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politics and the public purse: the government of ontario versus public sector pension accounting[[1]](#endnote-1)

[Grace Wu](https://iveypubs.my.salesforce.com/003A0000024hf4x) and [Rahul Bedi](https://iveypubs.my.salesforce.com/003A0000024hpE1) wrote this case under the supervision of [Vaughan S. Radcliffe](https://iveypubs.my.salesforce.com/003A000001CqbLx) solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On October 3, 2016, the Government of Ontario released its Consolidated Financial Statements for the province without the opinion of Ontario’s auditor general. The auditor, Bonnie Lysyk, expressed her disappointment and noted, “This is the first time in the history of Ontario that the statements have been released without the audit opinion.”[[2]](#endnote-2)

This incident stemmed from a disagreement between the auditor and the government over public-sector pension accounting interpretations, which had the potential to seriously impact the province’s budget balance and long-term debt levels. These factors had significant long-term financial implications for the province given that it was the most indebted sub-national borrower in the world, prompting credit rating agencies such as Standard & Poor’s (S&P) to cut the province’s rating and publicly raise concerns regarding the sustainability of Ontario’s future borrowing plan, which was vital to fund services such as health care, education, and infrastructure.[[3]](#endnote-3)

It was uncertain how this disagreement would be resolved. Many members of the media, think tanks, and opposition parties decried the government for refusing to co-operate with the auditor, whereas others felt the auditor had gone too far in her interpretation of Public Sector Accounting Standards (PSAS). The true shareholders of the province were Ontario taxpayers, and it was unclear whether the auditor was ultimately raising an imperative issue on their behalf or simply creating an unnecessary burden and confusion.

ROLE OF THE AUDITOR GENERAL OF ONTARIO[[4]](#endnote-4)

The Legislative Assembly of Ontario appointed the auditor. The auditor helped the legislature hold the government accountable by watching over the administration of Ontario’s finances. Members of provincial parliament (MPPs) were provided with the information they needed to judge how well public resources were being used through annual and special reports produced by the auditor, after the auditor carried out a detailed scrutiny of government spending.

The auditor was mandated by the [*Auditor General Act*](https://www.ontario.ca/laws/statute/90a35) to examine the government’s financial accounts and transactions, known as the Public Accounts, and to report to the legislature her findings, including any instances of misuse or mismanagement of public funds. The auditor general was an officer of the Legislative Assembly under the act. This provided the office of the auditor general with a vital safeguard to fulfil its responsibilities objectively and fairly by making it independent of the government and its administration.

The “value-for-money mandate” also required the auditor to assess whether government and broader public-sector activities operated with due regard for economy and efficiency, and whether procedures to measure and report on the effectiveness of programs and organizations existed and functioned properly.

ONTARIO PUBLIC ACCOUNTS FOR 2015–16

The Public Accounts report reflected the government’s revenues and expenses. It analyzed the province’s financial performance and compared it with the goals outlined in the budget. The report presented the government’s financial statements and provided a picture of how finances were managed over the last fiscal year, which ran from April 1 to March 31.[[5]](#endnote-5)

Similar to auditing practices in the private sector, the auditor reviewed the Public Accounts before they were released and gave an opinion on whether they fairly reflected the state of Ontario’s finances and whether Ontario was following independently established accounting standards. When the auditor general believed, based on the audit evidence obtained, that the statements were materially misstated, she issued a qualified opinion.

The Public Accounts were comprised of an annual report, consolidated financial statements, and three supporting volumes, which were ministry statements and schedules, financial statements of government organizations and business enterprises, and a detailed schedule of payments.[[6]](#endnote-6)

The province was a joint sponsor of two major pensions plans, the Ontario Teachers’ Pension Plan (OTPP) and the Ontario Public Service Employees’ Union Pension Plan (OPSEUPP).[[7]](#endnote-7) For many years, the net assets related to these pension plans had resided on the province’s financial statements. While reviewing the 2015–16 Public Accounts, the auditor determined that a change in the accounting treatment of these pension assets was necessary. Specifically, she concluded that under current Canadian PSAS, the government could not unilaterally recognize a pension asset on its financial statements without written consent from its union pension partners that government contributions could be reduced. Neither union had provided any such written consent.[[8]](#endnote-8)

