Office of the Auditor General of Ontario

Public Accounts of Ontario

December 2020

Public Accounts of Ontario

1.0 Summary

The declaration of a global pandemic for the novel coronavirus (COVID-19) in mid-March 2020 created challenges for our audit of the province's consolidated financial statements. However, after performing expanded work to address and respond to the additional estimate and reporting risks resulting from the pandemic, we were able to issue an unqualified opinion on the province's 2019/20 consolidated financial statements. This is the third consecutive year where the statements have been fairly presented and free from material errors.

Items of note from our audit of the public accounts and other financial statement work are as follows:

- We have a requirement to report on certain government reporting under the *Fiscal Sustainability, Transparency and Accountability Act, 2019* (Act). The government met all reporting deadlines as of October 2020 with the exception of issuing the 2020 Budget. Due to COVID-19, the province was unable to issue a budget by March 31, 2020 as set out in the Act. The province issued an economic update in March 2020 but this update did not meet the budget requirements of including a multi-year fiscal plan for the next three years. As a result of this, by law, the Minister of Finance and the Premier were subject to a 10% penalty on their respective ministerial salaries. This penalty was paid by the Premier and the Minister on April 30, 2020.
- In 2018/19, the province made the decision to discontinue printing Volume 2, which was individual financial statements of the significant provincial corporations, boards and commissions whose activities are included in the province's consolidated financial statements. It opted instead to establish a website with links to the financial statements of each consolidated entity. In 2018/19, we observed delays in the posting of the entity's audited financial statements compared with the previous years when only one or two entities were missing from the printed version of Volume 2. The government demonstrated significant improvement with the release of the 2019/20 Public Accounts, in which 91% of the other government organizations and 99% of the broader-public-sector organizations made their audited financial statements available by the date of release of the Public Accounts.
- We performed an audit of the wind-up of the Financial Services Commission of Ontario (Commission) during the year. As part of the audit, our Office experienced difficulties and we found that there was a lack of planning to enable the timely reporting of the wind-up of the organization. Most notably, there were insufficient staff with knowledge of the Commission's operations available to support the financial statement preparation process, which led to numerous delays in our Office

being able to start and complete our work. In addition, the wind-up process did not consider that other government services, such as access to financial systems and payroll records, would be required subsequent to the wind-up. However, ultimately, we were able to complete the audit and issue an unqualified opinion on the Commission's financial statements.

- Over the past several years, we have recommended to the province that the Children's Aid Societies should be consolidated into the Public Accounts. As a result of its ability to impact the operational and financial decisions of the Children's Aid Societies, the province controls these entities and, therefore, their financial positions and results should be formally consolidated into the Public Accounts.
- We noted that the processes for updating contaminated sites annually and identifying new sites differs among ministries. We have recommended that the province conduct additional work in this area next year.
- The Ontario Energy Board (OEB) regulates Ontario's energy utilities. During the year, the Ontario government amended the *Ontario Energy Board Act, 1998* to establish a new governance structure with the intention to promote greater accountability and separation of policy-setting and administration from adjudicative decisions. The amendments were enacted on May 9, 2019 and were proclaimed on October 1, 2020. We will review the operational impact of the changes to the legislation to the OEB during the upcoming year.
- In its role as the electricity- and gas-sector regulator, the OEB is responsible for setting electricity commodity prices in Ontario. In this report, we take a deeper look at the components of the electricity commodity price. We will continue to monitor the electricity rate-setting process and any new rate mitigation programs to ensure that they will be properly accounted for in the Public Accounts.
- The province's growing debt burden also remains a concern this year, as it has been since we first raised the issue in 2011. This year, as in the past, we focus on the critical implications of the growing debt for the province's finances. We maintain the view that the government should provide legislators and the public with long-term targets for addressing Ontario's current and projected debt. This will be especially important given the continuing COVID-19 expenditures.

This report contains four recommendations, consisting of eight action items, to address our observations.

2.0 Background

Ontario's Public Accounts for the fiscal year ended March 31, 2020 were prepared under the direction of the Minister of Finance, as required by the *Financial Administration Act*, and the President of the Treasury Board. The Public Accounts consist of the province's Annual Report, including the province's consolidated financial statements, and two supplementary volumes of additional financial information.

The government is ultimately responsible for preparing the consolidated financial statements and ensuring that this information, including amounts based on estimates and judgment, is presented fairly. The Ministry of Finance and the Treasury Board Secretariat, with support from the Office of the Provincial Controller Division, are also responsible for ensuring that an effective system of internal controls, with supporting procedures, is in place to authorize transactions, safeguard assets and maintain proper records. The Treasury Board is responsible for financial oversight of management.

Under the *Auditor General Act*, our Office is responsible for the annual audit of the province's consolidated financial statements. The objective of our audit is to obtain reasonable assurance that the statements are free of material misstatements—that is, free of significant errors or omissions. The consolidated financial statements, along with the Auditor General's Independent Auditor's Report, are included in the province's Annual Report.

The province's *2019/20 Annual Report* also contains a Financial Statement Discussion and Analysis section that provides additional information regarding the province's financial condition and fiscal results for the year ended March 31, 2020. Providing this information is intended to enhance the fiscal accountability of the government to both the Legislative Assembly and the public.

The two supplementary volumes of the Public Accounts consist of the following:

- **Ministry Statements and Schedules (formerly Volume 1)**—unaudited statements from all ministries and a number of schedules providing details of the province's revenues and expenses, its debts and other liabilities, its loans and investments, and other financial information; and
- **Detailed Schedule of Payments (formerly Volume 3)**—detailed unaudited schedules of ministry payments to vendors and transfer-payment recipients.

Beginning in fiscal 2018/19, the audited financial statements of significant provincial corporations, boards and commissions whose activities are included in the province's consolidated financial statements (formerly Volume 2) are no longer part of the Public Accounts. Instead, the province maintains a website with links to the individual financial statements of government organizations, trusts under administration, government business enterprises, broader-public-sector organizations—such as hospitals, school boards and colleges—and other government organizations.

Our Office reviews the information in the province's Annual Report, and in the Ministry Statements and Schedules (formerly Volume 1) of the Public Accounts, for consistency with the information presented in the province's consolidated financial statements.

The Financial Administration Act requires that, except in extraordinary circumstances, the government deliver its Annual Report to the Lieutenant Governor in Council within 180 days of the end of the fiscal year. The deadline for this year was September 27, 2020. The two supplementary volumes must be submitted to the Lieutenant Governor in Council within 240 days of the end of the fiscal year. Upon receiving these documents, the Lieutenant Governor in Council must lay them before the Legislative Assembly or, if the Assembly is not in session, make the information public and then lay it before the Assembly within 10 days of the time it resumes sitting.

This year, the government released the province's *2019/20 Annual Report* and *Consolidated Financial Statements*, along with the two Public Accounts supplementary volumes, on September 23, 2020, meeting the legislated deadline.

The Auditor General's audit opinion on the province's consolidated financial statements was unqualified for the third consecutive year. An unqualified opinion means that the consolidated financial statements are free from material errors. The unqualified audit opinion on the province's consolidated financial statements is discussed in **Section 3.0**.

3.0 The Province's 2019/20 Consolidated Financial Statements

3.1 Auditor's Responsibilities

As the legislature's independent auditor of the province's consolidated financial statements, the Auditor General's objective is to express an opinion on whether the consolidated financial statements are free of material misstatements and are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS) so that they give a true and fair view of the financial position and operating results of the province. It is this independence, combined with the professional obligation to comply with established Canadian Auditing Standards (CAS) and related ethical requirements, which allows the Auditor General to issue an opinion that provides users with confidence in the province's consolidated financial statements.

To enable the Auditor General to form her opinion, our Office collects sufficient and appropriate audit evidence and evaluates it to determine whether the financial statements are free of material misstatements. This includes assessing the government's preferred accounting treatment over certain transactions and investigating the appropriateness of those treatments under Canadian PSAS.

An assessment of what is material (significant) and immaterial (insignificant) is based primarily on our professional judgment. In making this assessment, we seek to answer the following question: "Is this error, misstatement or omission significant enough that it could affect decisions made by users of the province's consolidated financial statements?" If the answer is yes, then we consider the error, misstatement or omission to be material.

To help us make this assessment, we determine a materiality threshold. This year, as in past years, and consistent with most other provincial legislated auditors, we set our threshold at 0.5% of the greater of government expenses or revenue for the year.

Our audit is conducted on the premise that management has acknowledged certain responsibilities that are essential to the conduct of the audit in accordance with CAS. These responsibilities are discussed below.

3.2 Management's Responsibilities

The auditor's report distinguishes between the responsibilities of management, those charged with governance and those of the auditor with respect to a financial statement audit. Management is responsible for preparing the financial statements in accordance with Canadian PSAS. The auditor examines the financial statements in order to express an opinion as to whether the financial statements have been prepared in accordance with Canadian PSAS. The division of responsibility between management and the auditor is fundamental and preserves the auditor's independence, a keystone of the auditor's report.

In addition to preparing the financial statements and having the relevant internal controls, management is also required to provide the auditor with all information relevant to the preparation of the financial statements, additional information that the auditor may request, and unrestricted access to individuals within the government who the auditor determines are necessary to obtain audit evidence. The CASs are clear on these requirements, and the fulfilment of these is formally communicated to the auditor in the form of a signed management representation letter at the end of the audit.

When a transaction occurs, it is management's responsibility to identify the applicable accounting standards, determine the implications of the standards on the transaction, decide on an accounting policy and ensure that the financial statements present the transaction in accordance with the applicable financial reporting framework (for example, Canadian PSAS for governments). The auditor must also be proficient in the applicable financial reporting framework in order to form an independent opinion on the financial statements, and may perform similar procedures in identifying the applicable standards and understanding the implications of the standards on the accounting transaction. However, unlike management, the auditor does not select an accounting policy or the bookkeeping entries for the organization. These decisions are in the hands of management—in Ontario's case, the Treasury Board Secretariat and the Ministry of Finance, both with support from the Office of the Provincial Controller Division.

When there are disagreements between an auditor and management on the application or adequacy of accounting policies, the auditor must assess the materiality or significance of the issue to the overall financial statements in forming the audit opinion. If the issue is material, it would result in a qualified opinion in which the auditor concludes that the financial statements are fairly presented except for the items described in the basis for the qualification. Again, this distinguishes the role of management and auditor such that the auditor independently examines the financial statements to express an opinion, whereas management prepares the financial statements.

The Office of the Auditor General may make suggestions about the consolidated financial statements but this does not alter management's responsibility for the financial statements. Similarly, the government may seek external advice on accounting treatments of certain transactions. In these situations, the government still has the ultimate responsibility for the decisions made, and the use of external advisors does not diminish, change or substitute the government's accountability as the preparer of the province's consolidated financial statements.

3.3 Those Charged with Governance Responsibilities

The auditor's report also distinguishes the roles and responsibilities of those charged with governance from those of management. Those charged with governance have ultimate financial oversight. In a company, this is usually the board of directors. In the province, this is the Treasury Board.

The Treasury Board ensures that management has established and maintains internal controls over the financial reporting process, overseeing management's processes for identifying and mitigating risks and reinforcing management's efforts to create a culture of ethical behaviour within the province.

3.4 The Independent Auditor's Report

The independent auditor's report, which is issued at the conclusion of an audit engagement, is comprised of:

- an opinion paragraph containing an expression of opinion on the consolidated financial statements and a reference to the applicable financial reporting framework used to prepare the consolidated financial statements;
- a basis for the opinion paragraph that explains that the audit was conducted in accordance with Canadian generally accepted auditing standards;
- a section titled "Other Accompanying Information" that contains the independent auditor's report and explains management's, those charged with governance's and the auditor's responsibilities for other information and includes the auditor's conclusion about whether the other information is materially consistent with the financial statements or the knowledge obtained in the audit (this section was added because the province prepares other information like annual reports);
- a description of the responsibility of management and those charged with governance for the proper preparation and oversight of the financial statements in accordance with the applicable financial reporting framework;
- a description of the auditor's responsibility to express an opinion on the consolidated financial statements, conclude on the appropriateness of management's use of the going concern basis of accounting and the scope of the audit; and
- additional paragraphs describing the group audit engagement, communication with those charged with governance and an explicit statement that the auditor is independent of the province and has fulfilled the auditor's other relevant ethical responsibilities.

The independent auditor's report may further include:

- an Emphasis of Matter paragraph that refers to a matter appropriately presented or disclosed in the consolidated financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements; and
- an Other Matter paragraph that refers to a matter other than those presented or disclosed in the consolidated financial statements that, in the auditor's judgment, is relevant to user's understanding of the audit, the auditor's responsibilities or the auditor's report.

3.5 The Significance of an Unqualified Audit Opinion

The independent auditor's report is the way the auditor communicates his or her opinion to the users of the financial statements as to whether the financial statements of an entity are presented fairly. After the audit of financial statements is completed, the auditor can sign one of four possible opinions:

- **Unqualified, or clean, opinion**: The financial statements present fairly, in all material respects, the financial position and results of the entity.
- **Qualified opinion**: The financial statements contain one or more material misstatements or omissions.
- **Adverse opinion**: The financial statements do not fairly present the financial position, results of operations and changes in financial position, in accordance with generally accepted accounting principles.
- **No opinion or disclaimer of opinion**: It is not possible to give an opinion on the financial statements because, for example, key records of the entity were destroyed and thus unavailable for examination.

An *unqualified* audit opinion indicates financial statements are reliable. When an auditor issues a *qualified* opinion, he or she is expressing concern about the entity's compliance with the accounting standards issued by the standard setter (for example, the Public Sector Accounting Board), or about the auditor's ability to obtain sufficient and appropriate evidence to support the financial statements. An audit qualification is generally a rare occurrence; however, the importance of an unqualified opinion should not be understated.

For the third consecutive year, the Office of the Auditor General (the Office) has issued an unqualified opinion on the province's consolidated financial statements. The consolidated financial statements can be relied on to fairly and accurately present the province's fiscal results for the year ended March 31, 2020, in all material respects.

3.6 Key Audit Matters

Key audit matters are items that are the most significant in the audit of financial statements and are required inclusions in auditor reports issued on or after December 15, 2020 for entities listed on the Toronto Stock Exchange or on or after December 15, 2022 for all other listed entities in Canada. The province is an other listed entity, due to the nature of its foreign debt issuances, and therefore the auditor's report must include key audit matters starting with the March 31, 2023 consolidated financial statements.

Key audit matters could include:

- areas identified as significant risks or involving significant management or auditor judgment;
- areas in which the auditor encountered significant difficulty; for instance, in obtaining sufficient and appropriate audit evidence; and
- circumstances that required a modification to the auditor's planned audit approach, including as a result of a significant deficiency in internal control.

Currently, under Canadian Auditing Standards, communicating key audit matters is discretionary, unless the auditor is required to communicate key audit matters by law or regulation.

As required under the *Auditor General Act*, we have consistently reported any significant audit matters that may arise during the year to management and to those charged with governance as part of our normal audit process and to the legislative assembly in our Annual Reports.

3.7 The 2019/20 Audit Opinion

The *Auditor General Act* requires that we report annually on the results of our examination of the province's consolidated financial statements. The Independent Auditor's Report to the Legislative Assembly on the province's consolidated financial statements for the year ended March 31, 2020 is reproduced on the following three pages.

3.8 Financial Statements of Government Entities (formerly Volume 2)

Prior to fiscal 2018/19, the financial statements of government organizations and business enterprises (formerly referred to as Volume 2) were one of three supplementary reports that the government printed and released at the same time as the province's consolidated financial statements. The financial statements included the audited financial statements of provincial corporations, boards and commissions whose activities are included in the province's consolidated financial statements, as well as other miscellaneous audited financial statements, but did not include the financial statements of the entities in the broader public sector (hospitals, school boards and colleges).

Consistent with its practice last year, the government is not issuing the former Volume 2 supplementary report in the same format as the rest of the Public Accounts. The government has established a website (**https://www.ontario.ca/page/financial-statements-government-organizations-and-business-enterprises-2019-20**) with links to web pages cataloguing the financial statements of each government organization, trust under administration, broader public sector and other types of organizations listed in Schedule 8 of the province's consolidated financial statements.

In our 2019 Annual Report, we observed a lack of promptness posting the audited financial statements for these entities, which are key financial accountability and transparency documents for legislators and the public. In addition, we also identified that the Agencies and Appointments Directive (AAD) and the Broader Public Sector Business Documents Directive (BPS Directive) did not specify a deadline or had deadlines that did not align with the release of the Public Accounts, respectively.

In our *2019 Annual Report*, we observed that only 32% of the organizations that were formerly part of Volume 2 and 67% of broader-public-sector organizations had their audited financial statements available on the government's website on September 13, 2019, the date the 2018/19 Public Accounts was publicly released. We also noted a contrast to the preceding three years, when there had been only five cases where an organization's audited financial statements had not been included in Volume 2 of the Public Accounts.

In our *2019 Annual Report*, we recommended the Treasury Board Secretariat (Secretariat) increase transparency and accountability by linking electronic copies of government organizations' audited financial statements to the website on a timely basis and reviewing the AAD and BPS Directive to ensure audited financial statements are posted no later than the Public Accounts release date. The Secretariat responded by committing to work with the ministries to ensure the organizations' audited financial statements are posted at the same time as the release of the Public Accounts. During 2020, both the AAD and the BPS Directive were updated to include requirements that audited financial statements be made available on a government or agency website no later than 150 days after the fiscal year end under the AAD or the date of release of the Public Accounts under the BPS Directive.

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

INDEPENDENT AUDITOR'S REPORT

To the Members of the Legislative Assembly of the Province of Ontario

Opinion

I have audited the accompanying Consolidated Financial Statements of the Province of Ontario, which comprise the Consolidated Statement of Financial Position as at March 31, 2020, and the Consolidated Statements of Operations, Change in Net Debt, Change in Accumulated Deficit, and Cash Flow for the year then ended, and notes to the Consolidated Financial Statements, including a summary of significant accounting policies.

In my opinion, the accompanying Consolidated Financial Statements present fairly, in all material respects, the consolidated financial position of the Province of Ontario as at March 31, 2020, and the consolidated results of its operations, the consolidated changes in its net debt, the consolidated change in its accumulated deficit and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibility for the Audit of the Consolidated Financial Statements section of this report. I am independent of the Province of Ontario in accordance with the ethical requirements that are relevant to my audit of the Consolidated Financial Statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other Accompanying Information

The Government of Ontario (Government) is responsible for the information in the 2019-20 Public Accounts of Ontario Annual Report.

My opinion on the Consolidated Financial Statements does not cover the other information accompanying the Consolidated Financial Statements and I do not express any form of assurance conclusion thereon.

In connection with my audit of the Consolidated Financial Statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Consolidated Financial Statements or my knowledge obtained during the audit, or otherwise appears to be materially misstated.

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If, based on the work I have performed on this other information, I conclude that there is a material misstatement of this other information, I am required to report that fact in this auditor's report. I have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these Consolidated 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 Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, management is responsible for assessing the Province of Ontario's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Government either intends to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Province of Ontario's financial reporting process.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements

My objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Province of Ontario's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Province of Ontario's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Province of Ontario to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

The audit of the Consolidated Financial Statements is a group audit engagement. As such, I also obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the Consolidated Financial Statements. I am responsible for the direction, supervision and performance of the group audit and I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control identified during the audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

Toronto, Ontario
September 11, 2020

Bonnie Lysyk, MBA, FCPA, FCA, LPA
Auditor General

The 2019/20 Public Accounts were released on September 23, 2020 along with links to the supplementary reports. As of September 23, 2020, we observed that 91% of the other organizations' and 99% of the broader-public-sector organizations' audited financial statements were available on the website. As at November 2, 2020, this had increased to 93% and almost 100%, respectively. This is a substantial improvement compared with the prior year.

3.9 COVID-19 Impacts on the Public Accounts Audit

The province declared a state of emergency on March 17, 2020 in response to the world pandemic resulting from the spread of the novel coronavirus (COVID-19). It also announced the *Ontario Action Plan: Responding to COVID-19* on March 25, 2020 (Action Plan). Both actions gave rise to additional audit risks for our audit of the province's consolidated financial statements for the year ended March 31, 2020. Most notably, these risks resulted from:

- new spending announcements;
- changes to the quality or availability of information historically used by the ministries or our Office to support the financial statements; and
- capital market volatility caused by the pandemic.

We performed additional audit work to respond to these risks in the areas outlined below. The results of our testing were satisfactory and supported our unqualified opinion.

Transfer Payments

A primary method of distributing financial support or funding announced by the government in the Action Plan was through transfer payments. We identified heightened accounting cut-off risk related to COVID-19 transfer payment accruals straddling the 2019/20 and 2020/21 fiscal years, due to the timing of the announcement of the province's COVID-19 response less than one week before the March 31 financial reporting date. In order to address this risk, we held discussions with ministries, performed variance analysis and additional substantive cut-off testing for ministries with COVID-19 funding programs or announcements greater than $20 million. We also reviewed funding letters sent to hospitals granting them special authorization to carry over unspent funding originally appropriated in fiscal 2019/20 into fiscal 2020/21 in support of their frontline COVID-19 operations along with the deferral of capital projects and other transfer payment programs that could not be completed prior to the end of the fiscal year due to the pressures on the hospital system. The total amounts transferred from 2019/20 to 2020/21 for unspent funding, hospital and community infrastructure projects were over $1.1 billion.

Tax Revenue and Accruals

In response to the COVID-19 pandemic, the federal government extended the deadline for both corporations and individuals to file their tax returns for the 2019 taxation year. As a result, the number of corporate and personal tax returns filed and assessed by the summer of 2020 was insufficient for the province to use the same methodologies it had used in previous fiscal years to prepare accounting estimates of Corporations Tax (CIT) and Personal Income Tax (PIT) for the consolidated financial statements. As a result, we identified increased risk related to the accuracy of the CIT and PIT estimates due to the additional complexity involved in the alternative methodology used. In order to address these estimation risks, we engaged an expert in the field of econometrics to assist us in our review of the appropriateness of the fiscal 2019/20 CIT and PIT estimation methodologies. We also performed additional procedures over the balances and held discussions with the Ministry of Finance to evaluate variables that could potentially affect the CIT and PIT revenue and accounts receivable balances.

