

Chapter 1

Section 1.16

Ministry of Finance and Treasury Board Secretariat

Public Accounts of the Province

Follow-Up on Chapter 2, *2018 Annual Report*

RECOMMENDATION STATUS OVERVIEW

| | # of Actions Recommended | Status of Actions Recommended | | | | |
|------------------|--------------------------|-------------------------------|-------------------------------------|-----------------------|-------------------------|----------------------|
| | | Fully Implemented | In the Process of Being Implemented | Little or No Progress | Will Not Be Implemented | No Longer Applicable |
| Recommendation 1 | 2 | 2 | | | | |
| Recommendation 2 | 1 | | 1 | | | |
| Recommendation 3 | 1 | | | | 1 | |
| Total | 4 | 2 | 1 | 0 | 1 | 0 |
| % | 100 | 50 | 25 | 0 | 25 | 0 |

Overall Conclusion

As of September 24, 2020, two of the four actions we recommended in our *2018 Annual Report* were fully implemented. For example, since our 2018 audit, the government has implemented a process of having the ministries and agencies that consolidate into the province's financial statements notify the Office of the Provincial Controller Division and our Office prior to the engagement of external advisors for accounting advice.

One of the four actions is in the process of being fully implemented. The province is in the process of developing a long-term total-debt reduction plan.

However, the government indicated that it will not update the current legislation to formalize that its accounting will be in accordance with Canadian

Public Sector Accounting Standards (PSAS). The continuing need for the current "prescribed" or legislated accounting in legislation and regulations is unclear, as the government has confirmed its commitment to follow Canadian PSAS. Canadian PSAS are the most appropriate accounting standards for the province to use in order to maintain its financial reporting credibility, accountability and transparency. This allows legislators and the public to better assess government management of public funds. Given the importance of this area, we continue to urge the government to formalize a requirement to follow the accounting standards established by the Canadian Public Sector Accounting Board and repeal existing legislation and regulations that enable accounting treatments to be prescribed if desired by a government.

The status of actions taken on each of our recommendations is described in the following sections.

Background

For the year ended March 31, 2018, we issued an unqualified audit opinion on the consolidated financial statements for the province of Ontario. This means that the consolidated financial statements were free from material errors and fairly presented the province's financial position and operating results. This was significant as we had issued a qualified opinion in the previous two years. The unqualified opinion resulted from changes to the province's financial statements in two main areas to comply with Canadian Public Sector Accounting Standards (PSAS) for the following reasons:

- The province recorded a full valuation allowance against the net pension asset relating to the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan in its consolidated statement of financial position.
- The province excluded the market account assets and liabilities of the Independent Electricity System Operator in its consolidated financial statements.

Specific observations made during our audit included the following.

The Province's Use of External Consultants

Similar to our 2016 and 2017 annual reports, in our *2018 Annual Report* we commented on the province's use of external advisors to provide accounting analysis, advice and interpretation. We also highlighted that the interests of the Treasury Board Secretariat (Secretariat), the Ministry of Finance and the Office of the Auditor General (Office) are best served when the work of external advisors is brought to our attention and discussed on a timely basis when it impacts

the consolidated financial statements of the province in current and future years.

We continued to recommend that the Secretariat notify our Office and request our input when a private-sector accounting firm provides accounting advice to the province, and that the Secretariat consult with us when a government agency or organization plans to engage and/or retain the same private-sector accounting firm for both accounting advice and auditing services.

Increasing Debt Burden

The province's growing debt burden also remained a concern in 2017/18, as it had been since we first raised the issue in 2011. We focused on the critical implications of the growing debt for the province's finances. We maintained the view that the government should provide legislators and the public with long-term targets for addressing Ontario's current and projected debt sustainability, and we reaffirmed our recommendation that the government develop a long-term debt-reduction plan to reduce interest expense, ensuring more dollars go toward government programs.

Use of Legislated Accounting

Annually, we have raised the issue of the prior government having introduced legislation on several occasions to facilitate its establishment of specific accounting practices that may not be consistent with Canadian PSAS. Until 2017, such actions did not impact the province's consolidated financial statements. However, the use of legislated accounting treatments by the province to support the accounting/financing design prescribed under the *Ontario Fair Hydro Plan Act, 2017*, could have had a material impact on the province's annual results and become a significant concern to our Office in the 2017/18 fiscal year had the accounting not been corrected.

We made three recommendations, consisting of four actions needed for improvement.

Status of Actions Taken on Recommendations

We conducted assurance follow-up work between April 2020, and September 2020, and obtained written representation from the Treasury Board Secretariat (Secretariat) and the Ministry of Finance that, effective October 13, 2020, they had provided us with a complete update of the status of the recommendations we made in our *2018 Annual Report*.

The Province's Use of External Consultants

Recommendation 1

Recognizing that the Auditor General is appointed under the Auditor General Act as the auditor for the consolidated financial statements of the province, we recommend that Treasury Board Secretariat:

- *notify the Office of the Auditor General (Office) and request its comment when a ministry, government agency or Crown-controlled corporation consolidated into the financial statements of the province proposes to engage an external advisor to provide accounting advice;*

Status: Fully implemented.

Details

The interests of the Secretariat, the Ministry of Finance and the Office of the Auditor General (Office) are best served when there is full disclosure on any plans to use external advisors. For this reason, any work performed by external advisors in formulating an accounting position should be shared with our Office as soon as possible, as part of the audit of the consolidated financial statements.