The auditor’s interpretation had significant effects on the province’s financial outlook. Specifically, the auditor found that the government was not correctly attributing its CA$1.5 billion[[9]](#endnote-9) in pension expenses, and was therefore under-reporting its budget deficit by that amount in 2015–16. Furthermore, she found that the government was incorrectly counting surpluses from these accounts as an asset on its balance sheet, thereby allowing it to report a lower provincial debt figure by nearly $10.5 billion.[[10]](#endnote-10)

Initially, the government refused to comply with the auditor’s interpretation and took the unprecedented step of tabling unaudited financial statements. However, to remedy blowback from the media and opposition parties surrounding the fiscal uncertainty, the government then passed an emergency time-limited regulation to allow it to comply with the auditor’s request in the current 2015–16 fiscal year while appointing an “independent” panel of accounting experts to report directly to the government on the correct interpretation for future fiscal years.

Given that these pension assets had been consistently reflected without issue on the province’s financial statements since 2001, the government felt it had the right to seek external expertise to ensure the auditor’s interpretation could indeed be trusted.

ACCOUNTING MATTERS

Although the government eventually agreed to amend its 2015–16 fiscal year financial statements, the auditor was still unable to validate the province’s numbers. The financial accountability officer (FAO) recorded estimates of the province’s deficit according to the Auditor General’s recommended accounting presentation in comparison with the government’s accounting presentation (see Exhibit 1). In fact, for the first time in 23 years, the auditor issued a “qualified” opinion on the Province’s Public Accounts, citing the government’s failure to restate previous fiscal years using the auditor’s interpretation of the pension asset. In her opinion, this did not reflect the province’s true financial picture to allow users of the financial statements to make an “apples-to-apples” comparison between fiscal years. Furthermore, she raised the issue that it was unusual for the government to pass a regulation that allowed it to only partially comply with Canadian accounting standards.

Specifically, the auditor indicated that the government was obligated to also restate comparative 2014–15 fiscal year numbers using her interpretation of net pension assets to be in accordance with accounting standards issued by the Public Sector Accounting Board of Canada. If restated, the opening accumulated deficit would have increased by $8.2 billion, education expenses would have increased by $956 million, and the annual deficit would have increased by $953 million. As a result, the ending accumulated deficit would have increased by $9.2 billion to $20.5 billion, nearly double the $10.3-billion deficit the government officially recorded in 2014–15.[[11]](#endnote-11) The Auditor General provided a recommended presentation of the financial statements based on the province’s FAO estimates of pension adjustments (see Exhibit 2).

The C.D. Howe Institute, a leading independent think tank, and the auditor both called into question the method by which the government was valuing this pension asset. Unlike private-sector sponsors of defined benefit pension plans, Ontario and other governments discounted future pension promises using generous assumed rates of return of assets as opposed to more conservative yields on bonds of appropriate credit quality. This resulted in understated pension benefits and employee compensation costs. Ontario discounted OTPP and OPSEUPP liabilities at 6.25 per cent for its financial statements, which was above the rates used by the union co-sponsors of the plans themselves—4.80 and 5.55 per cent, respectively.[[12]](#endnote-12) The C.D. Howe Institute estimated that using these more conservative discount rates would likely show net pension deficits, rather than surpluses. As such, the auditor not only disagreed with the government’s use of net pension plan assets on its financial statements, but also raised the alarm on whether these assets were being significantly overvalued.[[13]](#endnote-13)

For their part, government ministers continued to contend that following the initial dispute, they had followed all of the auditor’s directions, had restated the 2015–16 Public Accounts as per her interpretation regarding the use of net pension assets, and had taken the related hit to the government’s debt and deficit projections. However, many people within the government were puzzled by the auditor’s change in interpretation, given that the office of the auditor general had been repeatedly signing off on the practice since 2001. Given the ongoing confusion surrounding the accounting practice and the significant impact it had on the government’s financial statements, the government felt it was prudent to get a second opinion from the expert accounting panel it had appointed regarding the soundness of the auditor’s interpretation for future fiscal years.[[14]](#endnote-14)