Pensions

In order to prepare the financial information contained in Note 6, Pensions and Other Employee Future Benefits to the 2019/20 consolidated financial statements, the province uses pension valuation reports prepared by five provincially sponsored pension plans. As permitted under Canadian PSAS, the province elects to request the preparation of these reports annually as at December 31. The province applies this reporting practice consistently and, in the past, there were no significant changes in pension plan valuation between December 31 and March 31. Due to volatility in the capital markets caused by the COVID-19 pandemic, the province arranged to update the value of its share of pension plan assets as at March 31, 2020. To address the risk that the March 31, 2020 valuations were inaccurate, we sought and obtained additional assurance from the external auditors for the pension plans and reviewed their work on pension plan assets as at March 31, 2020; held discussions with senior management of the pension plans regarding their asset valuation risks; and reviewed the additional work performed by each of the pension plans to update their asset valuations to March 31, 2020.

Consolidation

As a result of the administrative delays caused by the COVID-19 pandemic, certain ministries expressed concerns over the potential untimely receipt of audited financial statements from government entities under their oversight needed to perform the consolidation of other government organizations (OGO) and broader-public-sector (BPS) entities. To address the risk that the March 31, 2020 financial information of OGO and BPS entities would be late, we held meetings with the private-sector auditors of the OGO and BPS entities to more closely co-ordinate the timely delivery of their annual audit opinions. Also, to ensure that the consolidation of these entities was accurate, we increased our testing of the consolidation of hospitals, Local Health Integration Networks, school boards, colleges and OGOs.

4.0 *Fiscal Sustainability, Transparency and Accountability Act*

In May 2019, the government repealed and replaced the *Fiscal Transparency and Accountability Act, 2004* with the *Fiscal Sustainability Transparency and Accountability Act, 2019* (Act). Under the Act, the government is required to:

- develop a debt burden reduction strategy, including setting out net debt-to-GDP objectives and plans for reducing the debt burden;
- incorporate sustainability into the province's fiscal policies;
- release the annual budget by March 31 each year, except for years in which a general election takes place to allow a new government additional time to develop its first multi-year fiscal plan;
- provide a rationale for running deficits in the introductory section of the annual Budget;
- impose monetary penalties on the Premier and the Minister of Finance (Minister) for missing reporting deadlines as required in the Act; and
- post a public statement to explain the rationale for any missed public reporting deadlines, and the revised deadline by which the affected report will be released.

In addition, the Act requires the Auditor General to annually review the Minister's compliance with the Act.

Figure 1 shows the reports that are subject to the financial penalty and public statement requirements.

The Auditor General has determined that the communication of the Minister's compliance with the Act will be through this report.

Figure 2 shows that as of October 16, 2020, the Minister complied with all requirements of the Act except for the issuance of the budget by March 31, 2020.

Figure 1: Reports Subject to Financial Penalty and Public Statement Requirements by the Premier and Minister of Finance

Source of data: *Fiscal Sustainability, Transparency and Accountability Act, 2019*

Report	Deadline Subject to Guarantee
Budget	Mar 31
First Quarter Finances	Aug 15
Mid-Year Review (Fall Economic Statement)	Nov 15
Third Quarter Finances	Feb 15
Long-Term Report	Two years following a general election
Quarterly Ontario Economic Accounts	Within 45 days after each of Statistics Canada's Quarterly National Income and Expenditure Accounts

Figure 2: Compliance with Financial Penalty and Public Statement Requirements between December 2019 and October 2020

Prepared by the Office of the Auditor General of Ontario

Report	Deadline	Date Available	Requirement Met
2019/20 Third Quarter Finances	Feb 15, 2020	Jan 30, 2020	Yes
2020 Budget	Mar 31, 2020	Nov 5, 2020	No
2020/21 First Quarter Finances	Aug 15, 2020	Aug 12, 2020	Yes
2020/21 Fall Economic Statement	Nov 15, 2020	Nov 5, 2020	Yes
Long-Term Report	Jun 7, 2020 (to be issued two years following a general election)	Jun 4, 2020	Yes
Quarterly Ontario Economic Accounts – Q3 2019	Jan 13, 2020 (Statistics Canada release date – Nov 29, 2019)	Jan 13, 2020	Yes
Quarterly Ontario Economic Accounts – Q4 2019	Apr 14, 2020 (Statistics Canada release date – Feb 28, 2020)	Apr 14, 2020	Yes
Quarterly Ontario Economic Accounts – Q1 2020	Jul 13, 2020 (Statistics Canada release date – May 29, 2020)	Jul 10, 2020	Yes
Quarterly Ontario Economic Accounts – Q2 2020	Oct 13, 2020 (Statistics Canada release date – Aug 28, 2020)	Oct 13, 2020	Yes

As **Figure 2** shows, the Minister is not in compliance with the requirements of the Act due to the 2020 Budget not being issued prior to March 31, 2020. On March 25, 2020, the government released the *March 2020 Economic and Fiscal Update*, which provided a plan for fiscal 2020/21 but did not include all the requirements of a budget under section 5 of the Act. Specifically, the Economic and Fiscal Update did not include a multi-year fiscal plan for the next three years. The Minister of Finance acknowledged this fact in his foreword to the Economic and Fiscal Update:

As Ontario's Minister of Finance, it is important that I introduce a financial plan for the province that is based on the most up-to-date information available. Providing this update – instead of a full Budget – is the responsible thing to do. I intend to introduce a multi-year Budget to the Legislature no later than November 15. Between now and then, we will build on our record of transparency, with regular financial updates as the situation evolves. This will ensure the people of Ontario are informed by the most up-to-date information available.

As a result of not issuing the budget by the deadline, both the Minister of Finance and the Premier paid a penalty of 10% of their annual ministerial salaries as calculated in the Executive Council Act, into the consolidated revenue fund.

On November 5, 2020, the province issued the *2020 Budget and Fall Economic Statement*. The Act requires that Ontario's fiscal policy be governed by the principles of sustainability, transparency, responsibility, flexibility and equity. In the 2020 Budget, the province discloses how it is complying with these principles.

In addition, there are requirements within the Act that the province must include in the 2020 Budget, such as a debt burden reduction strategy and a recovery plan. The debt burden reduction strategy must include the province's objectives for the projected ratio of provincial net debt to gross domestic product (GDP) and a progress report on supporting actions and the implementation of the debt burden reduction strategy included in the last budget. The province's recovery plan must include the projected fiscal year in which the budget will be balanced.

The province indicated in the 2020 Budget that there are risks and uncertainty associated with projecting economic information due to the COVID-19 pandemic. As a result, the province proposed amendments to the Act to pause the requirement to include a recovery plan in the 2020 Budget for a one-time exemption. The province indicated a recovery plan during the uncertainty of COVID-19 and the rapidly changing economic environment would not provide value to Ontarians.

In our 2019 report, *Ontario Financing Authority* (**Chapter 3**, **Section 3.10**), we recommended that the Ministry of Finance clearly define "extraordinary circumstances," as set out in the Act, to identify relevant measures to assess debt sustainability, to develop formal long-term targets and to monitor the measures. As a step toward addressing this recommendation, the province has defined the COVID-19 global pandemic as an "extraordinary circumstance."

Similarly, the COVID-19 pandemic has created challenges in setting long-term debt reduction targets because the province is issuing unprecedented amounts of debt as a result of the pandemic. The 2020 Budget was supposed to be the first budget that was required to include the debt burden reduction strategy as it is the first budget released after the Act received royal assent.

As stated by the province in the 2020 Budget, both the recovery plan and the debt reduction strategy will be reported as part of the 2021 Budget, which is required to be issued prior to March 31, 2021. We will continue to monitor the province's compliance with the Act.

5.0 Financial Services Commission of Ontario Wind-up

5.1 Background

In June 2017, the *Financial Services Regulatory Authority of Ontario Act, 2016* was enacted to establish the Financial Services Regulatory Authority of Ontario (Authority) as a new board-governed regulatory agency. The Authority was established to replace the Financial Services Commission of Ontario (Commission) and Deposit Insurance Corporation of Ontario (DICO). With the proclamation of certain provisions in the *Financial Services Regulatory Authority of Ontario Act, 2016*, the Authority assumed the regulatory responsibilities of the Commission and DICO as of June 8, 2019. The transition involved the transfer of certain assets, liabilities and contractual obligations 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.

5.2 Wind-up Process

With the transfer of the Commission's responsibilities to the Authority, the wind-up of the organization, including the financial reporting as at June 7, 2019, was required. As of June 7, 2019, the Commission's operations ceased and there was no longer staff to prepare the financial statements or a Board of Directors to approve the financial statements. Staff of the Authority assisted in preparing the Commission's June 7, 2019 financial statements; however, the responsibility for approving the financial statements remained with the Ministry of Finance, the ministry charged with oversight of the Commission.

During our audit of the Commission's June 7, 2019 financial statements, we found that there was a lack of planning to enable timely financial reporting of the wind-up of the organization. For example, we noted that:

- There were insufficient staff with applicable knowledge of the Commission's operations to support the financial statement preparation process. The audit was delayed numerous times to accommodate the Authority's need for additional time to prepare the financial statements and related audit support. Some staff at the Authority were new to the organization and did not have prior knowledge of the Commission's operations. The audit was completed eventually and the financial statements were approved on May 22, 2020, which is almost one year after the Commission's June 7, 2019 reporting date.
- Unionized employees, who previously worked at the Commission and were then transferred to and currently work at the Authority, were initially unwilling to discuss topics related to the Commission in connection with our audit. We were informed by the Authority's management that the staff's position was that they should focus on the Authority's operations since they no longer worked for the Commission. The Authority's management was eventually able to rectify this situation, allowing the audit to proceed. However, the initial unwillingness to co-operate resulted in delays in both preparing financial information and the audit process.
- The wind-up of the Commission did not consider that other provincial government services, such as access to financial systems and payroll records, would be needed subsequent to the wind-up. These supporting services were needed to ensure that complete and accurate financial information was available to be used in preparing the financial statements. While operational, the Commission used and relied on the government's financial systems and payroll systems. Upon wind-up of the Commission, access to these services was no longer available to the Authority's staff. Specifically:
    - The financial reporting system was not available to the Authority, significantly delaying both the preparation of financial information needed to produce the financial statements and the audit. Staff at the Authority were provided access to the financial system almost four months after the Commission's June 7, 2019 reporting date.
    - The payroll system, which included information on salaries, severance and payments in lieu of notice, was not available to staff at the Authority to enable the preparation of complete and accurate financial information. This resulted in out-of-date information being used to prepare the financial statements. To rectify this situation, we closely co-ordinated with the various parties to obtain complete and accurate information.

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.

TREASURY BOARD SECRETARIAT RESPONSE

Treasury Board Secretariat and the Office of the Provincial Controller Division support the recommendations and will continue to communicate and work with the ministries as they undertake restructuring activities and expand on communication, where appropriate, to better highlight documentation to be retained for financial purposes.

Ministries are responsible for working with their impacted agencies in the execution of appropriate processes to ensure effective restructuring of an agency. As initiatives can vary widely in scope and complexity, guidance provided by the Controllership Policy Accounting Consultation Branch, Office of the Provincial Controller Division may not cover all aspects of a particular restructuring and ministries should develop a project plan with their legal, controllership, information technology, human resources, freedom of information, records and facilities specialists to ensure a smooth wind up.

6.0 Consolidation of Children's Aid Societies

6.1 Background

Children's Aid Societies (Societies) help protect Ontario's children at risk of abuse or neglect, provide care and supervision to children, and provide counselling and other services to families for the protection of children. The Societies are independent legal entities governed by boards of volunteer directors from the community. The Societies' mandate is established by the *Child, Youth and Family Services Act, 2017*, which requires the Societies to provide care and supervision to children and to place them into adoption, if necessary. The Ontario government provides over $1.6 billion of annual funding to about 50 Societies, of which 38 are non-Indigenous and about 12 are Indigenous.

6.2 Accounting Concepts of Control and Consolidation

The government of Ontario prepares its financial statements on a consolidated basis, meaning that the government's statements must combine the financial information of all the ministries and organizations the government controls.

In the context of a relationship between a government and an organization, control is the power to govern the activities and finances of the organization while expecting to benefit from its operations—such as through the provision of government services to the public—or bearing the risk of incurring losses from its activities. The existence of control is the key factor in determining whether an organization's finances should be consolidated into a government's financial statements.

Whether a government controls an organization is a question of fact and professional judgment, as determined by a set of indicators laid out in Canadian PSAS. Furthermore, it is not necessary for a government to have chosen to exercise its control over an organization. Control exists by virtue of a government's ability to exercise powers that meet the threshold for control.

In previous years, our audits noted that, as a result of 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 Societies' finances should be included in the province's consolidated financial statements through the process of consolidation.

6.3 Facts Supporting the Province's Control over the Societies

In the summer of 2020, the Office of the Provincial Controller Division (Controller) completed a formal analysis of the status of the Societies concluding that they are, in fact, controlled by the government and their financial information should be brought into the Public Accounts. While the government cannot appoint the majority of a Society's directors, key facts taken as a whole indicate that control exists, including the government's ability to:

- direct the use of Societies' assets by appointing a supervisor;
- dissolve a Society;
- approve Societies' annual funding;
- issue directives to Societies; and
- appoint board members (but not the majority of the board).

Our Office performed an independent analysis and concurred with the Controller's conclusion that Societies should be consolidated into the Public Accounts, and we communicated our agreement to the government.

6.4 Financial Impact of Consolidation

Through consolidation, the Societies' revenues, expenses, assets and liabilities are added to those of ministries, agencies and other consolidated entities to produce an overall total for the province. Also, transactions between the Societies and the government are eliminated to avoid double counting the amounts within the Public Accounts. For example, the $1.6-billion funding from the Ministry of Children, Community and Social Services that the Societies received as revenue is eliminated against the amount that the Ministry recorded as an expense.

Since nearly all of the Societies' funding is provided by the government, the impact on the annual deficit is insignificant after elimination. The impact of including the Societies' balance sheet accounts, however, is significant: approximately $670 million of additional financial and capital assets and $426 million of liabilities would be added to the province's consolidated statement of financial position. These assets represent resources to be used for child protection services in the future and liabilities indicate related obligations from the same operations. The province delivers government services through a variety of entities, including agencies and other organizations. In order for the Public Accounts to reflect a full account of Ontario's finances, the consolidated financial statements should include assets and liabilities held by all organizations the government controls.

6.5 Timing of Completion of Societies' Audits

Regulation requires the Societies to provide the province with audited financial statements by the end of July each year, which aligns with the timeline for consolidation of controlled organizations into the Public Accounts. We reviewed the audit completion timelines of all 50 Societies' fiscal 2019/20 financial statements and noted that while over two-thirds of the Societies' audited financial statements were completed within the July deadline, seven Societies prepared their statements in August and September and nine had not provided statements to the government by September 30, 2020. The Societies that had not provided the government with audited financial statements by the end of July 2020 reported nearly $150 million in total assets and about $135 million in total liabilities during in the 2019/20 fiscal year.

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.

MINISTRY OF FINANCE AND TREASURY BOARD SECRETARIAT RESPONSE

The province is committed to transparency, consolidation completeness and providing information that enhances external financial reporting. Treasury Board Secretariat will work with the Ministry of Children, Community and Social Services to assess the impacts and benefits of consolidating the various Children's Aid Societies into the Public Accounts starting in 2020-21.

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.

MINISTRY OF CHILDREN, COMMUNITY AND SOCIAL SERVICES RESPONSE

The Ministry of Children, Community and Social Services continues to work with Children's Aid Societies to have their financial statement audits completed and submitted to the Ministry within the required reporting timelines.

7.0 Liabilities for Contaminated Sites

Canadian Public Sector Accounting Standard Section PS 3260, Liability for contaminates sites became effective for the fiscal year ending March 31, 2015. Under the standard, a liability for remediating contaminated sites must be recognized when all of the following criteria have been met:

- an environmental standard exists;
- contamination exceeds the environmental standard;
- the government or government organization is directly responsible for or accepts responsibility for the site;
- it is expected that future economic benefits will be given up to remediate the contamination; and
- a reasonable estimate of the cost of remediation can be made.

In addition, the standard requires the province's liability for contaminated sites to be updated annually to reflect any changes. Examples of changes that would affect the liability estimate include:

- identification of new sites where contamination may exist and where assessment, remediation and monitoring may be required;
- additional remediation work performed on existing sites; or
- new information that becomes available about a site following more in-depth assessments or the advent of new technology.

As part of our audit of the province's consolidated financial statements for the year ending March 31, 2020, we examined the liability for contaminated sites and the changes that occurred throughout the fiscal year. The liability balance as at March 31, 2020, was $1.7 billion, a decrease from $1.8 billion as at March 31, 2019. The decrease in the liability balance is attributable to the remediation of sites, partially offset by the addition of new sites.

We noted that ministries have well-documented environmental standards in place for the contaminated sites. We compared the benchmark contamination as per these environmental standards with the province's assessed level of contamination for the sites. We agreed with their results that contamination amounts exceeded standard limits for all contaminated sites. In addition, we are satisfied that there is sufficient evidence demonstrating that the ministries, directly or indirectly, are responsible and have present obligations to remediate the contaminated sites. Consequently, this will result in the ministries incurring future costs to settle the obligation.

Ministries have mechanisms in place to update contaminated sites liabilities annually as well as identify new sites. However, we noted that processes differed from one ministry to the next. For instance, to identify new sites, one ministry does not perform assessments on all sites, but instead waits for reports that are being completed as part of other activities such as disposition, transfer and easement to determine their eligibility to be contaminated sites and estimate liabilities for those sites. However, another ministry has established a robust identification process that includes reviewing engineering reports and studies in order to identify new sites.

We also found inconsistencies in the timing of environmental assessments of sites across various ministries. Although the accounting standard states that ministries are not required to complete a site assessment each year, the standard requires ministries to review the carrying amount of any liability for remediation at each financial statement reporting date (i.e., March 31). The standard recommends extrapolating previously completed assessments and taking into consideration such changes as remediation strategies, technological changes, environmental standards and assumptions. We noted that ministry processes include reviewing each site annually; however, our findings indicated only a few sites were assessed in detail in the current fiscal year. **Figure 3** shows the number of contaminated sites and the year that each was last assessed.

Figure 3: Contaminated Site Assessments by Year Since 2014/15

Prepared by the Office of the Auditor General of Ontario

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**

As a result, we are recommending further work be conducted by ministries in this area during the next fiscal year. We will be reviewing this work prior to the year ending March 31, 2020.

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.

TREASURY BOARD SECRETARIAT RESPONSE

Ministries are responsible for monitoring their sites and review them annually to determine if updated environmental site assessments are required or if liability estimates need to be revised to reflect changes in technology, site conditions, environmental standards, inflation or other factors.

Treasury Board Secretariat will work with the ministries through an Inter-ministerial Contaminated Sites Assistant Deputy Ministers' Steering Committee to:

- review the feasibility of implementing a uniform approach considering the unique traits that contaminated sites or groups of sites might have; and
- communicate the continued need to review contaminated sites annually to determine where new detailed environmental assessments need to be completed or where estimated liabilities need to be updated.

8.0 Ontario Energy Board

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. These rate applications undergo public hearing processes in which utilities outline their costs, make their case for the recoverability (including timeline for recoverability) of the costs from ratepayers and the OEB reviews and rules on the application. The OEB also monitors energy markets and reports to the Minister of Energy, Northern Development and Mines on the transparency and competitiveness of the markets.

The OEB governance structure is set out in the *Ontario Energy Board Act, 1998* (Act). In December 2017, the Ministry of Energy, Northern Development and Mines launched a review of the OEB's governance and operations by establishing the Ontario Energy Board Modernization Review Panel (Review Panel). In October 2018, the Review Panel released its report. The report detailed seven recommendations to improve the governance and operations of the OEB in order to deliver better outcomes for consumers. For example, the report recommended establishing a new governance framework, undertaking a review of operations and the efficiency of the adjudication process, and reporting to the Legislative Assembly's Standing Committee on Government Agencies every three years.

Prior to the Review Panel's recommendations, the OEB's governance structure included the dual position of Chair/Chief Executive Officer, two Vice Chairs, a Chief Operating Officer and other Board members. In May 2019, the Ontario government amended the Act in response to the governance recommendations in the Review Panel report. Under the revised Act, the OEB is required to:

- establish an operationally independent Board chair and Board of Directors;
- appoint a separate Chief Executive Officer (CEO) to oversee all operational and policy aspects of the OEB;
- hire between five and 10 commissioners to take on the adjudicative roles for hearings and determining matters within the OEB's jurisdiction; and
- appoint a Commissioner to the position of Chief Commissioner, on the recommendation of the CEO.

In 2020, the Ministry of Energy, Northern Development and Mines (Ministry) recommended appointees for the new Board Chair, Chief Commissioner and CEO positions to the Board. The amendments came into effect upon proclamation by the Lieutenant Governor on October 1, 2020.

Under the new governance framework, the Commissioners (led by the Chief Commissioner) are appointed by the Board of Directors and are responsible for reviewing and approving utility rates. The Commissioners report to the Adjudication Committee of the Board of Directors. The new governance structure is intended to promote greater accountability and support the autonomy of the Board's adjudicative processes by separating policy-setting and administration (executive team) from adjudicative decisions (Commissioners).

Regulatory assets arise when a utility's expenses are deferred and then recovered and recognized in net income over time. In order to apply regulatory accounting, utility providers' activities must be subject to a pricing framework that is overseen by a rate regulator. It is important for rate regulators to be recognized as making fair and impartial decisions, free of undue influence from government.

We will review future changes to legislation implemented in response to the Review Panel's report during the next year.

9.0 The Regulated Price Plan (RPP) and Electricity Rate Setting Process

As the regulator of Ontario's electricity and natural gas sectors, the Ontario Energy Board (OEB) is responsible for setting the electricity commodity prices under section 79.16 of the *Ontario Energy Board Act, 1998* (Act). The electricity commodity price is one component of the overall retail electricity price.

The retail electricity price is made up of the following components:

- Distribution rates: the costs distributors incur in delivering electricity to consumers' homes or businesses.
- Transmission rates: the costs of delivering electricity from the generating stations to the distributors along the transmission system.
- Regulatory charges: the costs of administering the electricity system and maintaining the provincial electricity grid. These are the costs incurred by the Independent Electricity System Operator (IESO).
- Electricity Commodity Price: the cost for electricity used by consumers, which includes the Global Adjustment (discussed in **Section 9.2**).

