

Chapter 3

Section 3.04

Public Accounts of the Province

Standing Committee on Public Accounts Follow-Up on Chapter 2, 2018 Annual Report

On April 3, 2019, the Standing Committee on Public Accounts (Committee) held public hearings on Chapter 2, Public Accounts of the Province, of the *2018 Annual Report* of the Office of the Auditor General of Ontario. The Committee tabled a report in the Legislature resulting from this hearing in February 2020. A link to the full report can be found at www.auditor.on.ca/en/content/standingcommittee/standingcommittee.html.

The Committee made six recommendations and asked the Treasury Board Secretariat (Secretariat) to report back by the end of June 2020.

See **Figure 1** for the status of the Committee's recommendations.

We conducted assurance work between July 2020 and September 2020, and obtained written representation from the Secretariat that effective October 13, 2020, it has provided a complete status update of the recommendations made by the Committee.

Figure 1: Summary Status of Actions Recommended in June 2020 Committee Report

Prepared by the Office of the Auditor General of Ontario

| | # 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| | | Fully Implemented | In the Process of Being Implemented | Little or No Progress | Will Not Be Implemented | No Longer Applicable |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 | 1 | | | 1 | |
| Recommendation 2 | 1 | | | | 1 | |
| Recommendation 3 | 1 | 1 | | | | |
| Recommendation 4 | 1 | | 1 | | | |
| Recommendation 5 | 1 | | | | 1 | |
| Recommendation 6 | 1 | 1 | | | | |
| Total | 7 | 3 | 1 | 0 | 3 | 0 |
| % | 100 | 43 | 14 | 0 | 43 | 0 |

Overall Conclusion

As of September 24, 2020, 43% of the Committee's recommendations had been implemented, 14% were in the process of being implemented, and 43% will not be implemented.

Detailed Status of Recommendations

Figure 2 shows the recommendations and the status details that are based on responses from the Secretariat, and our review of the information provided.

Figure 2: Committee Recommendations and Detailed Status of Actions Taken

Prepared by the Office of the Auditor General of Ontario

| Committee Recommendation | Status Details |
|---|---|
| <p>Recommendation 1</p> <p>The Standing Committee on Public Accounts recommends that the <i>Auditor General Act</i> should be amended to:</p> <ul style="list-style-type: none"> Require government ministries, and agencies and Crown corporations which are consolidated into the province's financial statements, to give advance notice to the Auditor General and ask for comment regarding external auditing firms they propose to hire to perform an audit or provide accounting advice; Status: Fully implemented in an alternative manner. <ul style="list-style-type: none"> Allow the Office of the Auditor General to reject the proposed selection of external auditing firms hired to perform financial statement audits on agencies and crown corporations which are consolidated into the Province's financial statements, and those that provide accounting advice to government ministries or agencies and crown corporations. Status: Will not be implemented. | <p>The interests of government ministries, agencies, crown corporations, the Office of the Provincial Controller Division (OPCD) and the Office of the Auditor General of Ontario (Office) are best served when there are early discussions on accounting treatments in relation to Public Sector Accounting Standards and International Financial Reporting Standards and any potential impacts on the Public Accounts.</p> <p>As an alternative to promoting legislative changes, the OPCD has been working with ministries, agencies and crown corporations to encourage them to communicate to the OPCD and the Office when they intend to engage with external accounting firms for accounting advice. To this end, the OPCD has established a group, called the Controllership Policy and Accounting Consultation Branch (CPAC), dedicated to researching and addressing complex accounting issues, and providing accounting advice to ministries.</p> <p>The Secretariat has implemented instructions that require government ministries to notify the OPCD and the Office and seek comment prior to engaging external accounting advice. Agencies and crown corporations are also encouraged to notify the OPCD and the Office when they engage external accounting advice.</p> <p>Agencies will still be encouraged by their respective ministries to consult their own external financial statement auditors when accounting issues arise. In addition, agencies will be directed by their ministries to provide accounting position papers (if significant) in addition to their draft financial statements (when available) to the OPCD and the Office prior to the finalization of the agency's financial statements.</p> <p>The Office has the ability to either perform financial statement audits as the legislated auditor or can choose to perform a financial statement audit of an entity as a special audit. The Office has oversight over private sector external auditors that audit agencies and crown-controlled corporations both by virtue of the Act and under Canadian Auditing Standard 600 (CAS 600), which is an auditing standard that provides the requirements of a group audit. The Office can also perform work on audit files completed by external audit firms and have access to the private sector auditing firms working papers. It is in the best interests of agencies and crown corporations and the Office to keep channels of communication open on significant accounting and auditing issues.</p> |

