



Chapter 2: Public Accounts of the Province

2017 Value-for-Money Audit

Why We Did This Audit

- The Office of the Auditor General is responsible for auditing the consolidated financial statements of the Province, which are prepared under the direction of the Ministry of Finance and Treasury Board Secretariat, both with support from the Office of the Provincial Controller Division.
- The objective of the audit is to obtain reasonable assurance that the Province's consolidated financial statements are presented fairly (free of significant errors or omissions) in all material respects in accordance with Canadian Public Sector Accounting Standards (PSAS).

Why It Matters

- The Province's consolidated financial statements provide the means for Members of the Legislative Assembly and citizens of Ontario to hold the government accountable for the financial impact of its policy decisions.
- An *unqualified* audit opinion indicates the consolidated financial statements are reliable.
- A *qualified* audit opinion indicates the Auditor General has concerns about the government's compliance with Canadian PSAS.
- Ontario already has the highest sub-sovereign debt in the world.

What We Found

- The Auditor General concluded that the Province's consolidated financial statements for 2016/17 are fairly presented except for two items:
 - The government overstated the net pension asset related to the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan
 - The government inappropriately recorded the market account assets and liabilities related to transactions between power generators and distributors managed by the Independent Electricity System Operator on its financial statements.
- As a result of the above, the reported annual deficit of \$991 million for the year ended March 31, 2017, is understated by \$1.444 billion, and in fact should have been reported as \$2.435 billion under Canadian PSAS. Similarly, net debt and the accumulated deficit are both understated by \$12.429 billion as at March 31, 2017.
- The government adopted rate-regulated accounting for part of its Fair Hydro Plan 25% electricity-rate discount even though this is not permitted under Canadian PSAS. Although this departure did not result in a material misstatement in the 2016/17 consolidated financial statements, it may result in a material misstatement in the future, based on the government's accounting/financing design for the Fair Hydro Plan.
- We experienced critical delays in receiving timely communication from the private-sector external auditor of the Independent Electricity System Operator (IESO) during the audit of the IESO's December 31, 2016, financial statements. This is concerning because changes made to the IESO's accounting policies were significant not only to the Province's 2016/17 consolidated financial statements, but also to future reporting relating to the government's accounting/financing design for its Fair Hydro Plan rate reduction. Because of the significance of the IESO's accounting to the Province's consolidated financial statements, we will be conducting an audit on the IESO's financial statements for the year ended December 31, 2017.
- The Province's growing debt burden also remains a concern this year. The government should provide legislators and the public with a long-term plan for reducing Ontario's current and projected debt.
- Our concern at the time we went to print (with our *2017 Annual Report*) was that we may be put in a situation where the government does not allow us sufficient time, as required by Canadian generally accepted auditing standards, to perform the work required to issue a statement on the results of our review of the government's Pre-Election Report on Ontario's Finances.

Conclusions

- The government did not prepare the consolidated financial statements of the Province in accordance with Canadian Public Sector Accounting Standards for the year ended March 31, 2017.
- The accounting/financing design of the Fair Hydro Plan will further distort the government's consolidated financial statements and will cost Ontarians more than necessary in interest expense.
- The impact of correct accounting of the pension asset and the Fair Hydro Plan will result in increases in upcoming years in the Province's annual deficit, net debt and accumulated deficit.
- Without a plan to address the Province's increasing debt, Provincial borrowings will continue to increase at a time when Ontario already has the highest sub-sovereign debt in the world.

To view the report, please visit www.auditor.on.ca