Section 9.1 outlines the setting of the electricity commodity price or the Regulated Price Plan (RPP) price in Ontario.

9.1 The Regulated Price Plan (RPP)

The Ontario Energy Board (OEB) lays out its process for setting the electricity commodity price in its *Regulated Price Plan Manual* (RPP Manual). As outlined in the RPP Manual, the OEB estimates the electricity commodity price that RPP consumers will pay for electricity in the Ontario wholesale electricity market. The OEB sets the commodity price 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 Independent Electricity System Operator (IESO) administers Ontario's wholesale electricity market under the Market Rules for the Ontario Electricity Market (Market Rules), which govern the operation and settlement of the electricity market. The Market Rules require that all of the costs of electricity consumed by consumers be recovered from the electricity market. If the estimated electricity commodity price is too low to recover all these costs, the shortfall must be recovered from electricity consumers in future periods, typically with a goal of recovering it within a year. Likewise, if the estimated electricity commodity price is set too high, the excess collected must be returned to the consumers in future periods.

Under the RPP process, the OEB forecasts the total RPP supply cost for the next 12-month period and then sets the prices to recover these forecast costs from RPP consumers over that period. The forecast of the supply costs includes a number of distinctive components, such as:

- market price of electricity;
- electricity consumption patterns;
- supply mix from the various electricity generators (regulated or contracted); and
- other costs (for example, conservation programs and financing charges).

Figure 4: Components of Electricity Supply and Effect on the Regulated Price Plan (RPP) Price

Prepared by the Office of the Auditor General of Ontario

Supply Cost Estimate Component	Effect on the Regulated Price Plan (RPP) Price
Market Price of Electricity	Generally minimal effect on RPP price. As most of the electricity supplied to the market is at regulated prices or contracted prices, changes to the market price of electricity only change the breakdown of the RPP price between its market price and global adjustment components
Forecast Electricity Consumption	Decreases in consumption increase the RPP price and vice versa. As most of the electricity supplied to the market is at regulated prices or contracted prices and these prices often include supply and price guarantees, the total costs that need to be recovered from the market are relatively stable. Therefore, a lower demand for electricity leads to the recovery of electricity supply costs from a smaller volume of consumed kilowatt hours (kWh) and an increase in the price per kWh (RPP price).
Supply Mix from Various Generators	RPP price increases or decreases depending on whether there is an increase or decrease in supply from lower vs. higher variable cost electricity generation once contractual supply and price guarantees have be met.
Other Costs – Conservation and Demand Management Program Costs	Increases RPP price – conservation program costs are charged to the consumer. There is no recovery mechanism to offset these costs. In addition, as conservation programs lead to reduced demand for electricity, there is an additional increase in the RPP price (see Forecast Electricity Consumption above).
Other Costs – Financing Charges	Increase or decrease depending on whether there is net interest revenue or expenses from financing differences in timing of cash flows from consumers to generators in the electricity market.

Figure 4 summarizes the general effects that changes to main components of the RPP supply cost estimate have on the costs.

Once it has determined the RPP supply cost, the OEB converts the cost estimate into the RPP price to charge electricity consumers based on the consumer's billing method. As of November 1, 2020, time-of-use (TOU) consumers have a choice whether to be billed via TOU or tiered pricing. Under TOU pricing, consumers pay one of three rates based on the time of day/week that they are using electricity: off-peak, mid-peak or on-peak. Under tiered pricing, consumers pay a flat rate for electricity consumed regardless of the time of day up to a set kilowatt hour (kWh) tier with a second, higher rate applied to all kWh consumed after that tier level is reached. For example, in winter months, the first tier is 1,000 kWh and in all other seasons, the first tier is 600 kWh.

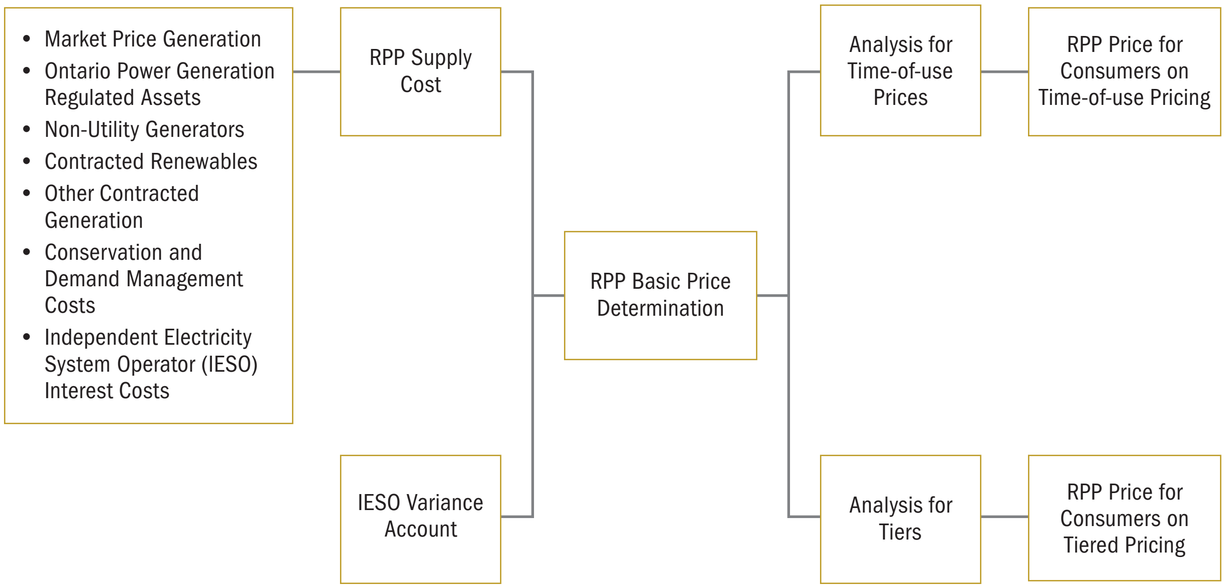
Figure 5 shows the process flow for determining the RPP prices.

The RPP prices are set for a one-year period; however, due to the large number of variables that must be estimated to determine the RPP prices, the OEB revisits the RPP process every six months to determine whether any adjustments are required to ensure that the prices are recovering the actual electricity supply costs. Traditionally, the RPP prices are set at the beginning of two seasonal six-month periods: winter, covering the period of November to April; and summer, covering the period of May to October. When the OEB adjusts the RPP prices, the new RPP prices remain in effect for the following 12-month period or until the next RPP adjustment is made, whichever comes sooner.

As noted above, if the RPP prices are set too low to recover all of the electricity supply costs over the year in which those prices are in effect, the additional costs must be recovered in future periods. In this case, the IESO tracks the additional costs to be recovered from consumers in the future period in a variance account. When establishing the RPP prices, the OEB then adjusts the electricity commodity prices for the recovery of any amounts in the IESO variance account. Up until 2017, the Act stated that the OEB should set rates "with a view to

Figure 5: Process Flow for Determining the Regulated Price Plan (RPP) Basic Price Determination

Source: Ontario Energy Board's Regulated Price Plan Manual



eliminating those balances within 12 months." This provision of the Act was repealed in 2017 when the *Ontario Fair Hydro Plan Act, 2017* (Fair Hydro Act) was passed. This provision was not reinstated in 2019 when the *Fixing the Hydro Mess Act, 2019* was passed. In October 2020, the OEB updated its RPP Manual as follows:

> Normally, this accumulated unexpected variance is to be recovered over the 12 months following the date of the price setting… In special circumstances, the OEB may decide to set the RPP price with a view of recovering the variance over a period longer than 12 months… In determining whether special circumstances exist the OEB will be guided by its statutory objectives, and particularly the objective to protect consumers with respect to prices.

From July 2017 to October 2019, the OEB set the RPP prices based on the provisions of the Fair Hydro Act and its related regulations, as opposed to the methodology outlined in the OEB's RPP Manual. Under the provisions of the Fair Hydro Act, the RPP prices were not directly tied to the cost of electricity supply. The Fair Hydro Act included limits on price increases and electricity bill relief for RPP consumers that were originally financed through debt issued under the Fair Hydro Plan, but following the cancellation of the Fair Hydro Plan were paid directly by the province. Accordingly, the province provided a monthly transfer payment to the market through the IESO to make up the shortfall from setting electricity rates lower than the actual electricity supply costs. The provisions of the Fair Hydro Act and its regulations were repealed in 2019 and the original RPP process outlined above was reinstated for the period starting November 1, 2019. When the RPP process under the Fair Hydro Act was adopted in 2017, the IESO stopped tracking the variance accounts relating to the under-recovery of supply costs under the RPP. As a result, there was no IESO variance account balance to be recovered when the OEB set the rates in October 2019 for the RPP period of November 1, 2019 to October 31, 2020.

Figure 6 shows a breakdown of the RPP supply costs used in RPP price setting for November 2014 to November 2020.

In its November 1, 2020 RPP report, the OEB cited the uncertainty surrounding the COVID-19 pandemic as a special circumstance. As a result, the estimated IESO variance account balance as of

Figure 6: Regulated Price Plan (RPP) Supply Cost Summary, November 2014–November 2020 ($ per MegaWatt Hour)

Source of data: Ontario Energy Board RPP reports from November 2014–November 2020

	Forecast Date									
	Nov 2014	May 2015	Nov 2015	May 2016	Nov 2016	May 2017	May 2018	May 2019	Nov 2019	Nov 2020
Market Price for RPP Consumers	22.52	21.96	20.57	18.59	24.63	24.83	21.57	20.68	20.09	20.87
Global Adjustment Impact	74.88	81.94	87.92	90.86	84.5	87.67	103.8	102.22	106.94	109.47
Adjustment for Forecast Bias	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Adjustment to Clear IESO Variance	(3.45)	(2.52)	(2.22)	0.97	2.26	1.40	0.00	0.00	0.00	2.24
Average Supply Cost for RPP Consumers	**94.95**	**102.38**	**107.27**	**111.42**	**112.39**	**114.90**	**126.37**	**123.90**	**128.03**	**133.58**

October 31, 2020 will be recovered over a 24-month period as opposed to the normal 12-month recovery period. Based on the November 2020 forecast of electricity supply costs (see **Figure 6**), the adjustment for the IESO variance account recovery is less than 2% of the total forecast supply cost. The main component of the electricity supply costs (RPP price) is the Global Adjustment. The increase in costs over the past few years is due to higher guaranteed-price electricity contracts coming into effect. In our *2015 Annual Report* audit, *Electricity Power System Planning*, we highlighted a number of factors that would increase the cost of electricity over the next 20-year period from that time, including a $9.2-billion cost increase from renewable energy over the 20-year contract terms under the guaranteed-price renewable program in place at the time. We also noted that the province had an oversupply of electricity when available supply exceeded the maximum hourly consumption of electricity. Due to the excessive surplus of electricity during periods of low electricity demand, there have been hours where generators were required to curtail production and hours where excess supply had to be exported at negative prices to keep the Ontario electricity grid stable. These costs are reflected in total system costs, which are recovered from electricity ratepayers. The electricity market continues to have an oversupply of electricity as of November 2020.

The electricity supply cost is made up of two components:

- the cost of the electricity supplied by generators at market prices—the hourly Ontario electricity price (HOEP); and
- the Global Adjustment.

The RPP price is paid by consumers to Local Distribution Companies (LDCs). LDCs remit the amounts collected from consumers to the electricity market (via the IESO) that, in turn, pays the electricity generators for the electricity that they supply to the market. The province pays transfer payments to the electricity market for any electricity mitigation programs that reduce the amount collected from consumers below the RPP price.

Figure 7 shows the flow of RPP payments relating to the electricity market.

Most electricity-generating companies receive a guaranteed price (either rate-regulated price or negotiated contract price) for the electricity that they produce. Rate-regulated prices are paid to Ontario Power Generation Inc. (OPG) for electricity supplied from its rate-regulated nuclear and hydroelectric facilities, for which the OEB acts as the rate-setter. The regulated rates paid to the OPG include provisions for recovery of approved construction

Figure 7: Payments for Regulated Price Plan (RPP) Consumption of Electricity

Prepared by the Office of the Auditor General of Ontario

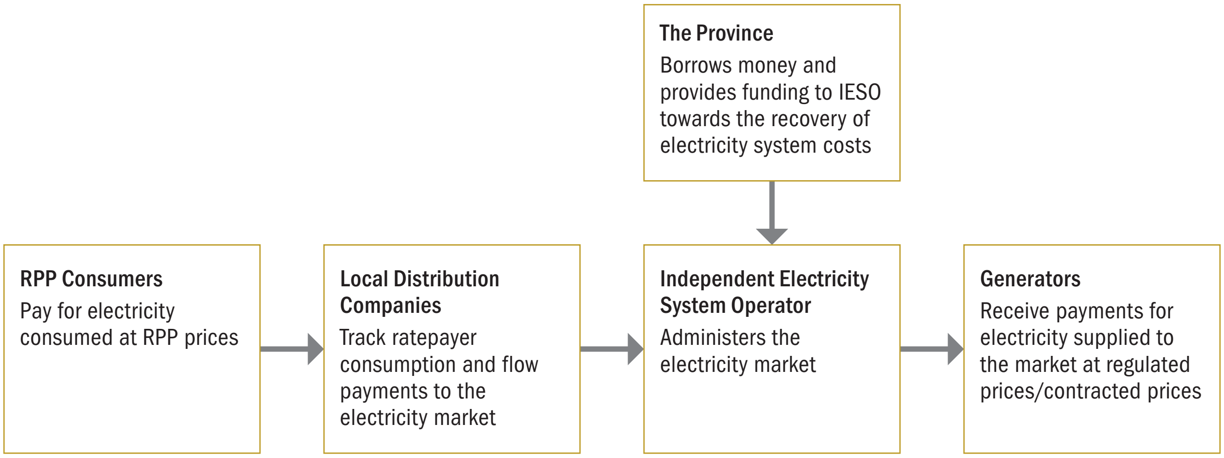


Figure 8: Global Adjustment by Fuel Type/Component, 2015–2019 ($ million)

Source of data: Independent Electricity System Operator (IESO)

Component	2015	2016	2017	2018	2019
Ontario Power Generation (OPG) — Regulated Nuclear and Hydro	2,568.90	3,516.20	2,649.10	2,892.60	4,105.70
Nuclear (non-OPG)[1]	2,933.42	3,371.20	4,106.86	2,117.24	2,751.50
Wind	1,256.36	1,551.66	1,737.77	1,727.21	1,793.59
Solar	1,223.43	1,629.96	1,594.12	1,572.11	1,662.29
Natural Gas[2]	—	—	—	1,296.85	1,197.76
Hydro	557.45	623.23	730.69	675.01	722.81
Conservation	428.73	467.10	443.33	451.86	350.68
Biomass, Landfill and Byproduct	253.62	278.36	286.64	262.45	231.29
Non-Utility Generation (NUGs)	723.40	841.80	268.00	135.20	116.60
Other programs, financing charges and funds	17.36	53.86	34.27	65.44	51.92
Total	**9,962.67**	**12,333.36**	**11,850.79**	**11,195.98**	**12,984.14**

1. Refurbishment of non-OPG nuclear generating station began in 2018.
2. Before 2018, natural gas was purchased at market price rather than at a contracted price, so there was no Global Adjustment component for those years. Instead, for those years, natural gas costs were reflected in the market price component of the Regulated Price Plan price.

and refurbishment costs of generating plants. The province, as the sole shareholder of OPG, ultimately owns and controls the generating assets of OPG. Contracted prices are paid in accordance with the negotiated rates in the contracts with non-utility generators and wind, solar, natural gas and leased nuclear electricity suppliers. The difference between the generator's contracted or regulated price and the market price is recovered through the Global Adjustment.

9.2 The Global Adjustment

The Global Adjustment represents the electricity supply costs exceeding the market price of electricity that must be recovered from the electricity market annually in accordance with the Ontario Electricity Market (Market Rules).

Figure 8 shows the five-year trend for the components of the Global Adjustment.

Figure 9: Global Adjustment (GA) by Fuel Type/Component, 2019

Source of data: Independent Electricity System Operator (IESO)

Component	$ million	%
Ontario Power Generation (OPG) — Regulated Nuclear and Hydro	4,105.70	31.6
Hydro	722.81	5.6
Nuclear (non-OPG)	2,751.50	21.2
Natural gas	1,197.76	9.2
Non-Utility Generation (NUG)	116.60	0.9
Wind	1,793.59	13.8
Solar	1,662.29	12.8
Biofuel	231.29	1.8
Conservation and demand management programs	350.68	2.7
Other programs, financing charges and funds	51.92	0.4
Total	**12,984.14**	**100.0**

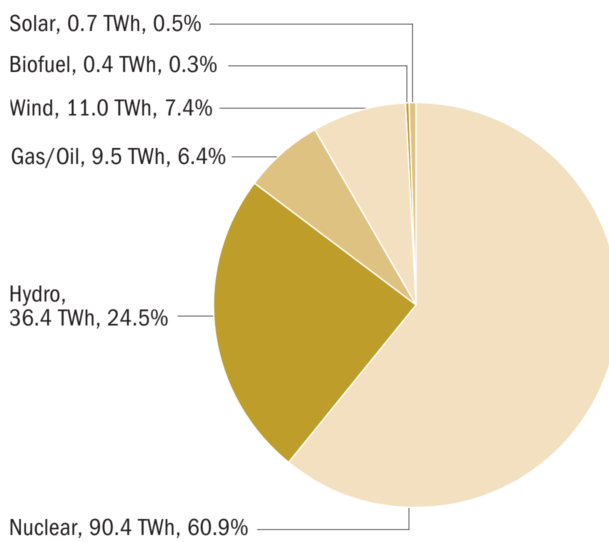
The Global Adjustment is a top-up added to the market price (hourly Ontario electricity price or HOEP) for power sold to the electricity grid required to pay the difference between the generators' price (regulated or contracted) and the market price. In addition, the Global Adjustment also recovers the costs of energy conservation programs, development of energy storage capabilities and interest revenue (or charges) earned (or incurred) by the market to finance timing differences between when money is collected from ratepayers and when payments are due to power generators.

Figure 9 shows the breakdown of the total Global Adjustment costs by fuel type/component for calendar year 2019.

Figure 10 outlines the electricity supply mix for calendar year 2019 by generation type.

Figure 10: Electricity Supply by Type, 2019, TeraWatt Hour (TWh)

Source of data: Independent Electricity System Operator (IESO)



Comparing the 2019 calendar year data in **Figures 9** and **10**, we note the following:

- total nuclear and hydro-generated electricity make up 86% of the electricity supplied to the electricity market but only 58.3% of the Global Adjustment;
- gas/oil-generated electricity makes up 6% of the electricity supplied to the electricity market but 9.2% of the Global Adjustment;
- wind-generated electricity accounts for 7% of the electricity supplied to the electricity market but 13.8% of the Global Adjustment;
- solar-generated electricity accounts for less than 1% of the electricity supplied to the electricity market but 12.8% of the Global Adjustment;
- biofuel-generated electricity accounts for less than 1% of the electricity supplied to the electricity market but 1.8% of the Global Adjustment; and
- conservation, storage and other programs offset by net financing revenues earned for the year make up 3.1% of the Global Adjustment.

The details above illustrate the disproportionate contribution of costs to the Global Adjustment from peak (such as natural gas) or intermittent (such as wind, solar or biofuel) supply in relation to the amount of electricity generated by these fuel types. In its second quarterly report for 2020, A Progress Report on Contracted Electricity Supply, the IESO outlined that the general ranges of contract terms according to fuel types are:

- Bio-energy: five to 21 years
- Energy from waste: 20 years
- Hydroelectricity: 20 to 50 years
- Natural gas: four to 20 years
- Leased nuclear: 31 to 57 years
- Solar: 20 years
- Wind: 20 years

According to a chart of Projected Lifecycle for Contracted Capacity in the IESO report, many of the current contracts for wind, solar and natural gas will expire between 2031 and 2036.

9.3 Electricity Price Mitigation

In order to reduce electricity costs for consumers, the province provides rate reductions through price mitigation programs. Over the past few years, the province has provided electricity consumers with rate relief from the RPP prices set by the OEB. As we have noted in previous reports including our 2017 Special Report, *The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money*, when the government chooses to reduce the RPP prices established by the OEB for some or all electricity consumers, the shortfall in electricity supply cost recovery from customers must be made whole through transfer payments made to the IESO. When implementing price mitigation programs, the government must choose how to allocate electricity supply costs between two sources of funding: billings to electricity consumers and provincial transfer payments funded through debt. We continue to monitor the electricity rate-setting process and any existing or proposed rate mitigation programs to ensure that they are being properly accounted for in the Public Accounts of Ontario.

Figure 11 summarizes rate mitigation programs relating to the RPP prices since 2017. Note that this summary excludes mitigation programs relating to electricity transmission/distribution rates and tax credit programs that do not affect the RPP prices paid by consumers.

10.0 Ontario's Debt Burden

We have consistently commented in previous annual reports on Ontario's growing debt burden, attributable to Ontario's large deficits and its spending on capital assets such as infrastructure. As part of the commitments made by the province to combat COVID-19, the province has started incurring additional debt, which will be reflected in the 2020/21 Public Accounts.