| Committee Recommendation | Status Details |
|---|--|
| <p>Recommendation 2</p> <p>The Standing Committee on Public Accounts recommends that the Auditor General Act should be amended to give the Office of the Auditor General of Ontario the authority and discretion to be the appointed financial statement auditor of agencies, organizations and crown corporations consolidated into the Province's financial statements.</p> <p>Status: Will not be implemented.</p> | <p>The agencies, organizations and crown corporations consolidating into the province's financial statements are encouraged to provide the OPCD and the Office with a final draft copy of their financial statements prior to the finalization and approval of the statements by the entity's board of directors (excluding hospitals and school boards). This process will allow the OPCD and the Office to understand the significant transactions occurring during the fiscal year and to review any accounting policy changes at the entity that may not have been brought to the attention of the OPCD or the Office otherwise. In addition, this will allow the OPCD and the Office to provide any relevant commentary on the financial statements prior to approval by the entity's Board.</p> <p>As mentioned in the previous recommendation response, the Office is currently able to directly conduct financial statement audits for entities that are consolidated into the public accounts, if there is a need. This was demonstrated when the Office audited the Independent Electricity System Operator in 2018.</p> |
| <p>Recommendation 3</p> <p>The Standing Committee on Public Accounts recommends that Treasury Board Secretariat should communicate to ministries, agencies, and crown corporations that any external auditing firm that audits the financial statements of a ministry, agency or crown corporation which consolidates into the Province's statements, and which is deemed material by the Office of the Auditor General of Ontario, shall not provide accounting advice or accounting advisory services for the ministry that the agency or crown corporation reports to, or to Treasury Board Secretariat, or to other ministries, agencies or crown corporations that may be involved in a related party transaction.</p> <p>Status: Fully implemented.</p> | <p>Since the Office is the primary auditor for the province, under professional conduct standards, there is a requirement for private sector audit firms to notify the Office prior to being engaged to provide accounting advisory services.</p> <p>The Office has been meeting with private sector audit firms to discuss this requirement, including discussions around the CAS 600 group audit relationship and the <i>Auditor General Act</i>. The OPCD will continue to inform ministries, agencies and crown corporations on the need to be aware of the CPA professional conduct standards as they relate to the provision of accounting advisory services, the CAS 600 requirements and the <i>Auditor General Act</i> and how these impact the private sector firms that they may hire to provide accounting advisory services that would impact the Public Accounts. This understanding is important in order to avoid situations of conflict of interest arising as it did a few years ago in the case of the Fair Hydro Plan.</p> |
| <p>Recommendation 4</p> <p>The Standing Committee on Public Accounts recommends that the Province should formally document, publicly communicate, and then implement the long-term debt reduction strategy.</p> <p>Status: In process of being implemented by November 15, 2020.</p> | <p>The Secretariat informed the Office that the government is focused on funding the response to COVID-19 and ensuring that it has sufficient liquidity to meet current needs despite more difficult capital markets than existed even in the 2008/9 financial crisis.</p> <p>The government passed the <i>Fiscal Sustainability, Transparency and Accountability Act, 2019</i> (FSTAA), which the Secretariat indicated puts sustainability at the centre of provincial fiscal accountability and reporting. The FSTAA defines sustainability as a governing principle of Ontario's fiscal policy and sets out the requirement that a budget include information on a debt strategy (including government objectives for the projected net debt-to-GDP ratio and progress report on actions and implementation of the strategy).</p> <p>According to the Secretariat, the 2020 Budget will include an update on the government's debt strategy, in line with the FSTAA legislative requirements.</p> |

| Committee Recommendation | Status Details |
|--|---|
| <p>Recommendation 5</p> <p>The Standing Committee on Public Accounts recommends that the Province should amend Ontario Regulation 395/11 in the <i>Financial Administration Act</i> which could foster and encourage accounting treatments that vary from generally accepted accounting principles and amend the <i>Financial Administration Act</i> to convey in law clearly that the financial statements for the Province of Ontario will be prepared in accordance with Canadian Public Sector Accounting Standards (PSAS) in letter and spirit.</p> <p>Status: Will not be implemented. The Office of the Auditor General of Ontario continues to support the Committee's recommendation.</p> | <p>The Secretariat informed the Office that the government is committed to preparing its financial statements in accordance with generally accepted accounting principles in order to provide high-quality financial reports that support transparency and accountability in reporting to the public, the Legislature and other users.</p> <p>However, the government does not plan to revisit legislation and regulations that prescribe accounting methods followed by the province, nor has it indicated an intention to enact requirements that there be compliance with Canadian PSAS.</p> |
| <p>Recommendation 6</p> <p>The Standing Committee on Public Accounts recommends that the Office of the Provincial Controller Division (OPCD) should continue to print or provide an online substitute for the financial statements previously available in Volume 2 of the Public Accounts of Ontario and have this information accessible online simultaneously with the annual tabling of the Public Accounts. This online substitute should list all the entities which consolidate into the Province's financial statements and electronically link their respective financial statements.</p> <p>Status: Fully implemented.</p> | <p>The OPCD has worked on and continues to work on ensuring the timely and complete disclosure of the audited financial statements of the province's consolidated organizations at the time of the release of future Public Accounts. This includes working with ministries so that financial statements of organizations that were previously published in paper form will be available in digital form at the same time as other supplementary volumes of future Public Accounts.</p> <p>While communications to all affected ministries have been made to support the public availability of audited financial statements for 2019/20, the Secretariat has updated the Agency and Appointments Directive for provincial agencies to clarify the requirement. The Secretariat is also revising the Broader Public Sector Business Documents Directive to implement the recommendation that audited financial statements be posted no later than the release of the Public Accounts.</p> |