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PUBLIC ACCOUNTS OF ONTARIO (CHAPTER 2, *2020 ANNUAL REPORT* OF THE AUDITOR GENERAL OF ONTARIO) BACKGROUND MATERIAL FOR HEARING*

Prepared for:

Standing Committee on Public Accounts

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PREAMBLE

This research package was prepared by Legislative Research with input from the Office of the Auditor General (the Auditor). It provides a brief summary and relevant documents for the Committee's hearings on Public Accounts of Ontario, a chapter in the Auditor General's *2020 Annual Report*. It is recommended that Members refer to Chapter 2 (see Appendix item 1) when quoting the Auditor.

BACKGROUND

The government is responsible for preparing the consolidated financial statements and ensuring that this information, including many amounts based on estimates and judgment, is presented fairly. The government is also responsible for ensuring that an effective system of control, with supporting procedures, is in place to authorize transactions, safeguard assets, and maintain proper records.

AUDIT OBJECTIVE AND SCOPE

The Office of the Auditor General (Office) audits the consolidated financial statements, with the objective of expressing an opinion on whether the statements are free of significant errors or omissions and are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS). The consolidated financial statements, along with the independent Auditor's Report, are included in the Province's annual report, along with the Financial Statement Discussion and Analyses.

In 2020 the Auditor issued an unqualified audit opinion on the Province's consolidated financial statements for 2019/2020, indicating that the statements are reliable. The Auditor's audit opinion was unqualified for the third consecutive year.[1]

The Office faced numerous challenges and identified additional risks associated with the audit as a result of the global COVID-19 pandemic. The additional risks resulted from new provincial spending announcements, availability of information, and capital market volatility caused by the pandemic. The Office performed additional work to address the risks, and they were considered when the unqualified opinion was issued.[2]

MAIN POINTS OF AUDIT

The Auditor found that, as of October 2020, "the government met all reporting deadlines under the *Fiscal Sustainability, Transparency and Accountability Act, 2019*, with the exception of issuing the 2020 budget." While the government released an economic update in March 2020, the document did not meet the multi-

[1] *2020 Annual Report*, Office of the Auditor General of Ontario, p. 1

[2] *2020 Annual Report*, p. 11.

year fiscal plan required in a budget. As a result, both the Minister of Finance and the Premier were subject to a financial penalty.[3]

In 2018/19, the province discontinued the printing of Volume 2 of the Public Accounts, which details the individual financial statements of provincial corporations, boards and commissions that are consolidated into the province's accounts. Instead, the government established a website with links to the financial statements of each consolidated entity. Following delays in posting links of audited financial statements the previous year, the Auditor noted that the government "demonstrated significant improvement" with the release of the 2019/20 Public Accounts; links to audited financial statements for the vast majority of broader-public-sector organizations and other government organizations were available by the date of the documents' release.[4]

Established by the *Financial Services Regulatory Authority of Ontario Act*, *2016*, the Financial Services Regulatory Authority of Ontario (Authority) assumed the regulatory responsibilities of the Financial Services Commission of Ontario (Commission) and the Deposit Insurance Corporation of Ontario (DICO) on June 8, 2019. The Auditor examined the transition, which included the transfer of assets and liabilities from the Commission to the Authority, the amalgamation of the Authority and DICO, and the transfer of the Commission and DICO employees to the Authority. The Audit found a lack of planning to enable timely financial reporting of the wind-up of the organization. Examples included insufficient staff with applicable knowledge of the Commission's operations, initial unwillingness by some unionized employees to cooperate with the audit, and delays related to access to the payroll system.[5]

The auditor also recommended the consolidation of Ontario's Children's Aid Societies into the Public Accounts. These organizations, funded by the government to the tune of $1.6 billion annually, help protect Ontario's children at risk of abuse or neglect, and provide care, supervision, and other services to children and their families. The Auditor noted that, given "the province's degree of influence over the operational and financial decisions of the Societies, the province controls the Societies for accounting purposes." Therefore, the Auditor suggested, the Societies' finances should be formally consolidated in the province's financial statements.[6] In 2019/20, this would result in approximately $670 million of additional financial and capital assets and $426 million of additional liabilities being reflected in the province's financial statements.