We noted that the province has relied on historically low interest rates to keep its debt-servicing costs relatively stable, but the debt itself, whether measured as total debt, net debt or accumulated deficit, continues to grow, as illustrated in **Figure 12**. The three measures of debt are defined below:

- *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.
- *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

Figure 11: Electricity Rate Mitigation Programs, 2017–2020

Source of data: Independent Electricity System Operator (IESO)

Electricity Rate Mitigation Program	Dates in Effect	
Ontario Electricity Support Program (OESP)	Pre-Jan 1, 2017–present	The OESP is an Ontario Energy Board program that lowers electricity bills for lower-income households. The OESP provides a monthly credit to eligible customers based on household income and household size. The OESP credits are applied directly to eligible customers' bills. Prior to July 1, 2017, the OESP was funded through recoveries from the electricity market. Since July 1, 2017, this program has been funded through provincial transfer payments.
Ontario Rebate for Electricity Consumers (OREC)	Jan 1, 2017–Oct 31, 2019	The OREC provided electricity consumers with an 8% rebate on their electricity bills (equivalent to the HST paid on electricity). The OREC program was rolled into the Ontario Electricity Rebate along with the Global Adjustment Refinancing program on November 1, 2020.
Global Adjustment (GA) Refinancing	Jul 1, 2017–Oct 31, 2019	The GA Refinancing benefit was added to the electricity rate mitigation for eligible consumers in July 2017 to top up the OREC benefit to provide the typical residential electricity consumer with a total 25% reduction to their electricity bills.
Ontario Electricity Rebate (OER)	Nov 1, 2019–present	The OER program was introduced in November 2019 as a replacement to the OREC and GA Refinancing programs. When introduced, the OER was a provincial rebate equal to 31.8% of a consumer's electricity bill (an increase from the combined benefit of 25% from the OREC and GA refinancing programs). In October 2020, the government announced that the OER would be increased to 33.2% starting November 1, 2020.
COVID-19 Relief – Single Off-Peak Time-of-Use Electricity Rate billing	Mar 24, 2020–May 31, 2020	From March 24, 2020 to May 31, 2020, the province set the RPP price at the off-peak rate within the Time-of-Use (TOU) pricing scale. The difference between the amount that would have been collected under normal TOU pricing and the reduced price was funded through provincial transfer payments to the electricity market. On June 1, 2020, the rate was set back up to a single rate that was established by the Ontario Energy Board in its November 2019 electricity rate setting process.

Figure 12: Total Debt, Net Debt and Accumulated Deficit, 2013/14–2022/23 ($ million)

Sources of data: March 31, 2020, Province of Ontario Consolidated Financial Statements; March 31, 2020 Province of Ontario Annual Report-Financial Statement Discussion and Analysis; 2020 Ontario Budget; and Ministry of Finance

	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.

to pay for past government transactions and events.

- *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.

10.1 Main Contributors to Net Debt

The province's net debt has been growing over many years and is attributable to its large annual operating deficits, along with its expenditures on capital assets such as buildings and other infrastructure and equipment, whether acquired directly or through public-private partnerships. This extends to assets acquired for the government or its consolidated organizations, such as public hospitals, as illustrated in **Figure 13**.

The province will continue to have annual deficits over the next three years, and net debt will continue to rise as the government borrows to finance its operations, including the additional funding needed to implement COVID-19 measures. In the 2020 Budget, the province outlined its planning projection (which is used for the projections in **Figures 12** to **18**) and developed three alternative economic growth scenarios that could impact the amount of long-term debt borrowing required.

Under the planning projection, the province estimates it will need to borrow $59.3 billion by 2022/23 and will have a deficit of $28.2 billion. Under the faster growth scenario, it will require $52.4 billion in long-term borrowings ($6.9 billion less than the planning projection) and will incur a deficit of $21.3 billion. Under the slower growth scenario, it will require $64.5 billion in long-term borrowing ($5.2 billion more than the planning projection) and will incur a deficit of $33.4 billion.

In the last 10 years, Ontario's net debt has increased by 82.5%, from $193.6 billion beginning in 2010/11 to $353.3 billion in 2019/20. It is estimated to increase by an additional $119.6 billion, or 34%, in the next three years, resulting in an overall increase of 144%. Net debt is estimated to be $472.9 billion by 2022/23.

To put this in perspective, the amount of net debt owed by each resident of Ontario on behalf of the government will increase from about $14,900

Figure 13: Net Debt Growth Factors, 2013/14–2022/23 ($ million)

Sources of data: March 31, 2020 Province of Ontario Consolidated Financial Statements, 2020 Ontario Budget and Ministry of Finance

	Restated Net Debt Beginning of Year[1]	Deficit/ (Surplus)[1]	Net Investment in Tangible Capital Assets[2]	Miscellaneous Adjustments[3]	Restated Net Debt End of Year[1]	Increase/ (Decrease)
Actual						
2013/14	259,947	11,530	5,600	(908)	276,169	16,222
2014/15	276,169	11,268	6,509	611	294,557	18,388
2015/16	294,557	5,346	5,471	983	306,357	11,800
2016/17	306,357	2,435	4,752	533	314,077	7,720
2017/18	314,077	3,672	6,584	(499)	323,834	9,757
2018/19	323,834	7,435	7,000	227	338,496	14,662
2019/20	337,970	8,672	5,592	1,098	353,332	14,836
Estimated						
2020/21[4]	353,332	38,468	6,172	–	397,972	44,640
2021/22[4]	397,972	33,108	6,734	–	437,814	39,842
2022/23[4]	437,814	28,160	6,958	–	472,932	35,118
Total over 10 years	**–**	**150,094**	**61,372**	**2,045**	**–**	**212,985**

1. Restated for the net pension assets and the Fair Hydro Plan for fiscal years 2013/14 to 2017/18, and adjustment to opening accumulated deficit for receivable of corporations tax and other revenue adjustments in fiscal 2019/20.
2. Includes expenditures on government-owned and broader-public-sector land, buildings, machinery and equipment, and infrastructure assets capitalized during the year, less annual amortization and net gains reported on sale of government-owned and broader-public-sector tangible capital assets for fiscal years 2013/14 to 2019/20.
3. Unrealized fair value losses/(gains) on the Ontario Nuclear Funds Agreement (ONFA) Funds held by Ontario Power Generation Inc., other comprehensive income and International Financial Reporting Standards adjustments from government business enterprises, and prepaid expenses and other non-financial assets.
4. Net debt and deficit/(surplus) includes the reserve, as reported in the 2020 Ontario Budget.

per person at the beginning of 2010/11 to about $31,200, per person in 2022/23. In other words, it would cost every Ontarian $31,200 to eliminate the province's net debt in 2022/23. In 2019/20, the amount of net debt owed by each resident of Ontario was $24,293.

10.2 Ontario's Ratio of Net Debt to GDP

A key indicator of the government's ability to carry its debt is the level of debt relative to the size of the economy, or more specifically to the market value of goods and services produced by the economy (known as the gross domestic product, or GDP). This ratio of net-debt-to-GDP measures the relationship between a government's obligations and its capacity to raise the funds needed to meet them. It is an indicator of the burden of government debt on the provincial economy.

If the amount of debt that must be repaid relative to the value of the GDP is rising—in other words, if the ratio is rising—it means the government's net debt is growing faster than the provincial economy and is becoming an increasing burden.

Figure 14 shows that the province's net-debt-to-GDP ratio remained constant from 2003/04 (27.5%) to 2007/08 (26.6%). However, it has been trending upward since then, reflecting factors such as significantly increased borrowing to fund annual deficits and infrastructure spending. Ontario's net-debt-to-GDP ratio rose from 26.6% before the 2008/09 recession to 39.7% in 2019/20. The province projects Ontario's net debt will increase by $119.6 billion over the next three years, resulting in the net-debt-to-GDP ratio rising to 49.6%.

In the 2019 Budget, the government introduced the *Fiscal Sustainability, Transparency and Accountability Act, 2019* (Act). The Act includes a requirement for the Minister of Finance to set out in the annual budget the government's net-debt-to-GDP ratio and its plans for reducing the debt burden and monitoring progress on doing so. The 2019 Budget aimed to have the net-debt-to-GDP ratio at levels less than 40.8% by 2022/23. In the 2020 Budget, the province indicated that there are risks and uncertainty associated with projecting economic information due to the COVID-19 pandemic, and that both the recovery plan and the debt reduction strategy will be included and reported as part of the 2021 Budget. The government, legislators and the public need to be mindful of Ontario's debt level and the relationship of net debt to GDP.

We noted in our previous Annual Reports that many experts believe 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.

Figure 14: Ratio of Net Debt to Gross Domestic Product (GDP), 2003/04–2022/23

Sources of data: March 31, 2020 Province of Ontario Annual Report-Financial Statement Discussion and Analysis, and 2020 Ontario Budget

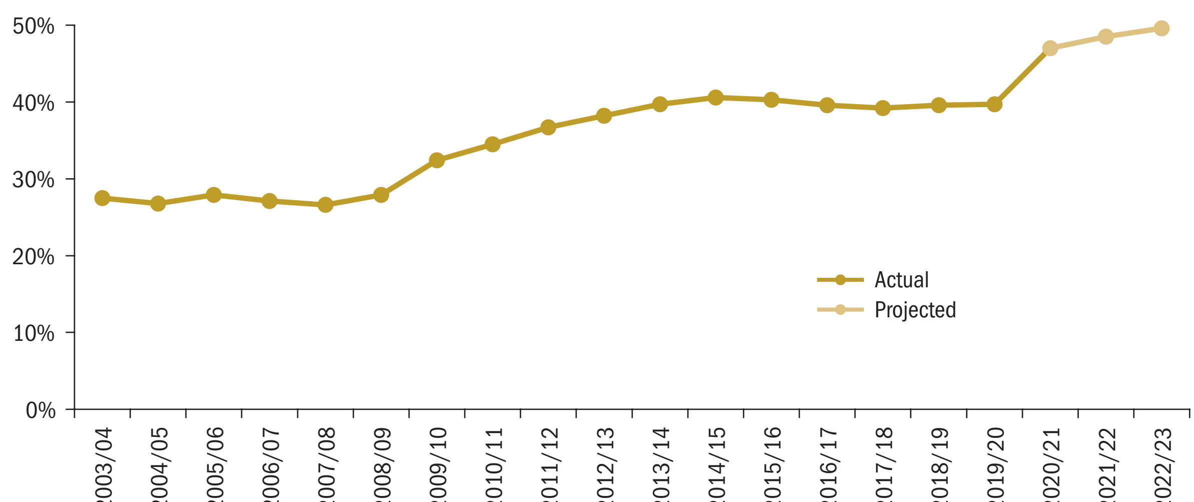


Figure 15: Net Debt and the Net-Debt-to-GDP Ratios of Canadian Jurisdictions, 2018/19 and 2019/20

Sources of data: Province of Ontario Annual Report and Consolidated Financial Statements; Annual Reports and Consolidated Financial Statements of other provincial jurisdictions; and federal budgets and budget updates, budgets and Ministry of Finance report of provincial jurisdictions

	2018/19		2019/20	
	Net Debt ($ million)	Net Debt to GDP (%)	Net Debt ($ million)	Net Debt to GDP (%)
AB	27,477	7.9	40,144	11.5
SK	829	14.7	12,289	14.7
BC	320	14.3	45,351	14.8
PE*	2,124	30.5	2,124	30.5
NS	14,993	33.8	15,242	33.1
MB	24,999	34.6	25,220	33.7
Federal*	772,124	34.8	772,124	34.8
NB	13,959	37.4	13,922	36.6
QC	172,558	39.7	171,658	37.3
ON	338,496	39.5	353,332	39.7
NL*	15,374	44.7	15,374	44.7

* 2019/20 data was not available 2018/19 data is used.

We also noted that it is an oversimplification to rely on just one measure to assess a government's borrowing capacity because that measure does not consider that government's share of federal and municipal debts. In Ontario's case, if the province's share of those debts was included in its indebtedness calculations, the net debt would be considerably higher. However, consistent with debt-measurement methodologies used by most jurisdictions, we have focused throughout our analysis predominantly on the provincial government's direct net debt.

Figure 15 shows the net debt of Ontario compared with other provinces and the federal government, along with their respective ratios of net-debt-to-GDP for fiscal 2018/19 and 2019/20. For the year ended March 31, 2020, Ontario has one of the highest net-debt-to-GDP ratios compared with other Canadian jurisdictions that have issued their financial information. The 2019/20 financial information for the federal government, Prince Edward Island, and Newfoundland and Labrador was not available as of November 10, 2020.

10.3 Other Measures to Assess Government Debt Levels

10.3.1 Ratio of Net Debt to Total Annual Revenues

Another useful measure of government debt is net debt as a percentage of total annual revenue, an indicator of how much time it would take to eliminate the debt if the province spent all of its revenues only on debt repayment. For instance, a percentage of 250% indicates that it would take 2.5 years to eliminate the provincial debt if all revenues were devoted exclusively to it.

As shown in **Figure 16**, this percentage declined from about 188% in 2003/04 to about 146% in 2007/08, reflecting the fact that the province's net debt grew at a slower pace than annual provincial revenue. However, the percentage has increased steadily since 2007/08 and is expected to reach 295.3% by 2022/23. The percentage currently sits at 226.4%. This increasing percentage indicates the province's net debt burden is outpacing its revenue growth.

Figure 16: Net Debt as a Percentage of Total Annual Revenue, 2003/04–2022/23

Sources of data: March 31, 2020 Province of Ontario Annual Report-Financial Statement Discussion and Analysis, 2020 Ontario Budget and Ministry of Finance

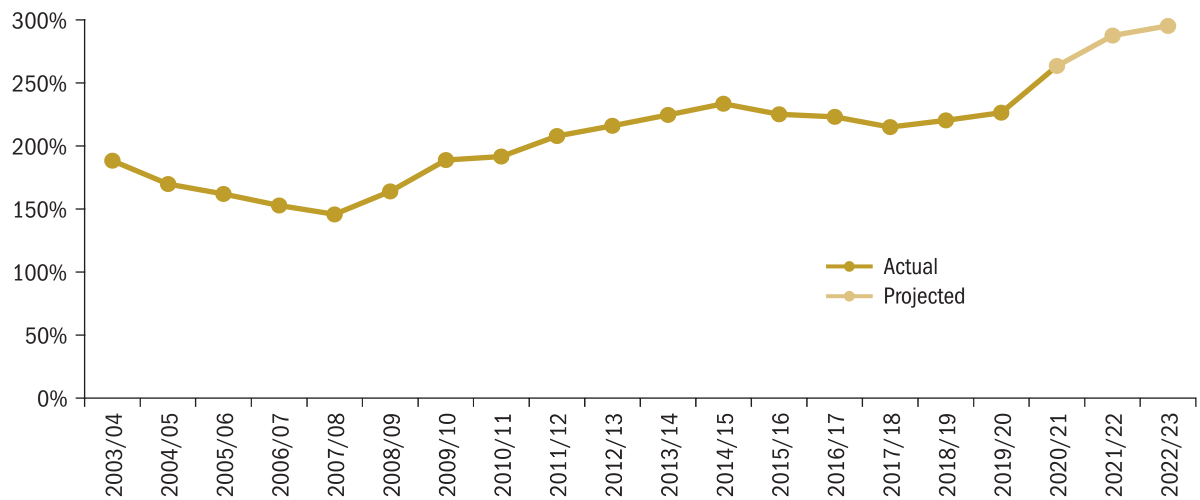
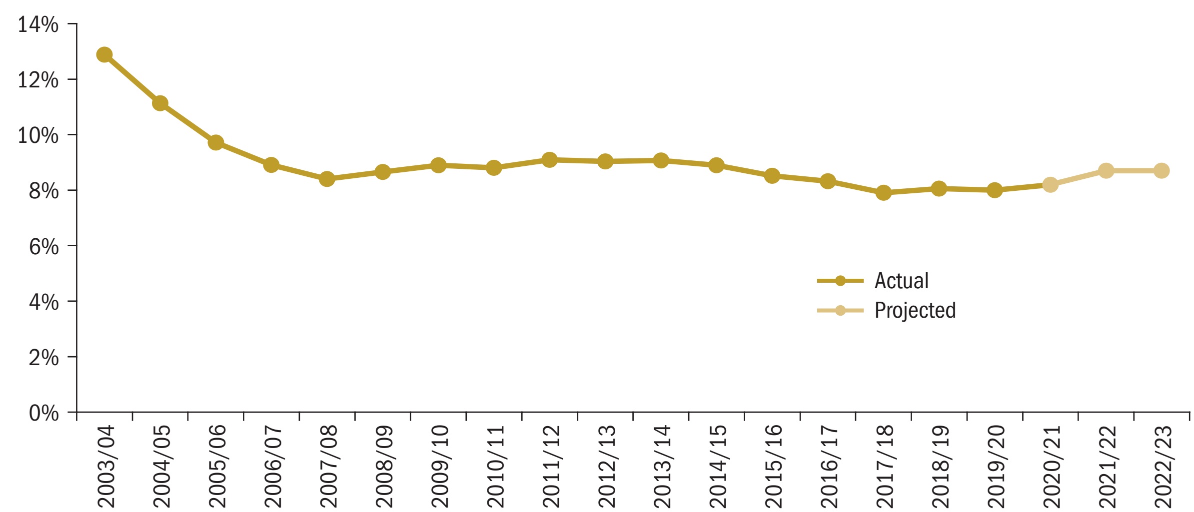


Figure 17: Ratio of Interest Expense to Total Revenue, 2003/04–2022/23

Sources of data: March 31, 2020 Province of Ontario Annual Report-Financial Statement Discussion and Analysis, and 2020 Ontario Budget



10.3.2 Ratio of Interest Expense to Revenue

Interest expense is the cost of servicing total debt. Increases in interest expense can directly affect the quantity and quality of programs and services that the government can provide; the higher the proportion of government revenues going to pay interest costs on past borrowings, the lower the proportion available for spending in other areas. In the 2020 Budget, the government forecasts that in 2020/21, it will spend $12.5 billion in interest payments to service the province's debt.

The interest-expense-to-revenue ratio illustrates the extent to which servicing past borrowings takes a greater or lesser share of total revenues.

As **Figure 17** shows, interest rates have been at historic lows since the beginning of this decade, and the actual interest-expense-to-total-revenues ratio held steady at around 9.0% from 2010/11 to 2014/15. In 2016/17, the government retroactively consolidated the broader public sector on a line-by-line basis, which increased both interest expense and revenue reported in the province's consolidated financial statements. The ratio stood at 8% in

2019/20 and is projected to be 8.7% in 2022/23. This means approximately 8.7 cents of every dollar in government revenue will go toward paying interest on debt by 2022/23.

The debt exposes the province to further risks, the most significant being interest-rate risk. If interest rates increase, the government will have considerably less flexibility to provide public services, such as health care and education, because a higher proportion of revenues will be required to pay interest on the province's outstanding debt. More money will go toward interest expense, contributing to increasing the annual deficit.

Interest rates have been at record low levels over the last few years, enabling the government to keep its annual interest expense relatively steady even as its total borrowing has increased significantly. Interest rates remained unchanged for the majority of the fiscal year: for example, the prime lending rate remained at 3.95% until March, when it fell to 2.45% due to the COVID-19 pandemic, and has since remained unchanged; Government of Canada 10-year bond yields ranged from 1.13% to 1.67% until March 2020, when they fell below 1% and have since remained at a bond yield of about 0.6%.

As we noted in previous Annual Reports, the government has mitigated its interest-rate risk to some extent by increasing the weighted average term of its annual borrowings in order to take advantage of the current low rates. However, over the next three years, the government has projected earning revenues at a slower rate than the increase in the amount of net debt and interest expense. In fiscal 2020/21, year-over-year revenues are projected to decline by 3.22% or $5 billion, while net debt is projected to grow by 12.63% or $44.6 billion. Interest expense is projected to decline slightly (0.3% or $39 million). By fiscal 2022/23, revenues are projected to return to positive growth, although at a slower rate of 2.6% ($4.1 billion) compared with net debt of 33.8% ($119.6 billion) and interest expense of 11.5% ($1.4 billion), when compared with fiscal 2019/20.

The ratio of interest expense to revenue is expected to continue to rise in the near future as more interest will be paid on the accumulated debt, meaning the government will have less flexibility to respond to changing economic circumstances. Past govern-ments' borrowing and debt-servicing decisions mean a growing portion of revenues will not be available for other current and future government programs.

10.4 Consequences of High Indebtedness

Our commentary in prior years highlighted the consequences for the province of carrying a large debt load—and the same observations continue to be relevant this year. They include the following:

Debt-servicing costs cut into funding for other programs: As debt grows, so do interest costs. As interest costs consume a greater proportion of government resources, there is less to spend on other things. To put this "crowding-out" effect into perspective, interest expense is currently the province's fourth-largest annual expenditure behind health, education, and children's and social services. As shown in **Figure 18**, interest rates have been at historic lows since the beginning of this decade, and actual interest-expense-to-total expenses has ranged from 7.6% to 8.3% between 2010/11 and 2019/20. In the 2020 Budget, the province forecasts interest expense will increase to $13.9 billion by 2022/23.

Greater vulnerability to interest rate increases: Ontario has been able to keep its annual interest expense relatively steady, even as its total borrowing has increased significantly. For example, it was paying an average effective interest rate of about 8.4% in 1999/2000, but that dropped to 3.45% in 2019/20. However, if interest rates start to rise again, the government will have considerably less flexibility to provide public ser-vices because it will have to devote a higher proportion of its revenue to interest payments.

Figure 18: Interest Expense to Total Expense, 2003/04–2022/23

Sources of data: March 31, 2020 Province of Ontario Annual Report-Financial Statement Discussion and Analysis; 2020 Ontario Budget; and Ministry of Finance

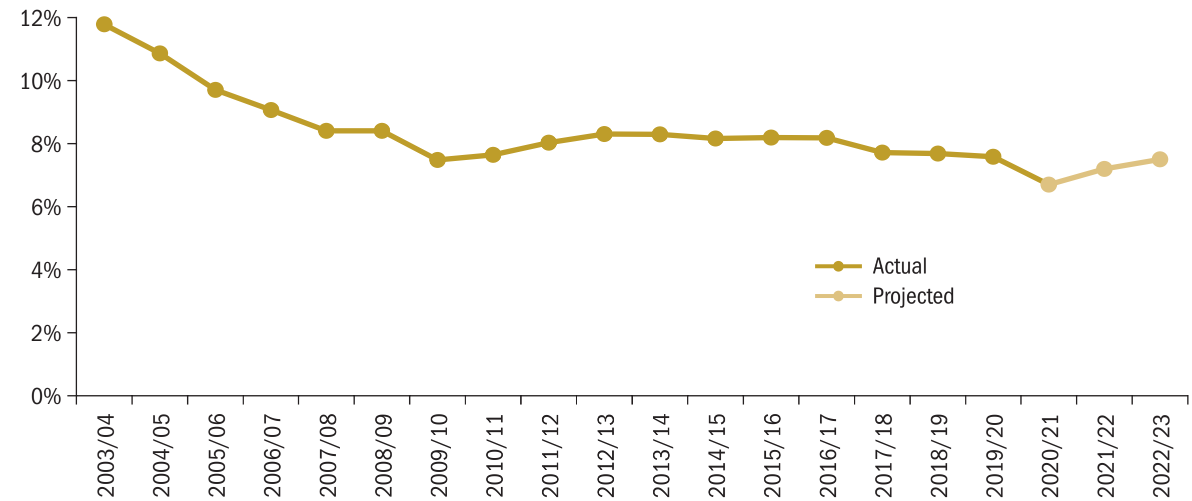


Figure 19: Ontario's Credit Ratings, 2016–2020

Sources of data: Moody's, S&P, DBRS and Fitch

Year	S&P	Moody's	DBRS	Fitch
2016	A+ (Stable)	Aa2 (Stable)	AA (low) (Stable)	AA– (Stable)
2017	A+ (Stable)	Aa2 (Stable)	AA (low) (Stable)	AA– (Stable)
2018*	A+ (Stable)	Aa3 (Stable)	AA (low) (Stable)	AA– (Negative)
2019	A+ (Stable)	Aa3 (Stable)	AA (low) (Stable)	AA– (Stable)
2020	A+ (Stable)	Aa3 (Stable)	AA (low) (Stable)	AA– (Stable)

Credit Rating Actions

- Rating Downgrade
- Rating Outlook Decline
- Rating Outlook Improvement

* In April 2018, Moody's changed the outlook of Ontario's rating to negative from stable. In December 2018, Moody's downgraded Ontario's rating and the outlook on the rating was changed to stable.

