



News Release

For Immediate Release

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Government's Financial Statements Becoming Increasingly Unreliable

(TORONTO) The government's continued use of non-standard accounting could throw off the accuracy of the Province's bottom line by up to \$4.5 billion next year, Auditor General Bonnie Lysyk warned after the release of her *2017 Annual Report* in the Legislative Assembly today.

"There is a very real risk that the balanced books expected to be reported by the government using these accounting methods next year will conceal the true annual deficit and net debt," Lysyk said today. "This will seriously distort the true state of the Province's finances."

The latest Annual Report outlines the detail behind Lysyk's decision to issue a "qualified" opinion on the consolidated financial statements of the Province of Ontario for 2016/17 relating to the impact of its accounting methods on the annual deficit and net debt. Her remarks today concerned what we might see in 2017/18. See the figure on page 2 for net-debt projections.

A "qualified" opinion means the statements contain one or more material misstatements or omissions resulting from the misapplication of Canadian Public Sector Accounting Standards (PSAS). Lysyk identified two issues with the government's decision to move away from Canadian PSAS:

- The government claimed as assets on its own books for 2016/17 more than \$12 billion from two pension funds it co-sponsors with teachers and civil servants, even though the government has no legal or contractual authority to use that money. The move allowed the government to report the 2017 deficit was just \$991 million, although Lysyk said that under PSAS, the deficit would be closer to \$2.435 billion.
- The government decided not to report the cost of its 25% electricity rate discount on Ontario's consolidated financial statements, which will keep the Province's annual deficit and net debt artificially lower than they should be starting in the 2017/18 fiscal year.

Lysyk also said today her Office will exercise its legal authority to audit the December 31, 2017, financial statements of the Independent Electricity System Operator (IESO). Lysyk said an independent audit by her Office is in the public interest because of the IESO's role in the government's complex new accounting/financing design to keep the cost of the 25% electricity discount off the Province's financial statements.

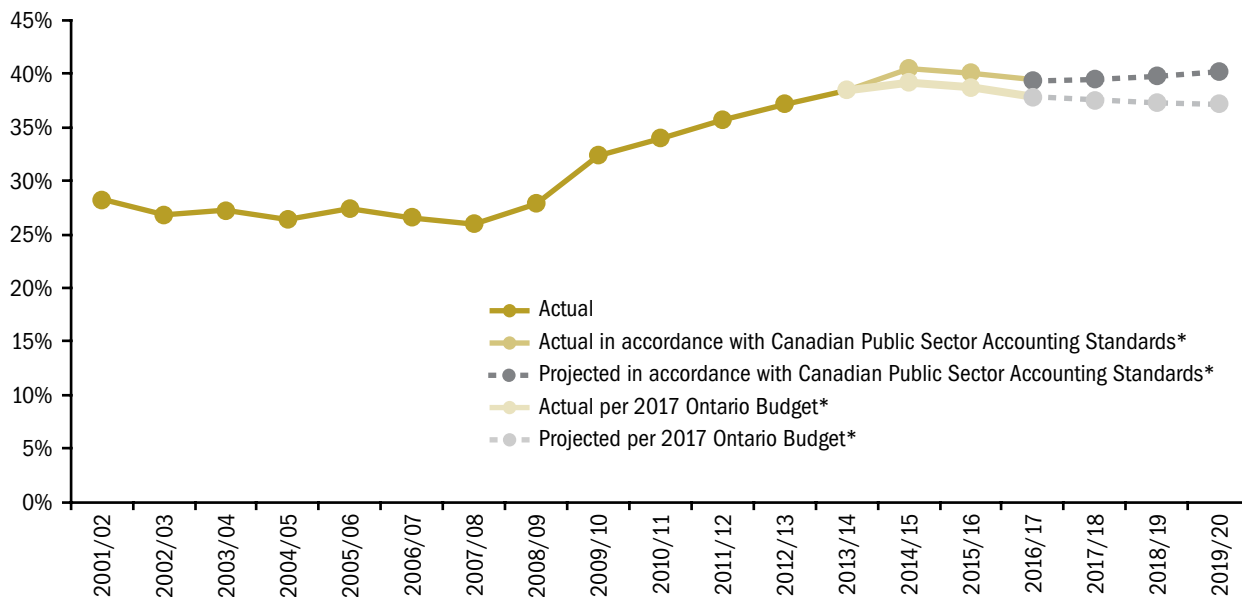
Lysyk also cautioned in the Annual Report of another potential issue on the horizon in the new year: the timing of the government's pre-election report on Ontario's finances. Under law, the Auditor General is to promptly review the pre-election report to determine whether it is reasonable and release a statement describing the results of this review. However, the work can only take place when the government passes a regulation confirming that it will release a pre-election report by a committed deadline.

The process went smoothly in the 2007 and 2011 elections, which were both held in October. The government issued its pre-election report after the spring budget, the Auditor General needed 10 weeks to review it and issue a report, and Ontarians had three months to digest both documents before the October election. "It is in the public's interest for the government to give us a pre-election report to examine as soon as possible, with sufficient time to do our work," Lysyk added.

Lysyk said her Office stands ready to work with the government to examine the pre-election report.

Ratio of Net Debt to Gross Domestic Product (GDP), 2001/02–2019/20

Source of data: March 31, 2016, and March 31, 2017, Province of Ontario Annual Reports—Financial Statement Discussion and Analysis, 2017 Ontario Budget, and 2017 Ontario Economic Outlook and Fiscal Review



* Beginning in 2014/15, the Office of the Auditor General has made an adjustment to the net pension asset in accordance with Canadian Public Sector Accounting Standards. This adjustment was not made in the government's presentation of the Province's consolidated financial statements.

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Visit www.auditor.on.ca to read the Report.



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