply independently established accounting standards. This includes Ontario, which several times in recent years passed legislation or amended regulations to enable it to prescribe accounting policies for its public-sector entities and its consolidated financial statements. The Auditor reported in 2008 that it was a troubling precedent to adopt accounting practices through legislation rather than through an independent, consultative process such as that of Public Sector Accounting Board (PSAB). Although these legislated accounting treatments have not yet resulted in the Province's consolidated financial statements materially departing from PSAB standards, the risk of such a material misstatement in the future has increased.

Committee Recommendation

The Standing Committee on Public Accounts recommends that

- 6. Treasury Board Secretariat outline to the Committee the rationale for having legislation in place that could override public sector accounting standards.**

CONSOLIDATED LIST OF COMMITTEE RECOMMENDATIONS

1. Treasury Board Secretariat provide the Committee with a long-term debt reduction plan (medium and long term) that is linked to the government's target of 27% for the net debt-to-GDP ratio, based on the facts presented in the Auditor General's report.
2. Treasury Board Secretariat provide the Committee with details on how it has or will incorporate the Public Sector Accounting Board (PSAB)'s Statements of Recommended Practice (SORP) into the Province's Financial Statement Discussion and Analysis (FSD&A).
3. Treasury Board Secretariat provide the Committee with its rationale for excluding the WSIB's financial results from the Province's consolidated financial statements.
4. Treasury Board Secretariat provide the Committee with its rationale for presenting the Trillium Trust transactions in its own schedule.
5. Treasury Board Secretariat provide the Committee with the plan for funding the liability for contaminated sites for \$1.79 billion.
6. Treasury Board Secretariat outline to the Committee the rationale for having legislation in place that could override public sector accounting standards.