Potential credit-rating downgrades could lead to higher borrowing costs: Prepared by specialized agencies, credit ratings assess a government's creditworthiness based largely on its capacity to generate revenue to service its debt. The four main credit-rating agencies are Moody's Investors Service (Moody's), Standard and Poor's Global Ratings (S&P), DBRS Morningstar (DBRS), and Fitch Ratings (Fitch). To assign a rating, agencies consider such factors as a government's economic resources and prospects, industrial and institutional strengths, financial health, financial management and debt management practices, liquidity, access to capital, and susceptibility to major risks.

Figure 19 shows Ontario's credit ratings for the last five years. In 2018, Moody's downgraded its rating for Ontario's debt from Aa2 to Aa3, and Fitch revised its rating outlook from stable to negative, reflecting its assessment of the province's increased credit risk. In 2019, Fitch revised its rating outlook to stable. The four main agencies' ratings and outlooks remained unchanged in 2020. While a decline in economic activity will impact the next couple of fiscal years, the agencies' forecasts suggest that after the COVID-19 pandemic, there will be a resumption of deficit reduction and the economy will return to a positive GDP growth, although the province will be extending its previous timeline to achieve a balanced budget in fiscal 2023. In the 2020 Budget, the province has indicated that this will be addressed in the 2021 Budget. The agencies cited drivers that could lead to a negative rating action—including the province's failure to reduce budget deficits, failure to stabilize the net-debt-to-GDP ratio over the medium term and persistent increase in the debt burden—that call into question the government's commitment to fiscal sustainability.

A credit rating can affect the cost of future borrowing, with a lower rating indicating that an agency believes there is a relatively higher risk that a government will default on its debt. Generally, investors will lend to that government only in return for a greater risk premium, in the form of higher interest rates. A significant rating downgrade could also shrink the potential market for a government's debt, because some investors will not hold debt below a certain rating.

10.5 Final Thoughts on Ontario's Debt Burden

Ultimately, decisions about how much debt the province should carry, and the strategies to pay down that debt, are questions of government policy and thus the sole prerogative of the government.

Government debt has been described as a burden on future generations, especially debt used to finance operating deficits—in contrast to debt used to finance infrastructure, which is more likely to leave behind tangible capital assets that benefit future generations. In the 2019 Budget, the government aimed to maintain the net-debt-to-GDP ratio at less than 40.8% until 2022/23. With the large increases in deficit and net debt expected over the medium term, and the projected net-debt-to-GDP ratio approaching the 50% mark, the government will need to consider when and how it will implement its recovery plan and debt reduction strategy that is to be reported in the 2021 Budget.

11.0 Use of Legislative Accounting Standards

Canadian PSAS have been widely adopted by Canadian federal, provincial, territorial and local governments as the basis for preparing their financial statements.

Over time, standards were developed to address increasingly complex transactions and emerging financial issues. When changes to standards have a significant impact on the accounting for and measurement of transactions affecting the annual deficit/surplus or net debt, governments may be reluctant to adopt them to the extent that they generate potential volatility in annual reported results.

As discussed in our previous Annual Reports, the prior government passed legislation in 2008, 2009, 2011 and 2012 giving it the ability to make regulations for specific accounting treatments in place of the wholesale application of independently established accounting standards. Initially, the use of regulations did not deviate materially from Canadian PSAS. For example:

- In 2011, a regulation under the *Financial Administration Act* directed Hydro One, at the time wholly owned by the Ontario government, to prepare its financial statements in accordance with US generally accepted accounting principles (GAAP), effective January 1, 2012. Subsequently, the *Financial Administration Act* was changed to make this regulation no longer apply to Hydro One once it made its initial public offering on the Toronto Stock Exchange in 2015. The government also required another wholly owned government business enterprise, Ontario Power Generation Inc. (OPG), to prepare its financial statements in accordance with US GAAP. When the government chose to use US GAAP, rather than International Financial Reporting Standards (IFRS), as required by Canadian PSAS, to record the results of Hydro

One and OPG in the province's consolidated financial statements, we examined the differences between IFRS and US GAAP, and concluded these differences had no material effect on the province's annual deficit. The government adopted IFRS for the purposes of recording the results of OPG and Hydro One in the province's March 31, 2017, consolidated financial statements.

- Ontario government regulations require transfers for capital acquisitions and transfers of tangible capital assets to be accounted by recipients as "deferred contributions." The deferred amounts are to be brought into revenue by transfer recipients at the same rate as they recognize amortization expense on the related assets. This prescribed accounting treatment is in accordance with PSAS.

Subsequent to 2011, regulations and legislation were used to deviate from Canadian PSAS as follows:

- The 2012 Budget further amended the *Financial Administration Act* to provide the government with full authority to make regulations regarding the accounting policies and practices used to prepare its consolidated financial statements. This legislated provision was used in connection with the preparation of the 2015/16 consolidated financial statements. A time-limited regulation was passed requiring a full valuation allowance to be recorded for jointly sponsored pension plans, which while in effect was in accordance with Canadian PSAS.
- Most recently, as noted in our Special Report, *The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money*, we expressed concerns about the government legislating a complex accounting/financing structure to improperly avoid showing an annual deficit and increases in net debt. The "legislated accounting" referred to the government creating a regulatory asset through legislation. This "asset" represented the difference between what electricity generators are owed and the lesser amount being collected from electricity ratepayers as a result of the government policy decision to reduce electricity rates without the involvement of an independent regulator. Without the legislated accounting, the difference would be recorded as an expense rather than as an asset in the province's consolidated financial statements. As described in our *2018 Annual Report*, the current government corrected the accounting to comply with PSAS in the March 31, 2018 consolidated financial statements.

We have raised the issue of legislated accounting on a number of occasions in our previous Annual Reports. It is critical that Ontario continue to prepare its financial statements in accordance with generally accepted accounting principles, specifically those of Canadian PSAS, in order to maintain its financial reporting credibility, accountability and transparency. The responses provided in **Section 1.16** in this year's follow-up report indicate that the government will not be formalizing/legislating the use of Canadian PSAS but does show a willingness and commitment to preparing its financial statements in accordance with generally accepted accounting principles.

However, if the government reports a deficit or surplus under a legislated accounting treatment that is materially different than what the deficit or surplus would be using Canadian PSAS, the Auditor General is compelled to include a qualification in her audit opinion.

12.0 Canadian Public Sector Accounting Standards Updates

Canadian PSAS continues to be the most appropriate standards for the province to use in preparing its consolidated financial statements. Following

Canadian PSAS ensures that information provided by the government about the annual deficit or surplus is fair, consistent and comparable to previous years, allowing legislators and the public to assess the government's management and stewardship of the public purse. Ontario's provincial budget is also prepared on the same basis as its consolidated financial statements.

However, the Public Sector Accounting Board (PSAB) faces challenges, in some cases, in reaching a consensus among its various stakeholders, including financial statement preparers and auditors, on what emerging accounting standards are most appropriate for the public sector.

We discuss three significant accounting issues that in our view have posed a challenge to PSAB over the past year: the use of financial instruments in the public sector; accounting for employee benefits; and the recognition of purchased intangibles. PSAB's final standard-setting determination will affect the way the province accounts for these items and will have a significant impact on the province's reported financial results.

12.1 Financial Instruments

Financial instruments include provincial debt and derivatives such as currency swaps and foreign-exchange forward contracts. PSAB's project to develop a new standard for reporting financial instruments began in 2005, with a key issue being whether changes in the fair value of derivative contracts held by governments should be reflected in their financial statements and, in particular, whether such changes should affect a government's annual deficit or surplus.

In March 2011, PSAB approved a new public-sector accounting standard on financial instruments that was slated to become effective for fiscal periods beginning on or after April 1, 2015. The new standard provides guidance on the treatment of financial instruments held by a government and is similar to financial instruments accounting standards used in the Canadian private sector.

One of the new standard's main requirements is for certain financial instruments, including derivatives, to be recorded at fair value, with any unrealized gains or losses on these instruments recorded annually in a new financial statement called the statement of remeasurement gains and losses.

Some financial statement preparers in Canadian jurisdictions do not support the introduction of these fair-value remeasurements and the recognition of unrealized gains and losses. For example, Ontario has expressed the view is that it uses derivatives solely to manage foreign currency and interest-rate risks related to its long-term-debt holdings, and that it has both the intention and ability to hold these derivatives until the debts associated with them mature. Accordingly, remeasurement gains and losses on the derivatives and their underlying debt would offset each other over the total period that such derivatives are held, and therefore would have no real economic impact on the government.

Ontario financial statement preparers state that recording non-cash gains and losses each year would force the province to inappropriately report the very volatility in the annual surplus/deficit that the derivatives are being used to manage. This, in their view, would not reflect the economic substance of government financing transactions and would not provide the public with transparent information on government finances.

In response to such concerns from financial statement preparers, PSAB committed to reviewing the new financial-instruments standard by December 2013. PSAB completed its review of Section PS 2601, *Foreign Currency Translation*, and Section PS 3450, *Financial Instruments*, and in February 2014 confirmed the soundness of the principles underlying the new standard.

PSAB deferred the effective date for these new standards to fiscal years beginning on or after April 1, 2016. In 2015, however, PSAB extended the effective date for the new standard to April 1, 2019 for senior governments to allow further study of reporting options for these complex financial instruments. In 2018, PSAB again extended the effective date for the new standard to April 1, 2021 (updated to April 1, 2022 in June 2020).

Since February 2016, PSAB staff have been consulting with government and not-for-profit stakeholders on implementation issues of the financial-instruments standard. Stakeholders in senior governments have communicated the need for a hedge accounting standard during these consultations.

In January 2020, PSAB released an exposure draft that proposed amendments to PS 3450, *Financial Instruments*. As per the exposure draft, the main feature of these amendments was "to permit special presentation of foreign exchange gains and losses resulting from transactions intended to sustain foreign exchange reserves and orderly conditions in the foreign exchange market for the Canadian dollar or to aid foreign countries."

PS 2601, *Foreign Currency Translation* contained an important hedge accounting exemption that was proposed to be extended into PS 3450, *Financial Instruments*. In essence, this exemption allowed the federal government to use a form of hedge accounting, for derivatives it uses to manage its foreign exchange exposure from activities it is legislated to undertake under the federal *Currency Act*.

Provincial financial statement preparers argue that by grandfathering and extending the federal exemption to PS 3450, *Financial Instruments* through the proposed narrow-scope amendments, what was once a practical expedient under an existing accounting practice (that is, foreign exchange hedges), evolved into a hedge accounting option that is exclusive to federal government financial statement preparers. This, in their view, is unfair as it provides an exemption that synthetically allows one stakeholder to achieve an accounting result that is unavailable to any other PSAB stakeholders.

In response to comments received on the January 2020 exposure draft, in July 2020, PSAB released an exposure draft for comment containing amendments to Section PS 1201, *Financial statement presentation*, PS 2601, *Foreign Currency Translation* and PS 3450, *Financial Instruments*.

The amendments allow all public-sector entities to make an accounting policy election to recognize exchange gains and losses directly in the statement of operations.

The proposed guidance would permit the province to elect to record exchange gains and losses in the statement of operations rather than the new statement of remeasurement gains and losses. Exchange gains and losses recorded in the statement of operations would be included in the annual operating surplus or deficit.

PSAB is deliberating feedback received on the exposure draft. We will continue to monitor the development of standards impacting the measurement and presentation of financial instruments.

12.2 Employment Benefits

In December 2014, PSAB approved an Employment Benefits project to improve the existing PSAS sections by considering changes in the related accounting concepts and new types of pension plans that were developed since the existing sections were issued decades ago. The project aims to review the existing sections, PS 3250, *Retirement Benefits* and PS 3255, *Postemployment Benefits, Compensated Absences and Termination Benefits*.

In November 2016, PSAB issued an invitation to comment on the deferral of actuarial gains and losses. Governments and other public-sector entities need to make significant assumptions when valuing pension plan obligations and plan assets. Actuarial gains and losses measure the differences between these assumptions and the plans' experience, plus any updates to the assumptions. In the past, it was common accounting practice in Canada to defer such gains and losses over an extended period. However, over the past decade, private-sector accounting frameworks in Canada have moved toward an immediate-recognition approach. The invitation to comment sought input from stakeholders as to whether deferral is still an appropriate choice in the public sector.

In November 2017, PSAB issued an invitation to comment on discount rates. The discount rate is a key economic assumption in measuring employment benefits. A small change in the discount rate can significantly impact the value of the benefit obligation and related expenses. The current guidance is not prescriptive and can result in a wide range of practices. The invitation to comment explored alternative approaches to determining the discount rate, including the market yield of high-quality debt instruments, an approach used by Canadian-listed entities, for example.

In October 2018, PSAB issued a third invitation to comment addressing non-traditional pension plans. Non-traditional pension plans include joint defined-benefit plans, multi-employer and multiple-employer defined-benefit plans, plans that provide target, rather than guaranteed, benefits, and plans with provisions that share risk between the employer and plan member. The invitation to comment proposes that a government or other public-sector entity with a non-traditional pension plan recognize its share of the accrued benefit obligation in its financial statements, reflecting the substance of the terms in the plan and taking into consideration relevant factors, facts, events and circumstances.

In October 2019, PSAB decided to revisit the Employment Benefits project plan and scope. On June 26, 2020, PSAS approved a revised Employment Benefits project plan. This new plan focuses on delivering a principles-based employment benefits standard that addresses current and emerging key issues faced by Canadians and public-sector plans.

PSAS is proposing to make the new standard available through multiple releases. The first release will cover base accounting guidance, with later releases building on those principles to further address current and emerging issues.

PSAS is in the process of preparing an exposure draft for the first release, which will focus on deferral provisions and discount rate guidance. The exposure draft will use principles from IPSAS 39, Employment Benefits, as a starting point. PSAB has not yet determined a release date or adoption date for the first exposure draft.

12.3 Purchased Intangible Assets

In June 2019, PSAB approved a new project to revisit the longstanding exclusion in the conceptual framework prohibiting the recognition of purchased intangible assets in public-sector financial statements.

In September 2019, PSAB issued an exposure draft for comment that proposes allowing recognition of intangibles purchased through an exchange transaction. This narrow-scope amendment would be made by removing the recognition prohibition on purchased intangibles in Section PS 1000, *Financial statement concepts*.

Ontario financial statement preparers state that a narrow-scope amendment is not the appropriate vehicle for PSAB to deal with the first-time recognition of intangible assets in public-sector financial statements. In their view, the proposed changes to PS 1000, Financial statement concepts, in the absence of specific guidance, would create confusion and inconsistency in accounting among public-sector entities.

PSAB approved the narrow-scope amendments in September 2020. It also approved the new Public Sector Guideline 8, *Purchased Intangibles*, which allows recognition in financial statements of intangibles purchased through an exchange transaction. The effective date of the new guideline is April 1, 2023. The recognition of intangible assets will be a significant change for the public sector, which will likely result in an increase in the province's total reported assets and annual amortization expense.

12.4 Update on Other Accounting Standard Matters Discussed in our *2019 Annual Report*

12.4.1 Use of Rate-Regulated Accounting in Government Business Enterprises

In our *2019 Annual Report*, we discussed rate-regulated accounting, which was developed to recognize the unique nature of entities, such as electric utilities, whose rates are regulated by an independent regulator under most regulatory frameworks. The next phase of the International Accounting Standards Board's (IASB) review of rate-regulated accounting is to release an exposure draft of a new standard to replace IFRS 14. The IASB expected to publish the exposure draft in the first quarter of 2020.

In 2020, IASB announced the deferral of the release of an exposure draft to the first calendar quarter of 2021. Until the new standard is issued, it is uncertain what financial impact the differences—between the standard and US GAAP—will have on the accounting for regulatory assets and liabilities by government business enterprises.

We will continue to monitor the development of standards impacting the use of rate-regulated accounting in government business enterprises.

12.4.2 Public-Private Partnerships

In our *2019 Annual Report*, we discussed public-private partnerships (P3), an alternative finance and procurement model for infrastructure projects that allows public-sector entities to transfer risks of the project to private-sector entities. Under the P3 model, project sponsors in the public sector—such as provincial ministries, agencies or broader-public-sector entities such as hospitals and colleges—establish the scope and purpose of the project, while construction of the project is financed and carried out by the private sector. Payments for most projects are made either when the projects are substantially completed or at regular agreed-upon intervals. In some cases, the private sector will also be responsible for the maintenance and/or operation of a project for 30 years after its completion.

PSAB released an exposure draft for comment in November 2019 that outlines the accounting for P3s. The proposed guidance is generally consistent with the province's existing P3 accounting policy.

PSAB is considering feedback received on the exposure draft. We will continue to monitor the development of standards impacting the use of public-private partnerships.

13.0 Public Sector Accounting Board Initiatives

This section highlights some additional items that the Public Sector Accounting Board (PSAB) has been studying over the past year that might affect the preparation of the province's consolidated financial statements in the future. The COVID-19 pandemic significantly disrupted the activities of many organizations within the public sector. As a result, PSAB decided to defer the effective dates of all upcoming standards by one year (dates in the following section have been updated to reflect this change).

13.1 Concepts Underlying Financial Performance

PSAB's existing conceptual framework is a set of interrelated objectives and fundamental principles that support the development of consistent accounting standards. Its purpose is to instil discipline into the standard-setting process to ensure that accounting standards are developed in an objective, credible and consistent manner that serves the public interest.

In 2011, PSAB formed the Conceptual Framework Task Force (Task Force) in response to concerns raised by several governments regarding current and proposed standards that they contend cause volatility in reported results and distort budget-to-actual comparisons. The Task Force's objective was to review the appropriateness of the concepts and principles in the existing conceptual framework for the public sector.

To this end, the Task Force issued three consultation papers: *Characteristics of Public Sector Entities* (2011), *Measuring Financial Performance in Public Sector Financial Statements* (2012) and *Conceptual Framework Fundamentals and the Reporting Model* (2015).

In May 2018, the Task Force issued a statement of concepts and a statement of principles. The statement of concepts proposed a revised conceptual framework that would replace two existing sections: PS 1000, *Financial Statement Concepts* and PS 1100, *Financial Statement Objectives*, while the statement of principles proposed changes to the current financial statement presentation.

PSAB plans to issue exposure drafts for a revised conceptual framework and a revised financial statement presentation standard in late 2020 or in 2021.

13.2 Review of PSAB's International Strategy

In its most recent strategic plan, PSAB signalled its intent to review its approach to International Public Sector Accounting Standards (IPSAS) as set out by the International Public Sector Accounting Standards Board (IPSASB).

In March 2018, PSAB issued a consultation paper to solicit input from stakeholders on the criteria that PSAB should apply in developing its international strategy. PSAB also presented four options for convergence with IPSAS.

In May 2019, PSAB issued a second consultation paper seeking feedback from stakeholders on which international strategy option best meets the Canadian public interest. The four international strategy options presented were:

1. Status quo: PSAB continues with the existing standard-setting process. PSAB may continue to refer to the work of other standard-setters as desired.
2. Adapt IPSAS principles when developing future standards: PSAB will continue to develop standards, but future standards must be developed based on IPSAS standards. PSAB will set out guidelines for circumstances in which a departure from IPSAS standards would be permitted.
3. Adopt IPSAS principles except when a departure is permitted: All IPSAS standards will be adopted on a retroactive basis at a defined transition date. PSAB will develop guidance on when IPSAS might be modified.
4. Adopt IPSAS: Full adoption of all IPSAS standards. PSAB would not have the ability to modify IPSAS standards for the Canadian environment.

At its May 5, 2020 meeting, PSAB voted to adapt IPSAS principles when developing future standards (option 2 above). The implementation date of this decision is April 1, 2021. All standards projects initiated on or after this date will use the principles of IPSAS in the development of the PSAS standard, if a similar IPSAS already exists. In cases where a similar IPSAS does not exist, PSAS would continue to be developed as they currently are today.

13.3 Asset Retirement Obligations

In March 2018, PSAB approved a new standard that addresses the reporting of legal obligations associated with the permanent removal of tangible capital assets from service. The new standard, PS 3280, *Asset Retirement Obligations*, addresses tangible capital assets currently in productive use, such as the decommissioning of a nuclear reactor, as well as tangible capital assets no longer in productive use, such as solid-waste landfill sites.

The new standard is effective for fiscal periods beginning on or after April 1, 2022, although earlier adoption is permitted.

The new section requires that a retirement obligation be recognized when:

- there is a legal obligation to permanently remove retirement costs in relation to a tangible capital asset from service. Legal obligations can arise from legislation, contracts and promissory estoppel;

- the past transaction giving rise to the liability, such as acquisition, construction, development or normal use, has already occurred;
- there is an expectation that future economic benefits will be given up; and
- a reasonable estimate can be made. The estimate of the liability includes costs directly attributable to the retirement activities, including post-retirement operation, maintenance and monitoring. A present-value technique is often the best method with which to estimate the liability.

Upon recognition of the liability, a public-sector entity would increase the carrying amount of the related tangible capital asset by an equal amount. The cost included in the carrying amount of the tangible capital asset should be allocated to expense in a rational and systematic manner. This could include amortization over the remaining useful life of the related tangible capital asset, or a component thereof.