The president of the Treasury Board was the minister responsible for the Public Accounts and for liaising with the auditor. In an official news release, she chose not to publicly acknowledge the accounting dispute and stated, “I wish to thank the Auditor General for providing her audit opinion of the 2015–16 Public Accounts. The Public Accounts confirm this is the seventh year in a row that Ontario has beaten its annual deficit target. Ontario remains committed to balancing the budget in 2017–18 while remaining balanced in 2018–19.”[[15]](#endnote-15)

ACCOUNTING AND MANAGEMENT CONCERNS IN A POLITICAL LANDSCAPE

To some Ontarians, it was unclear why this accounting dispute between the auditor and the government was of any significance. The government did not have a profit-making motive and did not have shares that were publicly traded. An accounting change that really only impacted its debt and deficits on paper should not have any material impact.

Data suggested that the perception of the province’s financial health had significant political implications for the government in power. During the 2014 provincial election, the government had committed to eliminating the province’s $12.5-billion deficit within three years. Although it was on track to meeting this commitment in advance of the next election, the auditor’s new accounting interpretation erased billions off the government’s books and made that goal unattainable without significant new tax revenues or spending cuts—both of which were likely to be unpopular among voters. Analysis by Ontario’s FAO, another independent officer of the legislature, found that the auditor’s interpretation would have the government on track for a budget deficit of $2.9 billion, as opposed to the positive surplus it had promised. The official opposition finance critic, MPP Vic Fedeli, admonished the government for attempting to “artificially balance the budget in an election year before plunging the province back into deficit.”[[16]](#endnote-16)

Taxpayers, though not explicitly shareholders, played largely the same function. Politically, budget surpluses often symbolically represented the prudent management of public funds. A recent poll completed by Mainstreet Research found that 90 per cent of Canadians believed in the importance of a balanced budget and viewed it as a top campaign issue.[[17]](#endnote-17)

The government also had to manage its relationship with its own hundreds of thousands of employees, whose pensions it was accounting for, and the politically important unions representing them. Warren (Smokey) Thomas, the influential head of OPSEU, made it clear that the union sided with the auditor and was suspicious of the government’s claim about what it viewed as employee funds. He indicated in a news release, “The current dispute between the Government of Ontario and Auditor General Bonnie Lysyk over accounting practices is not just a paper war. It’s a fight over who owns billions of dollars earned by workers and invested on their behalf.”[[18]](#endnote-18)

Along with political perception, the province’s financial health also determined its ability to fund and deliver public services in the future. As the most indebted sub-national borrower in the world, Ontario was facing significant structural funding issues, as interest on debt cost the province $11 billion annually and was the third-highest expense behind only health care and kindergarten–grade 12 education.[[19]](#endnote-19) Being plunged into deeper deficits would require the government to borrow more funds on behalf of taxpayers; meanwhile, interest payments would continue to skyrocket and crowd out other funding. Credit ratings agencies had also taken notice, and S&P along with Moody’s Investors Service, Inc. had changed their outlook on Ontario’s debt from stable to negative, citing uncertainty around the government managing its deficit and hurting the province’s credibility with current and potential debt holders.[[20]](#endnote-20)