Liability for contaminated sites was also considered in the Audit. The Auditor found that the liability balance was $1.7 billion as of March 31, 2020, a slight decrease from $1.8 billion a year prior. While ministries have mechanisms in place to annually update contaminated site liabilities, the processes differ from one ministry to another. The identification of new sites, for instance, is done by

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3 *2020 Annual Report*, p. 1; Public Accounts of Ontario, 2020 Value for Money Audit Summary.
4 *2020 Annual Report*, p. 11.
5 *2020 Annual Report*, pp. 14-15.
6 *2020 Annual Report*, pp. 16-17.

reviewing engineering reports and studies in one ministry, while another is relying on reports completed as a result of other activities such as disposition, transfer and easement. The timing of assessment of sites among ministries was also inconsistent. While ministry processes include reviewing each site annually, the Auditor found that only a few sites were assessed in the 2019/20 fiscal year.[7] Figure 1 details the assessments of contaminated sites by fiscal year from 2014/15 to 2019/2020.

Figure 1: Contaminated Site Assessments by Year since 2014-15

Year Last Assessed	Sites (#)	Sites (%)
2019/20	3	1
2018/19	3	1
2017/18	17	6
2016/17	12	4
2015/16	12	4
2014/15	228	83
Total Sites	**275**	**100**

Source: *2020 Annual Report*, Office of the Auditor General of Ontario.

The Ontario Energy Board (OEB) regulates Ontario's energy utilities. This includes licensing all participants in Ontario's energy sector and setting the rates at which utilities are allowed to collect money from customers for delivering electricity and natural gas to homes and businesses. The Ministry of Energy, Northern Development and Mines performed a review of the OEB's governance and operations through a review panel who recommended many changes to the OEB's governance framework.

As stated above, the OEB is responsible for setting the electricity commodity prices for Ontario. The Auditor's office provided an explanation of the components of the retail electricity price, including the regulatory price plan, the global adjustment and electricity price mitigation. The OEB sets electricity prices with a goal of recovering all of the projected costs of supplying electricity to consumers, based on projected electricity consumed, within the subsequent year.

The Auditor remained concerned about Ontario's debt burden. Additional debt was incurred as a result of the province's efforts to combat COVID-19.[8] Figure 2 details Ontario's actual and estimated total debt, net debt, and accumulated deficit for fiscal years 2013/14 to 2022/23.

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[7] *2020 Annual Report*, pp. 18-19.
[8] *2020 Annual Report*, pp. 28-29.

Figure 2: Total Debt[9], Net Debt[10] and Accumulated Deficit[11] 2013/14 – 2022/23 ($ millions)

	Actual						Estimate			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19[2]	2019/20[2]	2020/21[3]	2021/22[3,4]	2022/23[3,4]
Total debt	291,889	311,047	319,750	324,270	336,885	354,264	372,790	408,918	444,465	475,065
Net debt[1]	276,169	294,557	306,357	314,077	323,834	338,496	353,332	397,972	437,814	472,932
Accumulated deficit[1]	184,835	196,665	203,014	205,939	209,023	216,642	225,764	264,232	297,340	325,500

1. 2020 Ontario Budget.
2. March 31, 2020 Province of Ontario Consolidated Financial Statements.
3. Net debt and accumulated deficit includes the reserve, as reported in the 2020 Ontario Budget.
4. Total debt assumes a reduction of the same amount of holdings of Ontario bonds and treasury bills as 2020/21.

Source: *2020 Annual Report*, Office of the Auditor General of Ontario

Ontario's ratio of net-debt-to-GDP, a key indicator of the government's ability to carry its debt, is expected to reach 49.6% in three years, almost ten percentage points higher than the 39.7% recorded in 2019/20. According to the Auditor, "many experts believe [that] when a jurisdiction's net-debt-to-GDP ratio rises above 60%, that jurisdiction's fiscal health is at risk and is vulnerable to unexpected economic shocks."[12]

Aside from fiscal vulnerability, consequences of high indebtedness include interest payments "crowding out" funding for other programs, a greater vulnerability to interest rate increases, and potential credit-rating downgrades.[13]With interest rates at historic lows, interest expense is currently the province's fourth-largest annual expenditure behind health, education, and children's and social services.