If the related asset is no longer in productive use, or if the related asset is not recognized for accounting purposes, the related retirement costs would be recorded as an expense.

13.4 Revenue from Exchange Transactions

In June 2018, PSAB approved a new standard on the recognition, measurement and presentation of revenues. The new standard, PS 3400, *Revenue*, addresses revenues that arise in the public sector but fall outside the scope of PS 3410, *Government Transfers* and PS 3510, *Tax Revenues*.

PS 3400, Revenue is effective for fiscal periods beginning on or after April 1, 2023, although earlier adoption is permitted.

Revenues from an exchange transaction are recognized as or when the public-sector entity satisfies the performance obligation. Performance obligations may be satisfied at a point in time or over a period of time, depending on which method best depicts the transfer or goods or services to the payor.

Unilateral revenues are recognized when there is the authority and a past event that gives rise to a claim of economic resources.

14.0 Statutory Matters

Under section 12 of the *Auditor General Act*, the Auditor General is required to report on any Special Warrants and Treasury Board Orders issued during the year. In addition, section 91 of the *Legislative Assembly Act* requires that the Auditor General report on any transfers of money between items within the same vote in the Estimates of the Office of the Assembly.

14.1 Legislative Approval of Expenditures

Shortly after presenting its budget, the government tables detailed Expenditure Estimates in the Legislative Assembly outlining, on a program-by-program basis, each ministry's planned spending. The Standing Committee on Estimates (Committee) reviews selected ministry estimates and presents a report on this review to the Legislature. Orders for Concurrence for each of the estimates selected by the Committee, following a report by the Committee, are debated in the Legislature for a maximum of two hours before being voted on. The estimates of those ministries that are not selected are deemed to be passed by the Committee, reported to the Legislature, and approved by the Legislature.

After the Orders for Concurrence are approved, the Legislature still needs to provide its final approval for legal spending authority by approving a Supply Act, which stipulates the amounts that can be spent by ministries and legislative offices, as detailed in the estimates. Once the Supply Act is approved, the expenditures it authorizes are considered to be Voted Appropriations. The *Supply Act, 2020*, which pertained to the fiscal year ended March 31, 2020, received royal assent on March 19, 2020.

The *Supply Act* does not receive royal assent until after the start of the fiscal year—and sometimes even after the related fiscal year is over—so the government usually requires interim spending authority prior to its passage. For the 2019/20 fiscal year, the Legislature passed two acts allowing interim appropriations—the *Interim Appropriation for 2019-2020 Act, 2018* (Interim Act) and the *Supplementary Interim Appropriation for 2019-2020 Act, 2019* (Supplementary Act). These two acts received royal assent on December 6, 2018, and December 10, 2019, respectively, and authorized the government to incur up to $139.8 billion in public-service expenditures, $4.3 billion in investments and $287 million in legislative office expenditures. Both Acts were made effective as of April 1, 2019, and provided the government with sufficient authority to allow it to incur expenditures from April 1, 2019 to when the *Supply Act, 2020* received royal assent on March 19, 2020.

In 2019/20, the Treasury Board approved a Supplementary Estimate minute on December 9, 2019. To increase the government's overall appropriation limit, Supplementary Estimates are issued to authorize additional spending. A total amount of $2.9 billion was approved to provide funding to various ministries out of which $45 million was expended.

Figure 20 summarizes the total value of Supplementary Estimates issued and expended for the fiscal year ended March 31, 2020.

Because the legal spending authority under the Interim Act and the Supplementary Act was intended to be temporary, both were repealed when the Supply Act, 2020 received royal assent. The Supply Act, 2020 increased authorized public service expenditures from $139.8 billion to $142.5 billion, increased total authorized public-service investments from $4.3 billion to $4.5 billion, and total authorized expenditures of the legislative offices remained unchanged at $287 million.

14.2 Special Warrants

If the Legislature is not in session, section 1.0.7 of the *Financial Administration Act* allows for the issuance of Special Warrants authorizing the incurring of expenditures for which there is no appropriation by the Legislature or for which the appropriation is insufficient. Special Warrants are authorized by Orders-in-Council and approved by the Lieutenant Governor on the recommendation of the government.

No Special Warrants were issued for the fiscal year ended March 31, 2020.

14.3 Treasury Board Orders

Section 1.0.8 of the *Financial Administration Act* allows the Treasury Board to make an Order authorizing expenditures to supplement the amount of any voted appropriation that is expected

Figure 20: Total Value of Supplementary Estimates, 2019/20 ($ million)
Source of data: Treasury Board

Ministry	Authorized	Expended
Expense Appropriations		
Agriculture, Food and Rural Affairs	10	
Children, Community and Social Services	396	
Education	64	45
Health and Long-Term Care	337	
Energy, Northern Development and Mines	1,560	
Treasury Board Secretariat	300	
Asset Appropriations		
Energy, Northern Development and Mines	186	
Total	**2,853**	**45**

to be insufficient to carry out the purpose for which it was made. The Treasury Board Order may be made only if the amount of the increase is offset by a corresponding reduction of expenditures to be incurred from other voted appropriations not fully spent in the fiscal year. The Treasury Board Order may be made at any time before the government closes the books for the fiscal year. The government considers the books to be closed when any final adjustments arising from our annual audit have been made and the Public Accounts have been published and tabled in the Legislature.

Even though the *Treasury Board Act, 1991* was repealed and re-enacted within the *Financial Administration Act* in December 2009, subsection 5(4) of the repealed act was retained. This provision allows the Treasury Board to delegate any of its duties or functions to any member of the Executive Council or to any public servant employed under the *Public Service of Ontario Act, 2006*. Such delegations continue to be in effect until replaced by a new delegation. Since 2006, the Treasury Board has delegated its authority for issuing Treasury Board Orders to ministers to make transfers between programs within their ministries, and to the Chair of the Treasury Board for making program transfers between ministries and making supplementary appropriations from contingency funds. Supplementary appropriations are Treasury Board Orders in which the amount of an appropriation is offset by a reduction to the amount available under the government's centrally controlled contingency fund.

Figure 21 summarizes the total value of Treasury Board Orders issued for the past five fiscal years. **Figure 22** summarizes Treasury Board Orders for the fiscal year ended March 31, 2020, by month of issue.

According to the Standing Orders of the Legislative Assembly, Treasury Board Orders are to be printed in *The Ontario Gazette*, together with explanatory information. Orders issued for the 2019/20 fiscal year are expected to be published in *The Ontario Gazette* in December 2020. A detailed listing of 2019/20 Treasury Board Orders, showing the amounts authorized and expended, is included in **Exhibit 4** of this report.

Figure 21: Total Value of Treasury Board Orders, 2015/16–2019/20 ($ billion)

Source of data: Treasury Board

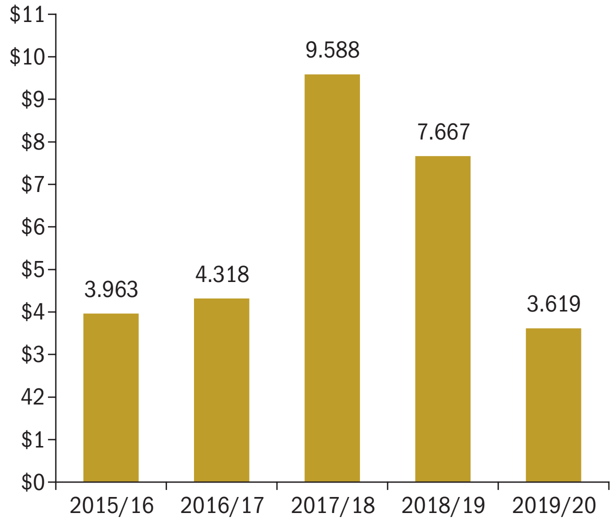


Figure 22: Total Value of Treasury Board Orders by Month Relating to 2019/20

Source of data: Treasury Board

Month of Issue	#	Authorized ($ million)
Apr 2019–Feb 2020	52	2,383
Mar 2020	24	732
Apr 2020	4	216
May 2020	3	125
Jun 2020	0	0
Jul 2020	1	162
Total	**84**	**3,619**

14.4 Transfers Authorized by the Board of Internal Economy

When the Board of Internal Economy authorizes the transfer of money from one item of the Estimates of the Office of the Assembly to another item within the same vote, section 91 of the *Legislative Assembly Act* requires that we make special mention of the transfer(s) in our Annual Report.

Figure 23: Authorized Transfers Relating to Office of the Assembly, 2019/20 Fiscal Year

Source of data: Board of Internal Economy

From:		$
201-3	Legislative Services	(157,500)
201-6	Sergeant at Arms and Precinct Properties	(7,500)
201-10	Member's Office Support Services	(8,000)
202-4	Office of the Provincial Advocate for Children and Youth	(16,800)
To:		
201-4	Information and Technology Services	142,500
201-5	Administrative Services	22,500
201-8	Caucus Support Services	8,000
202-6	Financial Accountability Officer	16,800

Accordingly, **Figure 23** shows the transfers made within Votes 201 and 202 with respect to the 2019/20 Estimates.

14.5 Uncollectible Accounts

Under section 5 of the *Financial Administration Act*, the Lieutenant Governor in Council, on the recommendation of the Minister of Finance, may authorize an Order-in-Council to delete from the accounts any amounts due to the Crown that are the subject of a settlement or deemed uncollectible. The amounts deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

In the 2019/20 fiscal year, receivables of $161 million due to the Crown from individuals and non-government organizations were written off. (The comparable amount in 2018/19 was $608 million.) The write-offs in the 2019/20 fiscal year related to the following:

- $55.3 million for bankrupt/insolvent, tax receivables ($67.9 million in 2018/19)
- $49.5 million for student loans, Loan for Tools program ($45.1 million in 2018/19)
- $22.9 million for Criminal Code fines, estreated bail writs ($6.8 million in 2018/19)
- $19.8 million for Ontario Disability Support Program receivables, outstanding five or more years ($12.7 million in 2018/19)
- $4.4 million for Electrical Vehicle Chargers program and Driver Examination Contract ($0.4 million in 2018/19)
- $3.5 million for Rural Economic Development Initiative ($0.8 million in 2018/19)
- $3.3 million for Motor Vehicle Accident Claim Fund ($5.2 million in 2018/19)

Volume 1 of the 2019/20 Public Accounts summarizes the write-offs by ministry. Under the accounting policies followed in the preparation of the province's consolidated financial statements, a provision for doubtful accounts is recorded against accounts receivable balances. Most of the write-offs had already been expensed in the government's consolidated financial statements. However, the actual write-off in the accounts required Order-in-Council approval.

15.0 Accounting for Transfer Payment Program Costs and Contracts in the 2019/20 Public Accounts

15.1 Summary

As part of our annual audit of the Public Accounts of Ontario, we regularly examine 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 our audit for the 2019/20 fiscal year (April 1, 2019 to March 31, 2020), our Office 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. We addressed these areas in our audit of the 2019/20 Public

Accounts of Ontario and we indicated in response letters to those requests that we would publicly report on the results of our work.

We found that transfer payments under the Ontario Autism Program and the costs incurred from government contracts have been properly recorded in the province's consolidated financial statements for the year ending March 31, 2020 in accordance with Canadian public sector accounting standards. Additional costs that had not yet been incurred by March 31, 2020 will be recorded in the province's year ending March 31, 2021 consolidated financial statements.

The five specific transfer payments programs and contracts we reviewed, listed in order of the dollars involved, along with relevant details and our conclusions, are as follows:

- **Ontario Autism Program**—One-time Ontario Autism Program funding was provided both before and after the province's most recent fiscal year end of March 31, 2020. In the 2019/20 fiscal year, the province appropriately recorded $95.6 million in transfer payment expenses for contracts for services that had been signed and funded on or before March 31, 2020. The processing and funding of eligible applications continued after the fiscal year end and will result in an estimated $173.6 million of additional Ontario Autism Program transfer payment expenses to be recorded in the province's 2020/21 consolidated financial statements.
- **Feed-In Tariff and Large Renewable Procurement Energy Contracts**—The 2018/19 Public Accounts had already recorded an expense and liability accrual of $233.5 million in estimated cancellation and administration costs for these energy contracts. In the 2019/20 fiscal year, cash of $87.3 million was paid to contracted suppliers to reimburse them for eligible costs, drawing down the liability accrual. A liability for the remaining $146.2 million in expected costs was properly recorded in the 2019/20 Public Accounts.
- **Hamilton Light Rail Transit Project**—Metrolinx incurred $193.2 million in pre-construction and cancellation costs. Of these costs, $115.8 million was appropriately expensed in the 2019/20 fiscal year. The remaining $77.4 million in costs were appropriately capitalized as land that has future value to the province. Our 2020 Annual Report includes a value for money audit report related to Metrolinx that provides more information on the Hamilton Light Rail Transit Project.
- **Blue Licence Plate Redesign**—Between May 2019 and March 2020, the province paid a total of $1.0 million to purchase inventory of redesigned blue licence plates that were ultimately discontinued. This inventory was appropriately written down as an expense in the 2019/20 Public Accounts once the government determined that the blue plates were no longer suitable for Ontario drivers to use.
- **Nation Rise Wind Farm**—On May 13, 2020, the Ontario Divisional Court overturned the province's decision to revoke the Renewable Energy Approval that the province had previously granted to Nation Rise. As part of the court's decision, the province agreed to pay approximately $0.1 million in court costs incurred by Nation Rise, which are expected to be appropriately recorded as an expense in the 2020/21 Public Accounts.

Refer to **Figure 24** for a summary of the costs incurred by the province from these five items. These costs were appropriately expensed in the Public Accounts in the 2018/19 and 2019/20 fiscal years in accordance with Canadian public sector accounting standards. In total, the annual deficit reported in the 2019/20 Public Accounts of Ontario appropriately included $212.4 million of expenses pertaining to these five items ($233.5 million in 2018/19).

Figure 24: Provincial Expenses for Certain Contracts and Transfer Payments Recorded in the 2018/19 and 2019/20 Public Accounts

Sources of data: Government of Ontario Integrated Financial Information System, Treasury Board Secretariat

Transfer Payment Program, Project or Contract	Public Accounts Consolidated Financial Statement Line Item(s)	Amount Recorded in Annual Deficit ($ million)		Estimated Impact on Annual Deficit ($ million)
		2018/19	2019/20	2020/21
Ontario Autism Program—Interim One-Time Payments	Children's and Social Services expense—Transfer payments (Schedule 3)	n/a	95.6	173.6
Feed-in Tariff and Large Renewable Procurement Energy Contracts	Other programs expense—Other sector (Schedule 3)	233.5	nil	n/a
Hamilton Light Rail Transit Project	Other programs expense—Other sector (Schedule 3)	n/a	115.8	n/a
Blue Licence Plate Redesign	Other programs expense—Other sector (Schedule 3)	n/a	1.0	n/a
Nation Rise Wind Farm Judicial Review	Other programs expense—Other sector (Schedule 3)	n/a	n/a	0.1
Total	**Annual deficit—Expense**	**233.5**	**212.4**	**173.7**

15.2 Why We Are Reporting on this Matter

As an independent, non-partisan Office of the Legislative Assembly, we are committed to protecting the public interest and serving all MPPs. Our Office has prepared this report on certain areas that were part of our audit of the 2019/20 Public Accounts of Ontario in response to specific queries we received from MPPs regarding the transparent reporting and appropriate accounting treatment of certain costs incurred by the province during the 2019/20 fiscal year. These costs were associated with specific government contracts and projects as well as with transfer payments under the Ontario Autism Program.

The information in this report complements the disclosures already included in the province's consolidated financial statements for the year ended March 31, 2020, for which the Auditor General issued an unqualified opinion dated September 11, 2020.

15.3 Approach to Examination of the Accounting for Transfer Payments and Contract Costs

Costs related to government transfer payments, such as those for the Ontario Autism Program, are recorded in the province's consolidated financial statements as expenses as long as the payment is authorized and program eligibility criteria have been met by the transfer recipient (see **Appendix 1** for the decision tree accountants use to determine when to record government transfer payments as expenses; see **Appendix 2** for a glossary of terms used in this report).

The province may also incur costs when it cancels or changes a program or contract. Cancellation costs are recorded as expenses in the province's consolidated financial statements.

The appropriate accounting treatment and the appropriate timing for recording costs associated with transfer payment programs and contracts depend on several factors, including:

- the fact pattern associated with each program or contract (that is, the key characteristics and requirements of the program/contract that provide the basis on which accounting conclusions can be drawn);

- the timing of key events relative to the province's fiscal year end of March 31; and
- the applicable guidance under Canadian public sector accounting standards.

The accounting outcomes for the five specific transfer payments programs and contracts addressed by this report were examined in the normal course of our audit of the province's 2019/20 consolidated financial statements. Our audit work included inquiry and examination of contracts, accounting positions, correspondence and the underlying support for costs incurred by the relevant ministry for each item.

15.4 Accounting Treatment of Transfer Payment Program and Contract Costs

15.4.1 Ontario Autism Program Transfer Payments

On June 8, 2017, the province announced the new Ontario Autism Program (Autism Program). The province subsequently made changes to the Autism Program effective April 1, 2019. As of the 2019/20 fiscal year, all children and youth who have been diagnosed with autism spectrum disorder by a qualified professional are eligible for the Autism Program. In order to register for the Autism Program, a child must be under age 18, currently live in Ontario and have a written diagnosis of autism.

The province announced further changes to the Autism Program in December 2019, whereby all families on the Autism Program wait list would receive an invitation to apply for interim one-time funding, following which the Ministry of Children, Community and Social Services (Ministry) would receive and process the submitted applications. In order to begin incurring eligible expenditures under the new Autism Program, an applicant must enter into a funding agreement with the Ministry.

As at March 31, 2020, a total of 27,311 invitations had been sent and 8,105 applications had been received and processed by the Ministry.

A transfer payment expense of $95.6 million was appropriately recorded in the province's 2019/20 consolidated financial statements for the one-time interim Autism Program funding. This amount represents the payments issued to applicants through signed funding agreements on or before March 31, 2020.

The Ministry's processing and funding of eligible applications continued after the fiscal year end and are expected to result in an estimated $173.6 million of additional transfer payment expenses to be recorded in the province's 2020/21 consolidated financial statements. As with any accounting estimate, this amount is subject to change based on updated information gathered throughout the fiscal year by the Ministry and will be subject to examination by our Office in the normal course of the audit of the 2020/21 Public Accounts.

Refer to **Appendix 3** for an outline of the timeline for the Ontario Autism Program and **Appendix 4** for its accounting treatment.

15.4.2 Feed-in Tariff and Large Renewable Procurement Energy Contracts

The Feed-In Tariff (FIT) Program was developed in 2009. Through this program, Ontario procured renewable energy from generation facilities that had a rated electricity generating capacity up to and including 500 kilowatts. The Large Renewable Procurement (LRP) was a process for procuring large renewable energy projects generally greater than 500 kilowatts. The competitive procurement process for both FIT and LRP was administered by the Independent Electricity System Operator (IESO).

The Ministry of Energy, Northern Development and Mines announced the decision to cancel the renewable energy contracts in July 2018. Through an Order-in-Council, the IESO was directed to take all necessary steps to wind down all FIT and LRP contracts where the IESO had not yet issued certain contractual notices to electricity suppliers. (Once these notices are issued, the IESO either forfeits its ability to terminate FIT contracts without cause or permits LRP suppliers to begin construction of their renewable energy projects/facilities.) The province introduced legislation called the *White Pines Wind Project Termination Act, 2018* to cancel one FIT contract under which the IESO had already issued a Notice to Proceed.

An expense and liability accrual of $233.5 million was recorded in the province's 2018/19 consolidated financial statements for estimated cancellation costs and administration costs that the province is obligated to pay as a result of the contract cancellations. In the 2019/20 fiscal year, cash of $87.3 million was paid to reimburse FIT and LRP suppliers for eligible costs that had already been accrued in the previous fiscal year. A liability of $146.2 million remains accrued in the 2019/20 Public Accounts for estimated cancellation costs and administration costs not yet paid to renewable energy suppliers as at March 31, 2020.

Refer to **Appendix 5** for an outline of the timeline for the FIT and LRP contract cancellations and **Appendix 6** for their accounting treatment.

15.4.3 Hamilton Light Rail Transit Project Cancellation

On May 26, 2015, the province announced its intention to invest up to $1 billion to build a new light rail transit (LRT) line in Hamilton. In 2018, Infrastructure Ontario and Metrolinx issued a request for proposal to three shortlisted teams to design, build, finance, operate and maintain the Hamilton LRT project.

On December 16, 2019, the Ministry of Transportation announced the cancellation of the Hamilton LRT, citing projected cost overruns as the reason. Infrastructure Ontario notified proponent teams that were bidding on the project and announced that teams would receive a payment toward their bid costs due to their involvement in the procurement process. As at March 31, 2020, these amounts had not yet been paid to the proponent teams. The province subsequently established the Hamilton Transportation Task Force to recommend how to spend the $1 billion that the government had committed to build transportation infrastructure in the City of Hamilton.

Metrolinx incurred $193.2 million in pre-construction costs for the Hamilton LRT project and other related costs as a result of the cancellation of the project. Of these total costs, $115.8 million was expensed in the 2019/20 year. This was appropriate given that after the project was cancelled, outlays of $115.8 million, including $22.1 million in compensation and break fees triggered directly by the cancellation decision, were no longer contributing to the province's ability to provide LRT services to the City of Hamilton. The remaining $77.4 million represented costs incurred to acquire land along the planned route. These purchased lands were appropriately capitalized as assets as they have future value to the province.

Refer to **Appendix 7** for an outline of the timeline for the Hamilton LRT project cancellation and **Appendix 8** for its accounting treatment. Our 2020 Annual Report includes a value-for-money audit report related to Metrolinx that provides more information on the Hamilton LRT Project.

15.4.4 Blue Licence Plate Redesign and Replacement

In April 2019, the Ministry of Government and Consumer Services (Ministry) unveiled a redesign for Ontario's licence plates, the first such redesign since 1982. The redesign consisted of a physical resizing of the plate, a new look and feel (i.e., blue with flat, white lettering instead of white with blue, embossed lettering), and a new material that would not peel or flake for the useful life of the plate.

