Ontario

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June 24, 2020

Memorandum to: Mr. Christopher Tyrell, Committee Clerk
Standing Committee on Public Accounts
Procedural Services Branch, Legislative Assembly of Ontario

SUBJECT: **Ministry Response to the 2020 Standing Committee on Public Accounts - Status Updates on the Auditor General's 2018 Annual Report**

Further to your request in your letter dated February 18, 2020, please find enclosed the summary status table in response to the recommendations of Standing Committee on Public Accounts which were tabled in its Report on the Public Accounts of the Province (Chapter 2, 2018 Annual Report of the Office of the Auditor General of Ontario).

Responses to Committee recommendations 1, 2 and 3 were agreed to and prepared in consultation with the Office of the Auditor General and the Office of the Provincial Controller Division.

Treasury Board Secretariat has coordinated its response with other parties and is responding on behalf of the Ministry of Finance.

Thank you,

Original signed by

Kevin French, Deputy Minister, Treasury Board Secretariat
Secretary of Treasury Board and Management Board of Cabinet

c: Greg Orencsak, Deputy Minister, Ministry of Finance
Karen Hughes, Deputy Minister, Ministry of Government and Consumer Services

Ontario

RESPONSE TO THE PUBLIC ACCOUNTS COMMITTEE RECOMMENDATIONS TABLED IN 2020

Ministry/Agency: TREASURY BOARD SECRETARIAT

Report Title: PUBLIC ACCOUNTS OF THE PROVINCE (CHAPTER 2, 2018 OAGO ANNUAL REPORT)

Rec #	Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (Including Timeline)
1.	The Auditor General Act should be amended to: a. require government ministries, and agencies and crown corporations which are consolidated into the Province's financial statements to give advance notice to the Auditor General and ask for comment regarding external auditing firms they propose to hire to perform an audit or provide accounting advice; and	The issue giving rise to this recommendation stems from an accounting versus audit issue. The interests of government ministries, agencies, crown corporations, OPCD and OAGO are best served when there is early discussions on accounting treatments in relation to PSAS/IFRIS and any potential impacts on the Public Accounts. OPCD has established a group, called the Controllership Policy and Accounting Consultation Branch (CPAC), dedicated to researching and addressing complex accounting issues that was created for the purpose of providing accounting advice to ministries. The Secretariat has implemented instructions which require government ministries to notify OPCD and OAGO and seek comment prior to engaging external accounting advice. Agencies and crown corporations are also encouraged to notify OPCD and OAGO when they engage external accounting advice . Agencies will still be encouraged to consult their own external financial statement auditors when accounting issues arise. In addition, agencies will be directed to provide accounting position papers (if significant) in addition to their draft financial statements (when available) to OPCD and OAGO prior to the finalization of the agency's financial statements.	N/A
	b. allow the Office of the Auditor General of Ontario to reject the proposed selection of external auditing firms hired to perform financial statement audits on agencies and crown corporations which are consolidated into the Province's financial statements, and those that provide accounting advice to government ministries or agencies and crown corporations.	Currently the OAGO has the ability to either perform financial statement audits under legislation or can choose to perform a financial statement audit of an entity as a special audit. They have oversight over private sector external auditors that audit agencies and crown-controlled corporations both by virtue of the Auditor General Act and under CAS600, which is a Canadian Auditing Standard. They can also perform work on audit files completed by external audit firms, and have access to the private sector auditing firms working papers. It is in the best interests of agencies and crown corporations and the OAGO to keep channels of communication open on significant accounting and auditing issues.	N/A
2.	The Auditor General Act should be amended to give the Office of the Auditor General of Ontario the authority and discretion to be the appointed financial statement auditor of agencies, organizations, and crown corporations consolidated into the Province's financial statements.	Until such time as an Act change may be feasible, agencies, organizations and crown corporations consolidating into the Province's financial statements, are encouraged to provide OPCD and OAGO with a final draft copy of their financial statements prior to the finalization and approval of the statements by the entity's Board of Directors (excluding hospitals and school boards). This process will allow OPCD and OAGO to understand the significant transactions occurring during the fiscal year and to review any accounting policy changes at the entity that may not have been brought to the attention of OPCD or OAGO otherwise. In addition, this will allow OPCD and OAGO to provide any relevant commentary on the financial statements prior to approval by the entity's Board. The Office of the Auditor General is currently able to directly conduct financial statement audits for most entities that are consolidated into the public accounts if there was a need. This was demonstrated with the OAGO auditing the IESO for a period of time deemed necessary.	N/A
3.	Treasury Board Secretariat should communicate to ministries, agencies, and crown corporations that any external auditing firm that audits the financial statements of a ministry, agency or crown corporation which consolidate into the Province's financial statements, and which is deemed material by the Office of the Auditor General of Ontario, shall not provide accounting advice or accounting advisory services for the ministry that the agency or crown corporation reports to, or to Treasury Board Secretariat, or to other ministries, agencies or crown corporations that may be involved in a related party transaction.	The OAGO is the primary Auditor for the Province, therefore, under professional conduct standards, there is a requirement for private sector audit firms to notify the OAGO prior to being engaged to provide accounting advisory services. OAGO has been meeting with the firms to discuss this, including discussions around the CAS600 relationship and the *Auditor General Act*. OPCD will continue to inform ministries, agencies and crown corporations on the need to be aware of the CPA profession conduct standards as it relates to the provision of accounting advisory services, the CAS600 requirements and the *Auditor General Act* and how these impact the private sector firms that they may hire to provide accounting advisory services that would impact the Public Accounts. This understanding is important in order to avoid situations of conflict of interest arising as it did in the case of the Fair Hydro Plan.	N/A