As part of the annual audit of the Public Accounts of Ontario, the Auditor regularly examines whether costs related to government transfer payment programs and government contracts are appropriately reflected in the consolidated financial statements of the province. During the performance of the 2019/20 fiscal year (April 1, 2019 to March 31, 2020) audit, the Auditor received requests from Members of Provincial Parliament (MPPs) to review the transparent reporting and appropriate accounting treatment of transfer payments under the Ontario Autism Program, and of costs associated with certain government contracts, including:

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[9] **Total debt** is the amount of borrowed money the government owes to external parties, and consists of bonds issued in public capital markets, non-public debt, treasury bills and US commercial paper. Total debt provides the broadest measure of a government's debt load.
[10] **Net debt** is the difference between the government's total liabilities and its financial assets. Liabilities consist of all amounts the government owes to external parties, including total debt, accounts payable, pension and retirement obligations, and transfer-payment obligations. Financial assets are those that theoretically can be used to pay off liabilities or finance future operations, and include cash, accounts receivable, temporary investments and investments in government business enterprises. Net debt provides a measure of the amount of future revenues required to pay for past government transactions and events.
[11] **Accumulated deficit** represents the sum of all past annual deficits and surpluses of the government. Accumulated deficit can also be derived by deducting the value of the government's non-financial assets, such as its tangible capital assets, from its net debt.
[12] *2020 Annual Report*, p. 30.
[13] *2020 Annual Report*, pp. 33-34.

- one-time funding for the Ontario Autism Program;
- ongoing accounting for cancelled Feed-In Tariff and Large Renewable Procurement energy contracts;
- cancellation of the Hamilton Light Rail Transit Project;
- redesign of the blue licence plates; and
- judicial review of the Nation Rise Wind Farm.

The Auditor found that the costs relating to these transfers and contracts ($212.4 million) were appropriately reflected in the consolidated financial statements of the province.[14]

AUDITOR'S RECOMMENDATIONS

Financial Services Commission of Ontario Wind-up

Recommendation 1

Should the government decide that other agencies will be wound-up in the future, we recommend that the applicable ministry and the Office of the Provincial Controller Division, in conjunction with the agency being wound-up, work together to ensure that:

- *sufficient staff with appropriate knowledge of the agency's operations be retained to assist with the wind-up process;*
- *access to other supporting government services previously used by the agency, such as payroll and financial services, be available subsequent to the agency's wind-up to enable an efficient and effective financial reporting process;*
- *responsibilities of all parties involved in preparing information used for financial reporting be clearly communicated; and*
- *timely reporting of financial information continues until the final set of financial statements are prepared, audited and released.*

Possible Question for the Ministry of Finance:

1. **What steps have been taken to ensure that, in the case of an agency being wound up in the future, there is sufficient staff with appropriate knowledge of the agency's operation to assist with the wind-up process?**

[14] *2020 Annual Report*, pp. 48-50.

Consolidation of Children's Aid Societies

Recommendation 2

We recommend that for transparency and consolidation completeness that starting in the 2020/21 fiscal year, the Ministry of Finance and the Treasury Board Secretariat, in co-ordination with the Ministry of Children, Community and Social Services, consolidate the Children's Aid Societies into the Public Accounts and reflect this in the listing of consolidated entities presented as a schedule to the consolidated financial statements.

Possible Question for the Ministry of Finance and Treasury Board Secretariat:

2. **Have steps been taken to consolidate the Children's Aid Societies into the Public Accounts?**

Recommendation 3

We recommend that in order to have a consolidation process that is orderly and timely, the Ministry of Children, Community and Social Services (Ministry) should work with the Children's Aid Societies to have their financial statement audits completed and submitted to the Ministry within the required reporting timelines.

Possible Question for the Ministry of Children, Community and Social Services:

3. **Has the Ministry of Children, Community and Social Services engaged with Children's Aid Societies to ensure that their financial statements audits are completed and submitted to the Ministry?**

Liabilities for Contaminated Sites

Recommendation 4

We recommend that the Treasury Board Secretariat work with the ministries that have contaminated site liabilities to:

- *implement a uniform approach across all ministries to ensure that all identified contaminated sites are evaluated consistently across the province; and*
- *review contaminated sites annually to determine where new detailed environmental assessments need to be completed or where estimated liabilities need to be updated to reflect changes in cost estimates, technology, remediation strategies, site conditions, environmental standards or other relevant factors.*

Possible Questions for the Treasury Board Secretariat:

4. **Has the Treasury Board Secretariat implemented a uniform approach across all ministries to ensure that all identified contaminated sites are evaluated consistently across the province?**
5. **Has the Treasury Board Secretariat been reviewing contaminated sites annually to determine where new detailed environmental assessments need to be completed or where estimated liabilities need to be updated? When was the last review?**

APPENDIX MATERIALS

The following background materials have been assembled to assist the Committee during the hearings:

1. Chapter 2 of the Office of the Auditor General's *2020 Annual Report, Volume 1* – Public Accounts of Ontario

2. Public Accounts of Ontario, 2020 Value for Money Audit Summary