The province outsourced the production of the new licence plates, which started in May 2019. Beginning on February 1, 2020, all licence plates issued in Ontario were of the new plate design, and Ontario drivers were given the option to voluntarily purchase a new plate if they wished.

On February 21, 2020, the Ministry issued a statement indicating that the province had investigated issues raised about the visibility of the Ontario licence plates and that a new enhanced licence plate was in development. Distribution of the original blue plates stopped on March 4, 2020.

There were no termination or cancellation costs incurred by the province to stop production of these licence plates. There were also no costs incurred by the province to replace plates already distributed to Ontarians with the enhanced version because the supplier absorbed these costs.

Between May 2019 and March 2020, the province paid a total of $1.0 million to purchase the inventory of original blue licence plates that were ultimately discontinued or replaced. Undistributed licence plate inventory no longer had value once the Ministry determined that the blue plates were no longer suitable for use. All undistributed inventory was appropriately written down as an expense in the consolidated financial statements of the province for the year ended March 31, 2020.

Refer to **Appendix 9** for an outline of the timeline for the blue licence plate redesign and replacement and **Appendix 10** for its accounting treatment.

15.4.5 Nation Rise Wind Farm Judicial Review

The Independent Electricity System Operator (IESO) approved the Nation Rise Wind Farm (Nation Rise) as part of a large renewable energy program. In March 2016, the project was selected and awarded a contract to provide Ontario with 100 megawatts of renewable energy.

In May 2018, the project received approval from the Ministry of the Environment, Conservation and Parks (Environment Ministry). Following approval, an appeal was brought by a citizens' group before the Environmental Review Tribunal (Tribunal). In a January 2019 decision, the Tribunal did not revoke the Environment Ministry's approval.

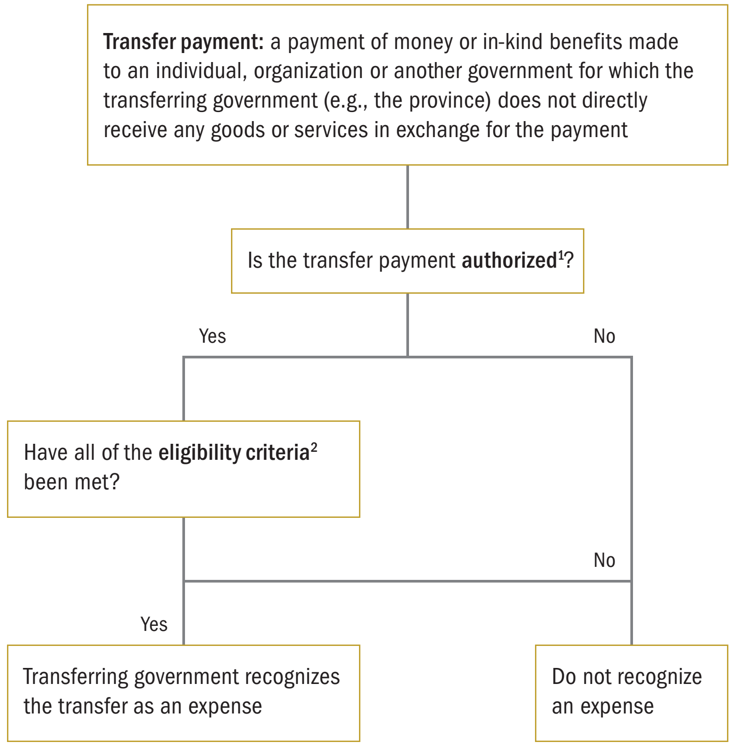
On December 4, 2019, the Environment Ministry issued a letter that revoked its approval of Nation Rise. In response, Nation Rise took legal action.

On May 13, 2020, the Ontario Divisional Court overturned the Environment Ministry's decision to revoke Nation Rise's approval. As part of the Ontario Divisional Court's decision, the province agreed to pay approximately $0.1 million in court costs incurred by Nation Rise. These costs are expected to be appropriately recorded as an expense in the consolidated financial statements of the province for the year ended March 31, 2021.

Refer to **Appendix 11** for an outline of the timeline for the Nation Rise judicial review and **Appendix 12** for the accounting treatment of the costs associated with the outcome of the review.

Appendix 1: Accounting Decision Tree for Transfer Payments Issued by a Government

Prepared by the Office of the Auditor General of Ontario



1. A transfer payment is authorized when:
    - a decision is made under approved legislation, regulations or bylaws to proceed with a transfer; or
    - the actions and communications of the transferring government clearly demonstrate that it has lost its discretion to avoid proceeding with a transfer.
2. Eligibility criteria are the terms that specify who qualifies to receive a transfer (e.g., individuals of a particular age) or the actions necessary to qualify for a transfer (e.g., entering into an agreement).

Appendix 2: Glossary of Key Accounting Terms

Sources of data: Canadian Public Sector Accounting Standards Sections PS 1000, *Financial statement concepts*; PS 3200, *Liabilities*; PS 3300, *Contingent liabilities*; PS 3510, *Tangible capital assets*

accrual: the recognition of the effect of a transaction or event in the period in which the transaction or event occurs, regardless of whether there has been a receipt or payment of cash or its equivalent.

accumulated amortization: the cumulative amount of all amortization expense that has been recorded against the cost of a tangible capital asset.

amortization: the allocation of the cost of a tangible capital asset to expense over its useful life. Land, one type of tangible capital asset, normally has an unlimited life and its cost would not be amortized.

asset: an economic resource controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained. Some examples of assets controlled by a government include cash, investments, accounts receivable, buildings, equipment, and information technology.

carrying value (see also **net book value**): an accounting measure of the value of an asset; the amount at which an asset is recorded on the statement of financial position.

contract counterparty: the other participant in a financial contract or transaction.

expense: a decrease in economic resources, either by way of a decrease in assets (such as cash) or by way of an increase in liabilities (such as debt), resulting from the operations, transactions and events of the accounting period. The cost of acquiring an item that does not meet the definition of an asset must be expensed in the income statement (as opposed to being capitalized on the statement of financial position as an asset).

fair value: the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

liability: a present obligation of a government to others arising from a past transaction or event, the settlement of which is expected to result in the future sacrifice of economic benefits.

net book value: the cost of a tangible capital asset, less both accumulated amortization and the amount of any write-downs. This is the amount at which tangible capital assets are recorded on the statement of financial position.

tangible capital asset: a non-financial asset having physical substance that is held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets; has a useful economic life extending beyond an accounting period; is to be used on a continuing basis; and is not for sale in the ordinary course of operations. Some examples of tangible capital assets controlled by a government include land, buildings, infrastructure, equipment, office furniture, and information technology.

write-down: a reduction in the book value of an asset when its fair market value has fallen below the carrying value in the statement of financial position. An existing asset must be written down when conditions indicate that it no longer contributes to a government's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value.

Appendix 3: Timeline for Ontario Autism Program Transfer Payments

Prepared by the Office of the Auditor General of Ontario

Jun 8, 2017	The Ministry of Children and Youth Services (later renamed the Ministry of Children, Community and Social Services) announces the new Ontario Autism Program (Autism Program).
Feb 6, 2019	The Ministry of Children, Community and Social Services (Ministry) announces proposed reforms designed to clear the Autism Program waitlist.
Mar 21, 2019	The Ministry announces changes to the Program, including highlighting a plan to move children off of the wait list, expanding eligible services and eliminating income testing. Effective April 1, 2019, all children and youth who have been diagnosed with autism spectrum disorder by a qualified professional are eligible for the Autism Program. To register for the Autism Program, a child must: • be under age 18; • currently live in Ontario; and • have a written diagnosis of autism. Families are entitled to receive Childhood Budgets of up to $20,000 per eligible child under age six and up to $5,000 per eligible child aged six to 17.
May 30, 2019	The province announces the formation of an autism advisory panel (the Ontario Autism Panel) to provide feedback on the Autism Program.
Oct 30, 2019	The Ministry announces the receipt of the final report from the Ontario Autism Panel.
Dec 17, 2019	The province announces changes to the Autism Program in response to the Ontario Autism Panel recommendations. All families on the Autism Program wait list that have not received a Childhood Budget will receive an invitation for interim one-time funding of either $5,000 or $20,000, depending on the age of their child, so they can begin purchasing services for their child.
Mar 31, 2020	Date of the province's fiscal year end for reporting the consolidated financial statements. Payments issued for interim one-time funding of $95.6 million are expensed, on the basis of the number of families that entered into funding agreements with the Ministry on or before March 31, 2020.

Appendix 4: Summary of Costs and Accounting Treatment for Ontario Autism Program Transfer Payments

Prepared by the Office of the Auditor General of Ontario

Cost Category	Description of Costs	Amounts Expensed in 2019/20 ($ million)	Accounting Treatment under Canadian Public Sector Accounting Standards
Transfer payment expense—applications processed	Childhood Budgets and Interim One-Time Funding processed by the Ministry	95.6	Invitations sent out and processed represent Ministry contractual obligations, as the Ministry has entered into funding agreements with eligible families to advance funding for use in future periods.
Transfer payment expense—applications not received and/or processed	Funding invitations sent to eligible families where the Ministry has not yet received and processed the application	nil	Applicants must enter into a funding agreement with the Ministry before they are eligible to receive payment. The Ministry is not obligated to reimburse the applicant for any expenditures incurred before the funding start date specified in the funding agreement. The Ministry appropriately did not record an expense for invitations sent that had not been received and processed in the 2019/20 fiscal year.
Total		**95.6**	

Overall Fiscal Impact on 2019/20 Public Accounts
The overall impact on the 2019/20 Public Accounts is an increase in transfer payment expenses and the annual deficit of $95.6 million.

Appendix 5: Timeline for Cancellation of Feed-in Tariff (FIT) and Large Renewable Procurement (LRP) Contracts

Prepared by the Office of the Auditor General of Ontario

Jul 13, 2018	The Ministry of Energy, Northern Development and Mines (Ministry) publicly announces the decision to cancel and wind down renewable energy contracts. The Independent Electricity System Operator (IESO) had previously entered into 741 Feed-in-Tariff (FIT) and 10 Large Renewable Procurement (LRP) contracts in accordance with directions issued by the Ministry.
Jul 20, 2018	Through Order-in-Council 1003/2018, the Ministry directs the IESO to (1) wind down all FIT contracts where the IESO has not issued a Notice to Proceed and (2) wind down all LRP contracts where the IESO has not permitted the supplier to begin construction by notifying the supplier that all Key Development Milestones have been met. The IESO subsequently issues termination guidelines to suppliers to direct the termination and refund process.
Jul 25, 2018	The province introduces legislation to cancel one additional FIT contract, the White Pines Wind Project, through the *White Pines Wind Project Termination Act, 2018*.
Dec 6, 2018	The province introduces amendments to the *Electricity Act, 1998* enabling the government to transfer funds to the IESO to pay costs associated with the termination of contracts.
Mar 31, 2019	Date of the province's fiscal year end for reporting the consolidated financial statements. Estimated cancellation costs are recorded as expenses and accrued liabilities in the 2018/19 Public Accounts. No cash is paid up to March 31, 2019. • For the White Pines Wind Project, the estimated expense is based on an IESO assessment of costs related to project development, financing, standstill (e.g., turbine maintenance and site security), and decommissioning. • For all other cancelled FIT/LRP contracts, the estimated expense is derived by calculating the pre-construction development costs up to maximum amounts provided for under the terms of the contracts.
Mar 31, 2020	Date of the province's fiscal year end for reporting the consolidated financial statements. Cash paid to settle costs of cancelled contracts in the 2019/20 fiscal year are recorded as a reduction of the expense accrual recorded as at March 31, 2019.

Appendix 6: Summary of Costs and Accounting Treatment for Cancellation of FIT and LRP Contracts

Prepared by the Office of the Auditor General of Ontario

Cost Category	Description of Costs	Amounts Expensed in 2018/19 ($ million)	Cash Paid in 2019/20 ($ million)
FIT/LRP Contract Cancellation Costs	Reimbursement of former FIT and LRP suppliers for eligible pre-construction development costs	111.6	5.7
White Pines Wind Farm Cancellation Costs	Termination, land owner payments and other costs	119.3	80.9
IESO Costs	Costs to administer compensation to former suppliers	2.6	0.7
Total		**233.5**	**87.3**

Overall Fiscal Impact on 2019/20 Public Accounts

The overall impact on the 2019/20 Public Accounts is:

- cash payments of $87.3 million for terminated contracts and decommissioning costs; and
- an accrued liability of $146.2 million ($233.5 million accrued liability as at March 31, 2019 less $87.3 million in cash payments made in 2019/20), consisting of the remaining cancellation costs and claims, recorded in Accounts Payable and Accrued Liabilities—Other.

Accounting Treatment under Canadian Public Sector Accounting Standards

The cancellation costs and related administrative costs are government obligations that are triggered by the project cancellations. These costs meet the definition of a liability because the government's decisions will result in cash payments to contract holders.

Despite the need to accrue costs based on estimates, there is an appropriate basis of measurement. The costs of terminating the FIT/LRP contracts can be quantified under the provisions specified in the contracts, and the decommissioning costs pertaining to the White Pines Wind Project can be determined in accordance with applicable legislation and regulations.

As early as March 31, 2019, the province had little to no discretion to avoid settlement of the obligations due to the cancellation provisions in the contracts (for all contracts except for White Pines) and the passing of legislation (for White Pines).

Accordingly, an estimate was accrued and expensed in the 2018/19 fiscal year. The estimate was updated in the 2019/20 fiscal year to reflect the impact of events occurring during the year (i.e., cash paid in 2019/20 to settle contracts). No new or additional costs were incurred in the 2019/20 fiscal year.

Appendix 7: Timeline for Hamilton Light Rail Transit (LRT) Project Cancellation

Prepared by the Office of the Auditor General of Ontario

May 26, 2015	The province announces funding of up to $1 billion to build a new LRT line in Hamilton.
Apr 13, 2018	Infrastructure Ontario and Metrolinx issues a request for proposals to three shortlisted bidders to design, build, finance, operate and maintain the Hamilton LRT project.
Aug 22, 2019	The Ministry of Transportation (Ministry) submits a business case to the Treasury Board/Management Board of Cabinet (TB/MBC) to engage with the City of Hamilton and the federal government to negotiate a cost-sharing arrangement for the Hamilton LRT project.
Nov 26, 2019	The Ministry submits a business case to TB/MBC to cancel the Hamilton LRT project, expense sunk costs incurred by Metrolinx and begin negotiations with the City of Hamilton around alternative local transportation infrastructure projects that may be funded up to $1 billion in provincial funding.
Dec 16, 2019	The Ministry publicly announces the cancellation of the Hamilton LRT project.
Jan 23, 2020	The province announces the establishment of the Hamilton Transportation Task Force (Task Force), comprised of four representatives from Hamilton and a representative of the City of Hamilton. The Task Force's mandate is to prepare a preliminary list of recommendations on how to spend the $1 billion the government committed to build transportation infrastructure in the City of Hamilton.
Mar 16, 2020	The Task Force provides its recommendations to the Ministry.
Mar 31, 2020	Date of the province's fiscal year end for reporting the consolidated financial statements. No plan yet announced for how to spend the $1 billion in transportation infrastructure.
Apr 9, 2020	The Task Force's recommendations are published. The original and modified versions of the Hamilton LRT project are included as options within the recommendations.

Appendix 8: Summary of Costs and Accounting Treatment for Cancellation of Hamilton LRT Project

Prepared by the Office of the Auditor General of Ontario

Cost Category	Description of Costs	Costs Incurred by Metrolinx ($ million)	Amounts Expensed in 2019/20 ($ million)	Accounting Treatment under Canadian Public Sector Accounting Standards
Enabling Works	Engineering, site utilities, utility relocation	5.8	5.8	Enabling works are expensed because, after project cancellation, these outlays are no longer contributing to the province's ability to provide LRT services to the City of Hamilton.
Property Acquisitions	Purchase of land estate along the planned route and related services	77.4	Nil	These recently acquired lands have resale value at least equivalent to the costs incurred to acquire them. Purchased lands are capitalized as assets as they have future value (e.g., use or sale).
Professional Fees	Legal fees, permits, real estate purchase costs, project development costs, project management costs	87.9	87.9	Professional fees are expensed because, after project cancellation, these outlays are no longer contributing to the province's ability to provide LRT services to the City of Hamilton.
Compensation and other cancellation costs	Break fees, claims received or receivable from property owners and costs due to the City of Hamilton	22.1	22.1	Cancellation costs are obligations that are triggered by the project cancellation and expensed. Any amounts not yet settled in cash as at March 31, 2020 are recorded as liabilities on the province's statement of financial position.
Total		**193.2**	**115.8**	

Overall Fiscal Impact on 2019/20 Public Accounts

The overall impact on the Public Accounts and the stand-alone financial statements of Metrolinx for the 2019/20 fiscal year is:

- a reduction in tangible capital assets of $93.7 million ($5.8 million in enabling works plus $87.9 in professional fees);
- a liability accrual of $22.1 million for compensation and other cancellation costs; and
- an increase in expenses and the annual deficit of $115.8 million.

Appendix 9: Timeline for Blue Licence Plate Redesign and Replacement

Prepared by the Office of the Auditor General of Ontario

Apr 15, 2019	The province announces the rollout of a new licence plate design to be issued to drivers in the province.
Feb 1, 2020	New licence plates begin being issued to drivers.
Feb 21, 2020	The Ministry of Government and Consumer Services issues a statement indicating that the province investigated issues raised about the visibility of the new Ontario licence plates and that a new enhanced licence plate is in development.
Mar 16, 2020	Distribution of a new enhanced blue licence plate to ServiceOntario offices begins. New plates to be used once existing inventory of white embossed plates is exhausted.
Mar 31, 2020	Date of the province's fiscal year end for reporting the consolidated financial statements.

Appendix 10: Summary of Costs and Accounting Treatment for Blue Licence Plate Redesign and Replacement

Prepared by the Office of the Auditor General of Ontario

Cost Category	Description of Costs	Amounts Expensed in 2019/20 ($ million)	Accounting Treatment under Canadian Public Sector Accounting Standards
Supplies and equipment expenses	Costs incurred to purchase original blue licence plates produced between April 2019 and March 2020	1.0	Costs associated with the original blue licence plates are expensed in the 2019/20 fiscal year due to the undistributed inventory of plates not having any future benefit to the province once the blue plates were deemed no longer suitable for use.
Total		**1.0**	

Overall Fiscal Impact on 2019/20 Public Accounts

The overall impact on the 2019/20 Public Accounts is $1.0 million in supplies and equipment expense in the Ministry of Government and Consumer Services.

Appendix 11: Timeline for Nation Rise Wind Farm Judicial Review

Prepared by the Office of the Auditor General of Ontario

May 4, 2018	A Renewable Energy Approval (Approval) is issued to Nation Rise Wind Farm authorizing the construction, installation, use and retirement of a wind facility located in the Township of North Stormont, United Counties of Stormont, Dundas and Glengarry.
May 22, 2018	The Concerned Citizens of North Stormont files a Notice of Appeal with the Environmental Review Tribunal (Tribunal) seeking revocation of the Approval on the grounds that the project will cause harm to human and animal health, including harm to bats, and the surrounding natural habitat.
Jan 4, 2019	The Tribunal dismisses the appeal because the level of bat presence and activity is found to be relatively low overall. Concerned Citizens of North Stormont appeals the Tribunal's decision to the Ministry of the Environment, Conservation and Parks (Environment Ministry).
May 2019	Nation Rise begins construction of the wind farm.
Dec 4, 2019	The Environment Ministry finds the construction and operation of the project to likely cause serious and irreversible harm to bat colonies, including at-risk bat species, and amends the Approval to prevent further construction activity of the Nation Rise Wind Farm.
Mar 31, 2020	Date of the province's fiscal year end for reporting the consolidated financial statements.
May 13, 2020	Following a hearing in the Ontario Superior Court of Justice, Divisional Court on April 17, 2020, the Environment Ministry's December 2019 decision to stop the project is found to be unreasonable and the process employed to reach the decision procedurally unfair, effectively granting approval to continue the project.

Appendix 12: Summary of Costs and Accounting Treatment for the Outcome of the Nation Rise Wind Farm Judicial Review

Prepared by the Office of the Auditor General of Ontario

Cost Category	Description of Costs	Amounts Expensed in 2020/21 ($ million)	Accounting Treatment under Canadian Public Sector Accounting Standards
Professional Fees	Negotiated compensation of legal costs incurred by Nation Rise in connection with court ruling on May 13, 2020	0.1	The court ruling on May 13, 2020 is indicative of conditions that arose after the end of the 2019/20 fiscal year on March 31, 2020 (i.e., as a result of the April 2020 hearing). The fees are to be expensed in the Public Accounts in the 2020/21 fiscal year. The province's legal assistance was provided by the Ministry of the Attorney General.
Total		**0.1**	
Overall Fiscal Impact on 2019/20 Public Accounts No impact on the 2019/20 financial statements of the Public Accounts.			

Exhibit 1

Accounts Audited by the Auditor General

1. Agencies and Offices of the Legislature whose accounts are audited by the Auditor General

Agricorp
Algonquin Forestry Authority
Cancer Care Ontario[1]
Centennial Centre of Science and Technology (Ontario Science Centre)
Chief Electoral Officer, Election Act
Deposit Insurance Corporation of Ontario (Dec 31)[2,3]
Deposit Insurance Reserve Fund, Financial Services Regulatory Authority of Ontario
Election Fees and Expenses, Election Finances Act
Financial Accountability Office of Ontario
Financial Services Commission of Ontario[3]
Financial Services Regulatory Authority of Ontario
Grain Financial Protection Board, Funds for Producers of Grain Corn, Soybeans, Wheat and Canola
Legal Aid Ontario
Liquor Control Board of Ontario
Livestock Financial Protection Board, Fund for Livestock Producers
Motor Vehicle Accident Claims Fund
Northern Ontario Heritage Fund Corporation
Office of the Assembly
Office of the Information and Privacy Commissioner
Office of the Ombudsman
Ontario Cannabis Retail Corporation
Ontario Clean Water Agency (Dec 31)[2]
Ontario Educational Communications Authority (TVO)
Ontario Electricity Financial Corporation
Ontario Energy Board
Ontario Financing Authority
Ontario Food Terminal Board
Ontario Health
Ontario Heritage Trust
Ontario Immigrant Investor Corporation
Ontario Media Development Corporation
Ontario Mortgage and Housing Corporation
Ontario Northland Transportation Commission
Ontario Place Corporation (Dec 31)[2]
Ontario Securities Commission
Pension Benefits Guarantee Fund, Financial Services Regulatory Authority of Ontario
Province of Ontario Council for the Arts (Ontario Arts Council)
Provincial Judges Pension Fund, Provincial Judges Pension Board[4]
Public Guardian and Trustee for the Province of Ontario

2. Agencies and government organizations whose accounts are audited by another auditor under the direction of the Auditor General

Education Quality and Accountability Office
eHealth Ontario[1]
Health Shared Services Ontario[1]

Higher Education Quality Council of Ontario
Metropolitan Toronto Convention Centre Corporation
Ontario Tourism Marketing Partnership Corporation
Ottawa Convention Centre Corporation
Niagara Parks Commission
St. Lawrence Parks Commission
Toronto Island Residential Community Trust Corporation
Walkerton Clean Water Centre
Workplace Safety and Insurance Board (Dec 31)[2]

1. Became part of Ontario Health as of December 2, 2019.
2. Dates in parentheses indicate fiscal years ending on a date other than March 31.
3. Operating under the Financial Services Regulatory Authority of Ontario as of June 8, 2019.
4. Became the Provincial Judges Pension Plan as of January 1, 2020.