Rec #	Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (Including Timeline)
4.	The Province should formally document, publicly communicate, and then implement the long-term debt reduction strategy.	The Province is focused on funding the response to COVID-19 and ensuring that it has sufficient liquidity to meet these needs despite more difficult capital markets than existed even in the 2008-09 financial crisis. The government introduced the Fiscal Sustainability, Transparency and Accountability Act, 2019 (FSTAA), which puts sustainability at the centre of Provincial fiscal accountability and reporting. FSTAA defines sustainability as a governing principle of Ontario's fiscal policy and sets out the requirement that a budget include information on a debt strategy (including government objectives for the projected net debt-to-GDP ratio and progress report on actions and implementation of the strategy). The 2020 Budget will include an update on the government's debt strategy, in line with the FSTAA legislative requirements.	Further development of the Province's debt strategy. Budget 2020, to be released no later than November 15, 2020.
5.	The Province should amend Ontario Regulation 395/11 in the Financial Administration Act which could foster and encourage accounting treatments that vary from generally accepted accounting principles and amend the Financial Administration Act to convey in law clearly that the financial statements for the Province of Ontario will be prepared in accordance with Canadian Public Sector Accounting Standards (PSAS) in letter and spirit.	The Province is committed to preparing its financial statements in accordance with generally accepted accounting principles in order to provide high-quality financial reports that support transparency and accountability in reporting to the public, the Legislature and other users.	N/A
6.	The Office of the Provincial Controller Division (OPCD) should continue to print or provide an online substitute for the financial statements previously available in Volume 2 of the Public Accounts of Ontario and have this information accessible online simultaneously with the annual tabling of the Public Accounts. This online substitute should list all the entities which consolidate into the Province's financial statements and electronically link their respective financial statements.	The Province is committed to supporting full transparency and accountability in its reporting to the public, the Legislature and other users. The change in format of the former Volume 2 of the Public Accounts from a printed version to electronic is consistent with the government's Digital First Initiative. The expansion included the financial statements of the broader public sector and increased transparency for the public. The province has and continues to work on ensuring the timely and complete disclosure of the audited financial statements of its consolidated organizations at the time of the release of future Public Accounts. The Office of the Provincial Controller Division has and continues to work with ministries so that financial statements of organizations that were previously published in paper form will be available in digital form at the same time as other supplementary volumes of future Public Accounts. While communications to all affected ministries has been made to support the public availability of audited financial statements for 2019/20, TBS has updated the Agency and Appointments Directive for provincial agencies to clarify the requirement. TBS is also revising the BPS Business Documents Directive to implement the recommendation on timing for posting audited financial statements no later than the release of Public Accounts.	N/A