Message

From: Terry Young [/O=EXCHANGELABS/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=872FA3F6E61A48709B11458C0C3B6CA6-TERRY YOUNG]
Sent: 2018-04-11 9:27:35 AM
To: mmcclearn@globeandmail.com
CC: John Cannella [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=cd667c6d53774dd0a749783bb02ae89d-John Cannel]
Subject: Responses

Matt,

Please find below responses from Kim Marshall to some of your recent questions that you had provided the IESO. There is one remaining question that you had regarding the services provided by KPMG, which we will respond to shortly.
Terry

1. When did the IESO let the Auditor General know about the changes to its accounting practices in 2017?

The IESO Board of Directors approved changes to its accounting policies on March 15, 2017, and approved its audited financial statements on Wednesday, March 22. The IESO reached out to the Auditor General's office the following Monday, March 27 and again on April 4, to inform them of the changes in accounting policies. On April 20, the Auditor General's office requested a meeting with the IESO and KPMG to understand and discuss these changes in further detail. That meeting took place on April 25, 2017.

The Board subsequently met with the AG and her staff in June and July. Throughout this process the Board and the Audit Committee of the Board, IESO management, and KPMG have spent a considerable amount of time reviewing the decision and the AG's concerns. While the IESO and the AG have disagreed around the decision to change our accounting practices, in no way has this affected our commitment to cooperate fully with the AG in any of her interactions with the IESO including the recent special audit. In all instances the IESO has fully cooperated with the Auditor General and her office.

2. Was the IESO asked to change its accounting policies by the government?

The IESO reviews its accounting policies from time-to-time to ensure our financial reporting best represents our operations and the substance of the accounts we oversee. In early 2017, an internal review of our accounting policies was initiated after a conversation with the Office of the Provincial Controller about the IESO's financial reporting of market accounts but the IESO was not directed to change its accounting policy by government.

The IESO worked with KPMG on the review and determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in the IESO financial statements. By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable. Draft white papers on the reporting options from KPMG were provided to the Provincial Controller on February 21, 2017.

Ultimately, the IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to over $17 billion last year. The IESO also determined that recognizing regulatory assets would provide more transparency into the substance of certain accounts that we oversee.

3. For publicly-traded companies, there are certification requirements in Canada. For example, the CEO and CFO certify that the issuer's financial statements contain no misrepresentation, that the financial statements fairly present

the financial condition of the issuer, and so on. Do those requirements apply to the IESO's financial statements? If not, what responsibilities are attached to signing off on the books of a government agency?

The IESO is required to have its financial statements audited on a yearly basis as outlined in the *Electricity Act, 1998*. When IESO engages its auditor as required under the Act, it signs a management representation letter meeting accounting audit standards. This letter identifies that management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The IESO is also required to keep proper books of account and accounting records, as outlined in section 96 of the *Corporations Act*.

As a best practice and to increase transparency for its financial statement users, the IESO also includes a Management Report in its financial statements that is signed by the CEO and CFO. This letter summarizes the statements made in the management representation letter and identifies the independent third party auditor. This can be found on page 8 of our most recent Annual Report. The Board Chair and the Chair of the Audit Committee sign the IESO financial statements.