Our Office requested that the Secretariat provide us with copies of contracts relating to any advisors it uses for accounting advice and opinions. The Secretariat provided our Office with the contract for the advisor it engaged for accounting

advice during the 2018/19 and 2019/20 fiscal years. The advisor provided advice and guidance to supplement the Office of the Provincial Controller Division's (OPCD's) internal analysis of significant accounting issues. In addition, during the request for proposal (RFP) process for 2020/21 accounting advisory services for the Secretariat, we were given an opportunity to provide comments on the draft RFPs and received copies of the final RFPs for the 2020/21 accounting advice work.

We have not yet been given an opportunity to provide comments for all instances when a ministry, agency or Crown-controlled corporation consolidated into the financial statements of the province proposes to engage an external advisor to provide accounting advice. The Secretariat provided us with accounting consultation forms for two ministries and four agencies, but these forms are completed after the external accounting firm has been contracted by the ministry, agency or Crown corporation. We were provided an opportunity to provide commentary to one of the ministries (other than the Secretariat mentioned above) prior to the completion of an RFP.

The OPCD told us it worked with the ministries to be proactive in providing the accounting consultation forms prior to completion of RFPs. This included providing a memo to ministry finance directors explaining the changes to the accounting consultation request forms and updates to the Accounting Consultation Request Form (ACRF) website that included providing a clearer explanation of the meaning of "accounting advice" and the required process. The respective ministries will also encourage their agencies to provide the forms in a more timely fashion. In addition, the OPCD revised the language in the Certificate of Assurance, which is an attestation process that each ministry performs annually, to make it clearer that the OPCD and our Office will be notified prior to approval of any RFP for the ministries.

- *consult the Office when a government agency or Crown-controlled corporation plans to engage and/or retain the same external advisor for both accounting advice and auditing services.*

Status: Fully implemented.

Details

Without sufficient safeguards, hiring the same external advisor for both accounting advice and auditing services can present an inherent conflict of interest, as the role of an auditor is incompatible with that of an advisor to management. Auditors need to perform their work serving the public interest, whereas advisors act in the best interests of management.

The Secretariat has agreed to request its external advisors—engaged to provide accounting advice and/or opinions relating to our Office’s audit of the province’s consolidated financial statements—to notify our Office of their engagement, as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario. In this regard, the Secretariat has incorporated this request into new contracts with external advisors. The Secretariat has developed a process for other ministries, agencies and crown-controlled corporations to request that their external advisors notify us as well.

The province reviewed and considered updates to existing directives, policies and contract templates to help implement the recommendation across ministries and agencies. This included updating the accounting consultation request form and the process performed by the ministries and agencies to complete the forms. Additionally, starting in 2019, agencies attest through the annual Certificate of Assurance process that they have disclosed all external consulting arrangements. As described in the response to the previous recommendation, the OPCD revised the language in the Certificate of Assurance to make it clearer that the ministries have notified the OPCD and our Office prior to the completion of an RFP.

Ontario’s Debt Burden

Recommendation 2

We recommend that in order to address the province’s growing total debt burden, the government work toward the development of a long-term total-debt reduction plan, including a target for the net-debt-to-GDP ratio.

Status: In the process of being implemented by November 15, 2020.

Details

In its 2019 Budget, the government included a commitment to reduce Ontario’s net debt-to-GDP ratio by the 2022/23 fiscal year to less than the Independent Financial Commission of Inquiry’s forecast net debt-to-GDP ratio for the 2018/19 fiscal year of 40.8% of GDP. The 2019/20 net debt-to-GDP was 39.7%, which was lower than the 2019 Budget estimate of 40.7% but higher than the 2018/19 net debt-to-GDP of 39.5%. The government has yet to fully analyze long-term debt sustainability and establish long-term net debt-to-GDP targets to manage debt based on an analysis of future debt sustainability. The 2020 Budget, expected to be tabled by November 15, 2020, is to include an update on the government’s debt strategy, in line with the *Fiscal Sustainability, Transparency and Accountability Act’s* legislative requirements.

At the time of our follow-up, the government indicated that it was focused on funding the response to COVID-19 and ensuring that it has sufficient liquidity to meet these needs.

Use of Legislated Accounting Standards

Recommendation 3

We recommend the government revisit legislation and regulations that prescribe accounting methods to be followed by the province and reconsider the need for these provisions in light of the fact that the province

follows the accounting standards established by the Public Sector Accounting Board.

Status: Will not be implemented. The Office of the Auditor General of Ontario continues to support the implementation of this recommendation.

Details

In 2008, 2009, 2011 and 2012, the government introduced legislation giving it the ability to make regulations requiring the use of specific accounting treatments that may not be consistent with Canadian PSAS.

It is important that Ontario prepare its financial statements in accordance with generally accepted

accounting standards, specifically those of Canadian PSAS, in order to maintain its financial reporting credibility, accountability and transparency.

At the time of our follow-up, the government indicated it was committed to preparing its financial statements in accordance with Canadian PSAS in order to provide high-quality financial reports that support transparency and accountability in reporting to the public, the Legislature and other users. However, the government has no plans to revisit legislation and regulations that could be used to prescribe accounting methods to be used by the province.