

# Chapter 1

## Section 1.15

Ministry of Finance and Treasury Board Secretariat

Follow-Up on Value-for-Money Audit, *2020 Annual Report*

# The Public Accounts of the Province of Ontario

### 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		Fully Implemented	In the Process of Being Implemented	Little or No Progress	Will Not Be Implemented	No Longer Applicable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	4	4				
Recommendation 2	1		1			
Recommendation 3	1		1			
Recommendation 4	2		2			
<b>Total</b>	<b>8</b>	<b>4</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>%</b>	<b>100</b>	<b>50</b>	<b>50</b>	<b>0</b>	<b>0</b>	<b>0</b>

### Overall Conclusion

The Ministry of Finance and Treasury Board Secretariat, as of October 21, 2022, have fully implemented 50% of the actions we recommended in our *2020 Annual Report*. The ministries have made progress in implementing the remaining 50% of the recommendations.

The ministries have fully implemented recommendations such as ensuring that sufficient staff with appropriate knowledge of agency operations are retained to assist with wind-up processes and the timely reporting of financial information, as part of the final set of financial statements that are audited and released when an agency is being wound-up.

The ministries are in the process of implementing 50% of the recommendations, including consolidating the Children's Aid Societies into the Public Accounts by March 31, 2023 and reviewing contaminated sites

annually to determine whether liabilities need to be updated.

The status of actions taken on each of our recommendations is described in this report.

### Background

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 was the third consecutive year where the statements had been fairly presented and free from material errors.

Items of note from our audit of the Province's 2019/20 consolidated financial statements and other financial statement work were as follows:

- We have a responsibility to report on certain government reporting requirements under the *Fiscal Sustainability, Transparency and Accountability Act, 2019* (Act). The government met all reporting deadlines as of October 2020 with the exception of that for the *2020 Ontario 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 requirement 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 salaries. This penalty was paid by the Premier and the Minister of Finance on April 30, 2020.
- In 2018/19, the Province made the decision to discontinue printing Volume 2, which contained individual financial statements of the 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 noted delays in the posting of entities' 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 audit difficulties because there was a lack of Commission planning to

enable the timely reporting of the wind-up of this organization. Most notably, there was insufficient Commission 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. Ultimately, we were eventually 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 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 requiring that their financial positions and results should be formally consolidated into the Public Accounts.
- We noted that processes for updating contaminated sites annually and identifying new sites differed among ministries. We recommended that the Province conduct additional work in this area.
- The Province's growing debt burden also remained a concern, as it had been since we first raised the issue in 2011. In 2020, as in the past, we focused 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. We noted at the time of our 2020 report that the level of debt significantly increased due to COVID-19 expenditures.

We made four recommendations, consisting of eight action items, to address our concerns.

## Standing Committee on Public Accounts

On March 31, 2021, the Standing Committee on Public Accounts (Committee) held a public hearing on our Chapter 1—Public Accounts of Ontario report. In February 2022, the Committee tabled a report in the Legislature resulting from this hearing. The Committee endorsed our findings and recommendations, and made five additional recommendations. The Ministry reported back to the Committee in June 2022. The Committee’s recommendations and our follow-up on its recommendations are found in **Chapter 3, Section 3.07** of our *2022 Annual Follow-up Report*.

## Status of Actions Taken on Recommendations

We conducted assurance work between April 2022 and October 2022. We obtained written representation from the Ministry of Finance and Treasury Board Secretariat that effective November 3, 2022, they have provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

## Financial Services Commission of Ontario Wind-up

### 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;*

**Status: Fully implemented.**

### Details

In our 2020 audit, we found that there were insufficient Financial Services Commission of Ontario’s (Commission) staff with applicable knowledge of the Commission’s operations to support the financial statement preparation process upon its wind-up. The audit was delayed numerous times to accommodate the Commission’s need for additional time and resources to prepare the financial statements and related audit support. Some staff at the Financial Services Regulatory Authority of Ontario (Authority), the entity that replaced the Commission, were new to the organization and did not have prior knowledge of the Commission’s operations. The audit was eventually completed and the financial statements were approved on May 22, 2020, which was almost one year after the Commission’s June 7, 2019 wind-up date.

The Office of the Provincial Controller’s Division developed guidance material that was widely distributed within the provincial government and made available via the provincial intranet site. The purpose of this guidance is to support the preparation/planning of restructuring within ministries and agencies. The guidance provided template checklists for agencies and ministries to follow for areas such as planning, accounting, legal, human resources, information technology, communications and record keeping. The templates include responsibilities, target dates, completion dates and steps to follow along the way.

In our follow-up, we found that there has been only one subsequent wind-up that occurred within the Province; this was between the Ontario Mortgage and Housing Corporation and the Ministry of Municipal Affairs and Housing (Ministry) on March 31, 2021. The Ontario Mortgage and Housing Corporation was dissolved on this date and the assets, liabilities, rights, obligations and responsibilities were transferred to the Ministry. As part of the wind-up, Ministry staff that historically supported the Ontario Mortgage and Housing Corporation’s functions were actively involved in planning and executing the wind-up. The Ontario Mortgage and Housing Corporation’s financial statements were reviewed and signed off by the former Ontario

Mortgage and Housing Corporation Chief Executive Officer and by the former Chair.

- *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;*

**Status: Fully implemented.**

### Details

In our 2020 audit, we found that the wind-up of the Commission did not consider that other provincial government services were needed subsequent to the wind-up. 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. 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 for the Commission.

In our follow-up, we found that the Ministry of Municipal Affairs and Housing staff responsible for the preparation of the Ontario Mortgage and Housing Corporation's financial statements prior to dissolution supported the financial reporting process during and after dissolution. The accounting system and banking information continued to be accessible to Ministry staff.