Exhibit 2

Accounts Audited by Other Auditors with Full Access by the Auditor General

Agencies and Crown-controlled corporations whose accounts are audited by an auditor other than the Auditor General, with full access by the Auditor General to audit reports, working papers and other related documents as required

Agricultural Research Institute of Ontario
Central East Local Health Integration Network
Central Local Health Integration Network
Central West Local Health Integration Network
Champlain Local Health Integration Network
Erie St. Clair Local Health Integration Network
Fair Hydro Trust (Dec 31)[1]
Forest Renewal Trust
General Real Estate Portfolio
Hamilton Niagara Haldimand Brant Local Health Integration Network
HealthForceOntario Marketing and Recruitment Agency[2]
Human Rights Legal Support Centre
Hydro One Limited (Dec 31)[1]
Independent Electricity System Operator (Dec 31)[1]
Investment Management Corporation of Ontario (Dec 31)[1]
McMichael Canadian Art Collection
Metrolinx
Mississauga Halton Local Health Integration Network
Municipal Property Assessment Corporation
North East Local Health Integration Network
North Simcoe Muskoka Local Health Integration Network
North West Local Health Integration Network
Ontario Capital Growth Corporation
Ontario College of Trades
Ontario French-language Educational Communications Authority (TFO)
Ontario Health Quality Council[2]
Ontario Infrastructure and Lands Corporation (Infrastructure Ontario)
Ontario Lottery and Gaming Corporation
Ontario Pension Board (Dec 31)[1]
Ontario Power Generation Inc. (Dec 31)[1]
Ontario Trillium Foundation
Ornge
Owen Sound Transportation Company Limited
Ontario Agency for Health Protection and Promotion (Public Health Ontario)
Royal Ontario Museum
Science North
South East Local Health Integration Network
South West Local Health Integration Network
Toronto Central Local Health Integration Network
Toronto Waterfront Revitalization Corporation (Waterfront Toronto)
Trillium Gift of Life Network[2]
Waterloo Wellington Local Health Integration Network

1. Dates in parentheses indicate fiscal years ending on a date other than March 31.
2. Became part of Ontario Health as of December 2, 2019.

Exhibit 3

Organizations in the Broader Public Sector with Full Access by the Auditor General

Broader-public-sector organizations whose accounts are audited by an auditor other than the Auditor General, with full access by the Auditor General to audit reports, working papers and other related documents as required[1]

PUBLIC HOSPITALS (MINISTRY OF HEALTH AND MINISTRY OF LONG-TERM CARE)

Alexandra Hospital Ingersoll
Alexandra Marine & General Hospital
Almonte General Hospital
Anson General Hospital
Arnprior Regional Health
Atikokan General Hospital
Baycrest Centre for Geriatric Care
Bingham Memorial Hospital
Bluewater Health
Brant Community Healthcare System
Brockville General Hospital
Bruyère Continuing Care Inc.
Cambridge Memorial Hospital
Campbellford Memorial Hospital
Carleton Place and District Memorial Hospital
Casey House Hospice
Chatham-Kent Health Alliance
Children's Hospital of Eastern Ontario—Ottawa Children's Treatment Centre
Clinton Public Hospital
Collingwood General and Marine Hospital
Cornwall Community Hospital
Deep River and District Hospital Corporation
Dryden Regional Health Centre
Englehart and District Hospital Inc.
Erie Shores Healthcare
Espanola General Hospital
Four Counties Health Services
Georgian Bay General Hospital
Geraldton District Hospital
Grand River Hospital
Grey Bruce Health Services
Groves Memorial Community Hospital
Guelph General Hospital
Haldimand War Memorial Hospital
Haliburton Highlands Health Services Corporation
Halton Healthcare Services Corporation
Hamilton Health Sciences Corporation
Hanover and District Hospital
Headwaters Health Care Centre
Health Sciences North
Holland Bloorview Kids Rehabilitation Hospital
Hôpital Général de Hawkesbury and District General Hospital Inc.
Hôpital Glengarry Memorial Hospital
Hôpital Montfort
Hôpital Notre Dame Hospital (Hearst)
Hornepayne Community Hospital
Hospital for Sick Children
Hôtel-Dieu Grace Healthcare
Hôtel-Dieu Hospital, Cornwall
Humber River Regional Hospital

1. This exhibit only includes the more financially signficiant organizations in the broader public sector.

Joseph Brant Hospital
Kemptville District Hospital
Kingston Health Sciences Centre
Kirkland and District Hospital
Lady Dunn Health Centre
Lady Minto Hospital, Cochrane
Lake of the Woods District Hospital
Lakeridge Health
Lennox and Addington County General Hospital
Listowel Memorial Hospital
London Health Sciences Centre
Mackenzie Health
Manitoulin Health Centre
Markham Stouffville Hospital
Mattawa General Hospital
Muskoka Algonquin Healthcare
Niagara Health System
Nipigon District Memorial Hospital
Norfolk General Hospital
North Bay Regional Health Centre
North Shore Health Network
North of Superior Healthcare Group
North Wellington Health Care Corporation
North York General Hospital
Northumberland Hills Hospital
Orillia Soldiers' Memorial Hospital
Ottawa Hospital
Pembroke Regional Hospital Inc.
Perth and Smiths Falls District Hospital
Peterborough Regional Health Centre
Providence Care Centre (Kingston)
Queensway-Carleton Hospital
Quinte Healthcare Corporation
Red Lake Margaret Cochenour Memorial Hospital Corporation
Religious Hospitallers of St. Joseph of the Hotel Dieu of St. Catharines
Renfrew Victoria Hospital
Riverside Health Care Facilities Inc.
Ross Memorial Hospital
Royal Victoria Regional Health Centre
Runnymede Healthcare Centre
Salvation Army Toronto Grace Health Centre
Santé Manitouwadge Health
Sault Area Hospital
Scarborough Health Network
Seaforth Community Hospital
Sensenbrenner Hospital
Services de santé de Chapleau Health Services
Sinai Health System
Sioux Lookout Meno-Ya-Win Health Centre
Smooth Rock Falls Hospital
South Bruce Grey Health Centre
South Huron Hospital Association
Southlake Regional Health Centre
St. Francis Memorial Hospital
St. Joseph's Care Group
St. Joseph's Continuing Care Centre of Sudbury
St. Joseph's General Hospital, Elliot Lake
St. Joseph's Health Care, London
St. Joseph's Health Centre (Guelph)
St. Joseph's Healthcare Hamilton
St. Mary's General Hospital
St. Marys Memorial Hospital
St. Thomas-Elgin General Hospital
Stevenson Memorial Hospital
Stratford General Hospital
Strathroy Middlesex General Hospital
Sunnybrook Health Sciences Centre
Temiskaming Hospital
Thunder Bay Regional Health Sciences Centre
Tillsonburg District Memorial Hospital
Timmins and District Hospital
Toronto East Health Network
Trillium Health Partners
Unity Health Toronto[2]
University Health Network
University of Ottawa Heart Institute
Weeneebayko Area Health Authority
West Haldimand General Hospital
West Nipissing General Hospital
West Park Healthcare Centre
West Parry Sound Health Centre
William Osler Health System
Winchester District Memorial Hospital
Windsor Regional Hospital
Wingham and District Hospital
Women's College Hospital
Woodstock General Hospital Trust

2. Providence Healthcare, St. Joseph's Health Centre (Toronto) and St. Michael's Hospital formed Unity Health Network on August 1, 2017.

SPECIALTY PSYCHIATRIC HOSPITALS (MINISTRY OF HEALTH AND MINISTRY OF LONG-TERM CARE)

Centre for Addiction and Mental Health
Ontario Shores Centre for Mental Health Sciences
Royal Ottawa Health Care Group
Waypoint Centre for Mental Health Care

CHILDREN'S AID SOCIETIES (MINISTRY OF CHILDREN, COMMUNITY AND SOCIAL SERVICES)

Bruce Grey Child and Family Services
Catholic Children's Aid Society of Hamilton
Catholic Children's Aid Society Toronto
Chatham-Kent Children's Services
Children and Family Services for York Region
Children's Aid Society of Algoma
Children's Aid Society of Hamilton
Children's Aid Society of London and Middlesex
Children's Aid Society of Ottawa
Children's Aid Society of Oxford County
Children's Aid Society of the City of Sarnia and the County of Lambton
Children's Aid Society of the District of Nipissing and Parry Sound
Children's Aid Society of the Region of Peel
Children's Aid Society of the Regional Municipality of Halton
Children's Aid Society of Toronto
Dufferin Child and Family Services
Durham Children's Aid Society
Family and Children's Services of Frontenac Lennox and Addington
Family and Children's Services of Lanark, Leeds and Grenville
Family and Children's Services of Renfrew County
Family and Children's Services of St. Thomas and Elgin
Family and Children's Services of the Waterloo Region
Highland Shores Children's Aid Society
Huron-Perth Children's Aid Society
Jewish Family and Child Service of Greater Toronto
Kawartha-Haliburton Children's Aid Society
Kenora-Rainy River Districts Child and Family Services
North Eastern Ontario Family and Children's Services
Simcoe Muskoka Child, Youth and Family Services
The Children's Aid Society of Brant
The Children's Aid Society of Haldimand and Norfolk
The Children's Aid Society of the City of Guelph and County of Wellington
The Children's Aid Society of the District of Thunder Bay
The Children's Aid Society of the Districts of Sudbury and Manitoulin
The Children's Aid Society of the Niagara Region
The Children's Aid Society of the United Counties of Stormont, Dundas and Glengarry
Valoris pour Enfants et Adultes de Prescott-Russell/ Valoris for Children and Adults of Prescott-Russell
Windsor-Essex Children's Aid Society
Akwesasne Child and Family Services
Anishinaabe Abinoojii Family Services
Dilico Anishinabek Family Care
Dnaagdawenmag Binnoojiiyag Child and Family Services
Kina Gbezhgomi Child and Family Services
Kunuwanimano Child and Family Services
Native Child and Family Services of Toronto
Nogdawindamin Family and Community Services
Payukotayno James and Hudson Bay Family Services
Six Nations of the Grand River (Ogwadeni:deo)
Tikinagan Child and Family Services
Weechi-it-te-win Family Services

SCHOOL BOARDS (MINISTRY OF EDUCATION)

Algoma District School Board
Algonquin and Lakeshore Catholic District School Board
Avon Maitland District School Board
Bloorview MacMillan School Authority
Bluewater District School Board

Brant Haldimand Norfolk Catholic District School Board
Bruce-Grey Catholic District School Board
Campbell Children's School Authority
Catholic District School Board of Eastern Ontario
Conseil des écoles publiques de l'Est de l'Ontario
Conseil scolaire catholique MonAvenir
Conseil scolaire catholique Providence
Conseil scolaire de district catholique de l'Est ontarien
Conseil scolaire de district catholique des Aurores boréales
Conseil scolaire de district catholique des Grandes Rivières
Conseil scolaire de district catholique du Centre-Est de l'Ontario
Conseil scolaire de district catholique du Nouvel-Ontario
Conseil scolaire de district catholique Franco-Nord
Conseil scolaire de district du Nord-Est de l'Ontario
Conseil scolaire public du Grand Nord de l'Ontario
Conseil scolaire Viamonde
District School Board of Niagara
District School Board Ontario North East
Dufferin-Peel Catholic District School Board
Durham Catholic District School Board
Durham District School Board
Grand Erie District School Board
Greater Essex County District School Board
Halton Catholic District School Board
Halton District School Board
Hamilton-Wentworth Catholic District School Board
Hamilton-Wentworth District School Board
Hastings and Prince Edward District School Board
Huron-Perth Catholic District School Board
Huron-Superior Catholic District School Board
James Bay Lowlands Secondary School Board
John McGivney Children's Centre School Authority
Kawartha Pine Ridge District School Board
Keewatin-Patricia District School Board
Kenora Catholic District School Board
KidsAbility School Authority
Lakehead District School Board
Lambton Kent District School Board
Limestone District School Board
London District Catholic School Board
Moose Factory Island District School Area Board
Moosonee District School Area Board
Near North District School Board
Niagara Catholic District School Board
Niagara Peninsula Children's Centre School Authority
Nipissing-Parry Sound Catholic District School Board
Northeastern Catholic District School Board
Northwest Catholic District School Board
Ottawa Catholic District School Board
Ottawa-Carleton District School Board
Peel District School Board
Penetanguishene Protestant Separate School Board
Peterborough Victoria Northumberland and Clarington Catholic District School Board
Rainbow District School Board
Rainy River District School Board
Renfrew County Catholic District School Board
Renfrew County District School Board
Simcoe County District School Board
Simcoe Muskoka Catholic District School Board
St. Clair Catholic District School Board
Sudbury Catholic District School Board
Superior North Catholic District School Board
Superior-Greenstone District School Board
Thames Valley District School Board
Thunder Bay Catholic District School Board
Toronto Catholic District School Board
Toronto District School Board
Trillium Lakelands District School Board
Upper Canada District School Board
Upper Grand District School Board
Waterloo Catholic District School Board
Waterloo Region District School Board
Wellington Catholic District School Board
Windsor-Essex Catholic District School Board
York Catholic District School Board
York Region District School Board

COLLEGES (MINISTRY OF COLLEGES AND UNIVERSITIES)

Algonquin College of Applied Arts and Technology
Cambrian College of Applied Arts and Technology
Canadore College of Applied Arts and Technology
Centennial College of Applied Arts and Technology
Collège Boréal d'arts appliqués et de technologie
Collège d'arts appliqués et de technologie La Cité collégiale
Conestoga College Institute of Technology and Advanced Learning
Confederation College of Applied Arts and Technology
Durham College of Applied Arts and Technology
Fanshawe College of Applied Arts and Technology
George Brown College of Applied Arts and Technology
Georgian College of Applied Arts and Technology
Humber College Institute of Technology and Advanced Learning
Lambton College of Applied Arts and Technology
Loyalist College of Applied Arts and Technology
Mohawk College of Applied Arts and Technology
Niagara College of Applied Arts and Technology
Northern College of Applied Arts and Technology
Sault College of Applied Arts and Technology
Seneca College of Applied Arts and Technology
Sheridan College Institute of Technology and Advanced Learning
Sir Sandford Fleming College of Applied Arts and Technology
St. Clair College of Applied Arts and Technology
St. Lawrence College of Applied Arts and Technology

Exhibit 4

Treasury Board Orders

Under subsection 12(2)(e) of the *Auditor General Act*, the Auditor General is required to annually report all orders of the Treasury Board made to authorize payments in excess of appropriations, stating the date of each order, the amount authorized and the amount expended. These are outlined in the following table. Although ministries may track expenditures related to these orders in more detail by creating accounts at the sub-vote and item level, this schedule summarizes such expenditures at the vote and item level.

Ministry	Date of Order	Authorized ($)	Expended ($)
Agriculture, Food and Rural Affairs	Jan 29, 2020	**136,621,900**	**127,530,130**
Attorney General	Feb 12, 2020	142,370,000	133,110,390
	Feb 12, 2020	3,700,600	3,700,600
	Mar 25, 2020	1,276,000	660,908
		147,346,600	**137,471,898**
Children, Community and Social Services	Aug 14, 2019	193,170,600	31,353,400
	Sep 11, 2019	6,000,000	6,000,000
	Sep 24, 2019	42,550,000	42,550,000
	Feb 18, 2020	204,000	26,200
	Feb 25, 2020	271,919,900	232,735,235
	Mar 10, 2020	1,277,600	–
	Mar 23, 2020	25,000,000	–
		540,122,100	**312,664,835**
Economic Development, Job Creation and Trade	Oct 8, 2019	**4,408,100**	**–**
Education	Oct 2, 2019	121,900,000	121,900,000
	Feb 25, 2020	155,230,800	147,364,472
	Mar 10, 2020	7,642,000	4,086,655
	Apr 7, 2020	196,596,200	196,596,200
	Jul 9, 2020	162,212,100	162,212,100
		643,581,100	**632,159,427**
Energy, Northern Development and Mines	May 28, 2019	16,000,000	–
	Oct 23, 2019	94,000,000	–
	Jan 29, 2020	9,800,000	–
	Feb 12, 2020	2,692,800	–
	Mar 20, 2020	73,759,000	48,445,525
	Mar 23, 2020	42,000,000	27,097,296
		238,251,800	**75,542,821**

Ministry	Date of Order	Authorized ($)	Expended ($)
Environment, Conservation and Parks	Aug 14, 2019	1,780,900	–
	Feb 18, 2020	3,960,500	19,000
	Mar 10, 2020	16,695,600	12,022,755
		22,437,000	**12,041,755**
Finance	Jul 19, 2019	10,409,300	10,409,300
	Aug 14, 2019	3,905,000	3,238,627
	Nov 25, 2019	4,314,300	–
		18,628,600	**13,647,927**
Government and Consumer Services	Jul 24, 2019	11,877,700	–
	Aug 14, 2019	484,500	–
	Jan 15, 2020	2,038,500	1,048,996
	Feb 12, 2020	4,291,700	4,291,700
	Feb 25, 2020	68,187,600	55,466,769
	Mar 20, 2020	28,138,400	20,618,098
	Apr 7, 2020	6,579,400	6,525,120
		121,597,800	**87,950,683**
Health and Long-Term Care[1]	Aug 14, 2019	67,000,000	50,392,581
	Feb 12, 2020	68,400	68,400
	Mar 10, 2020	3,589,200	2,426,800
	Mar 10, 2020	263,058,400	245,814,992
	Mar 23, 2020	43,000,000	14,200,282
	Mar 25, 2020	8,550,000	3,145,200
	Apr 7, 2020	3,000,000	–
	May 5, 2020	51,971,400	49,208,264
		440,237,400	**365,256,519**
Indigenous Affairs	Oct 8, 2019	14,300,000	14,098,000
	Feb 25, 2020	1,128,400	152,796
	Mar 25, 2020	1,400,000	–
		16,828,400	**14,250,796**
Infrastructure	Feb 18, 2020	600,000	–
	May 21, 2020	300,000	–
		900,000	**–**
Labour[2]	Mar 10, 2020	**3,155,000**	**1,843,560**
Municipal Affairs and Housing	Oct 23, 2019	10,000,000	8,666,452
	Dec 3, 2019	6,941,800	4,540,937
	Feb 25, 2020	24,756,100	20,695,794
	Mar 10, 2020	5,908,800	4,793,094
		47,606,700	**38,696,277**
Natural Resources and Forestry	Sep 11, 2019	60,000,000	60,000,000
	Mar 10, 2020	22,846,900	19,022,108
	Mar 10, 2020	295,100	–
		83,142,000	**79,022,108**

Ministry	Date of Order	Authorized ($)	Expended ($)
Office of the Lieutenant Governor	Mar 3, 2020	**100,000**	**53,511**
Seniors and Accessibility	Mar 3, 2020	1,040,000	988,924
	Mar 25, 2020	10,000,000	9,338,602
		11,040,000	**10,327,526**
Solicitor General	Aug 14, 2019	3,260,000	3,060,000
	Jan 14, 2020	13,774,000	13,293,545
	Feb 25, 2020	170,829,000	163,114,451
	Apr 21, 2020	10,017,000	10,003,487
		197,880,000	**189,471,483**
Tourism, Culture and Sport[2]	Aug 14, 2019	16,000,000	–
	Jan 29, 2020	11,600,000	–
	Feb 12, 2020	121,691,800	121,691,707
	Feb 18, 2020	5,082,700	3,106,487
	Mar 3, 2020	1,250,000	–
		155,624,500	**124,798,194**
Training, Colleges and Universities[2]	Sep 11, 2019	224,400	–
	Feb 12, 2020	44,348,800	–
	Mar 10, 2020	15,177,000	11,926,845
		59,750,200	**11,926,845**
Transportation	Aug 14, 2019	14,020,200	3,131,884
	Dec 3, 2019	7,272,000	2,141,177
	Mar 10, 2020	154,835,000	73,834,000
	May 21, 2020	73,000,000	26,046,158
		249,127,200	**105,153,219**
Treasury Board Secretariat	May 21, 2019	7,350,000	–
	Aug 14, 2019	14,815,600	–
	Aug 14, 2019	23,885,000	23,885,000
	Sep 18, 2019	6,200,000	–
	Sep 24, 2019	5,400,000	–
	Dec 9, 2019	5,100,000	–
	Feb 12, 2020	415,723,600	–
	Mar 3, 2020	1,648,200	47,656
		480,122,400	**23,932,656**
Total Treasury Board Orders		**3,618,508,800**	**2,363,742,170**

1. On June 20, 2019, the Ministry of Health and Long-Term Care became the Ministry of Health and the Ministry of Long-Term Care.
2. On October 21, 2019, the Ministry of Labour became the Ministry of Labour, Training and Skills Development; the Ministry of Training, Colleges and Universities became the Ministry of Colleges and Universities; and the Ministry of Tourism, Culture and Sport became the Ministry of Heritage, Sport, Tourism and Culture Industries.

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ISSN 1911-7078 (Online)
ISBN 978-1-4868-4882-9 (PDF, 2020 ed.)