- *responsibilities of all parties involved in preparing information used for financial reporting be clearly communicated;*

**Status: Fully implemented.**

### Details

In our 2020 audit, we found that there was a lack of planning to enable timely financial reporting of the wind-up of the organization. Unionized employees, who previously worked at the Commission and were then transferred to work at the Authority, were initially unwilling to discuss topics related to the Commission in connection with our audit. This unwillingness to

co-operate resulted in delays in both preparing financial information and the audit process.

In our follow-up, we found that the Ministry of Municipal Affairs and Housing staff responsible for the preparation of the Ontario Mortgage and Housing Corporation's financial statements laid out responsibilities for all staff involved and held regular discussions within the Ministry. Work plans were developed and tasks were executed as part of the work plan.

- *timely reporting of financial information continues until the final set of financial statements are prepared, audited and released.*

**Status: Fully implemented.**

### Details

In our 2020 audit, we found that the Commission audit was completed almost one year after the June 7, 2019 wind-up date, when the financial statements were approved on May 22, 2020.

In our follow-up, we found that timely reporting occurred for the Ontario Mortgage and Housing Corporation's financial statements. The March 31, 2021 financial statements were issued on June 17, 2021 and the financial statements were publicly posted to the provincial website on September 24, 2021.

## Consolidation of Children's Aid Societies

### 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.*

**Status: In the process of being implemented by March 31, 2023.**

### Details

We found in our 2020 audit that the Children's Aid Societies (Societies) were controlled by the

government and recommended that their financial information should be consolidated into the Public Accounts. Even though the government cannot appoint the majority of the Children's Aid Societies' directors, control exists due to the government's ability to direct the use of the assets by appointing a supervisor, having the ability to dissolve the Societies, approving annual funding, issuing directives and appointing some board members.

Children's Aid Societies have now been reflected in Schedule 8 of the March 31, 2021 consolidated financial statements of the Province with a footnote that the Province is working toward consolidating the Children's Aid Societies in the March 31, 2023 Public Accounts. The Ministry of Children, Community and Social Services (Ministry) has developed a detailed implementation plan including a process to identify potential issues related to financial reporting and accounting systems used by the various Societies. Regular meetings are taking place between the Ministry, the Office of the Provincial Controller Division and the Office of the Auditor General of Ontario to ensure the 2023 consolidation is on schedule. System updates, manual reporting templates and training will be provided to the Children's Aid Societies in anticipation of consolidation as at March 31, 2023.

### 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.*

**Status: In the process of being implemented by March 31, 2023.**

### Details

We found in our 2020 audit that a third of the Children's Aid Societies either completed their 2019/20 financial statements after the July 2020 deadline for submission to the Ministry or had not provided statements by September 30, 2020. These Societies

represented about \$150 million in total assets and about \$135 million in total liabilities.

In our follow-up, we found that the Ministry is working with the Children's Aid Societies to ensure that their financial statements are completed by the annual agency deadline for inclusion in the Public Accounts. In order for the timely completion of the Public Accounts, the Children's Aid Societies will need to provide the Ministry with financial information and financial statements within the same timelines as other consolidating entities. The Ministry has identified the timing of completion of Children's Aid Society financial statement audits and preparation of financial statements as a key area that they are working on addressing with them by March 31, 2023.

## Liability for Contaminated Sites

### 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*

**Status: In the process of being implemented by March 31, 2023.**

### Details

We found in our 2020 audit that ministries have different mechanisms in place to update contaminated sites liabilities annually as well as identify new sites. For instance, to identify new sites, one ministry did not perform assessments on all sites, but instead waited for reports that were completed as part of other activities such as dispositions, transfers and easements to determine their eligibility to be contaminated sites and estimated liabilities for those sites. However, another ministry established a robust identification process that included reviewing engineering reports and studies in order to identify new sites.

In our follow-up, we found that the Office of the Provincial Controller Division (OPCD) is working with ministries to strengthen processes in order to establish

a uniform and consistent approach to evaluating contaminated sites across the province. OPCD and the ministries developed a checklist to help ministries in assessing individual contaminated sites liabilities carried forward from prior years. Ministries are working toward adopting this checklist for the assessment and evaluation for the liabilities in accordance with Canadian Public Sector Accounting Standards (Canadian PSAS). Ministries and OPCD will work together to clarify and clearly define categories of contaminated sites with a view to implement consistent practices for similar categories of sites and the undertaking of critical site reassessments by March 31, 2023.

- *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.*

**Status:** In the process of being implemented by April 1, 2023.

## Details

We found in our 2020 audit that the Canadian PSAS requires ministries to review the carrying amount of any liability for remediation at each financial statement reporting date. We noted that ministries' processes include reviewing each site annually; however, our findings indicated only a few sites were assessed in detail in the 2020 fiscal year.

In our follow-up, we found that the checklist developed by OPCD and the ministries requires ministries to answer a series of questions about changes to the contaminated sites (for example, changes to laws, identification of new contaminants on existing sites, and changes in cost estimates). If the answer to one or more of the questions is yes, then the specific ministry may be required to recalculate its estimate for the contaminated site. The checklist is expected to be broadly utilized as part of the March 31, 2023 Public Accounts.

We also found that the OPCD is working with the ministries to ensure that the Environmental Contamination Financial Management Guidelines are reviewed and updated to provide additional and evolving information to clarify cost-effective methods for and frequency of reassessments and discounting considerations. These guidelines are expected to be updated and in place by April 1, 2023 for application as part of the 2023/24 Public Accounts.