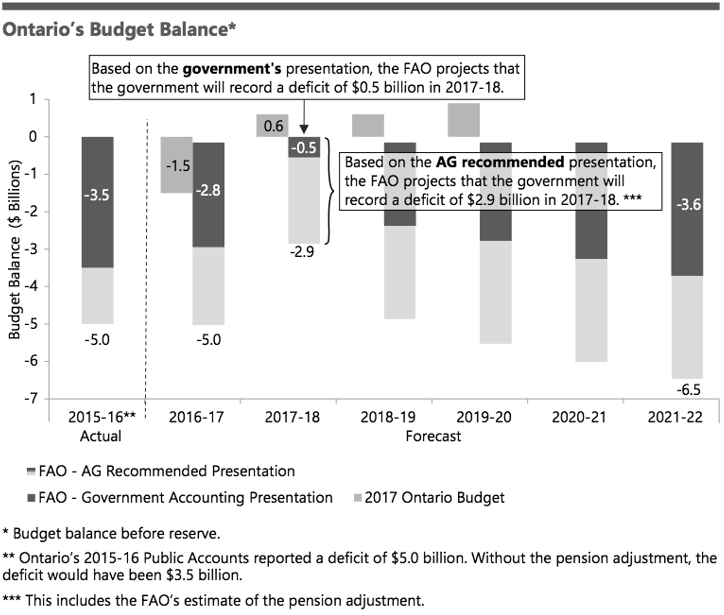
AN ONGOING DISPUTE

Four months after the government released the Consolidated Financial Statements for the province, the government-appointed expert accounting panel reported back and confirmed that it agreed with the government’s accounting interpretation to include net pension assets on its financial statements. The panel noted that this would “provide a faithful representation of the province’s financial position,” stating, “The accounting surplus in the plan has a future economic benefit that the government controls.” This allowed the government to disregard the auditor’s interpretation and retroactively reduce its 2015–16 deficit by $1.5 billion and, perhaps more importantly, to table the province’s first balanced budget in nearly a decade, in 2016–17, to fulfil its past political commitment.[[21]](#endnote-21)

In response, the auditor stood by her disagreement with the government’s interpretation on the basis that no agreement had been granted by either OPSEUPP or OTPP, and that the assets remain “trapped” within the respective pension plans and did not represent any future economic benefit for the government. The auditor once again issued a “qualified” opinion for the 2016–17 fiscal year based on the government’s continued failure to abide by Canadian PSAS. The direct headline of her news release was “Ontario Government Understates Annual Deficit and Net Debt.”[[22]](#endnote-22)

The dispute between the province and the auditor general involved six key events that took place in October and November 2016 (see Exhibit 3). It was unclear what impact, whether political or financial, those events surrounding the accounting dispute would have in Ontario, but confusion over the matter persisted.

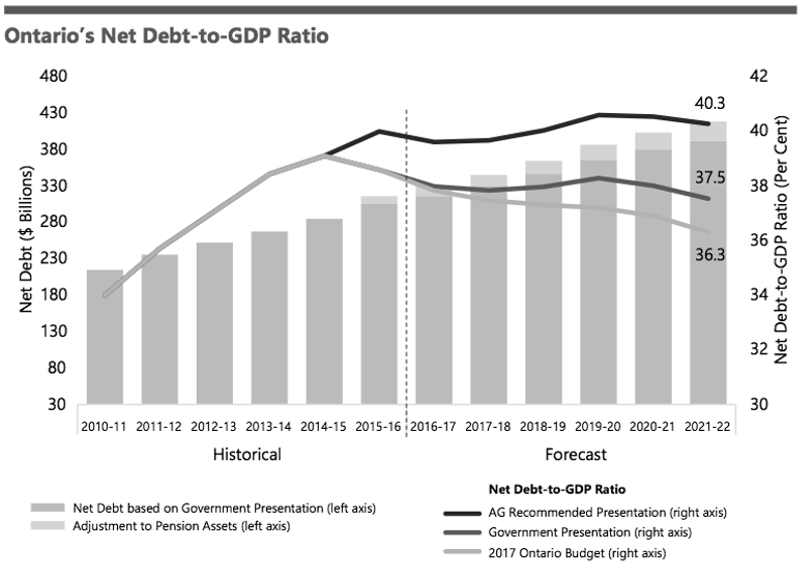
Exhibit 1: Ontario’s Budget Balance (ca$)



Note: FAO = Financial Accountability Office; AG = auditor general

Source: With permission, Financial Accountability Office of Ontario, *Economic and Fiscal Outlook Spring 2017*, May 31, 2017, accessed June 27, 2018, [www.fao-on.org/en/Blog/Publications/EFO\_Spring\_2017\_876023](http://www.fao-on.org/en/Blog/Publications/EFO_Spring_2017_876023).

Exhibit 2: Ontario’s Net Debt-to-GDP Ratio



Note: AG recommended presentation based on FAO estimates of the pension adjustment; Dollar amounts are in Canadian dollars; GDP = gross domestic product; AG = auditor general; FAO = Financial Accountability Office

Source: With permission, Financial Accountability Office of Ontario, “Economic and Fiscal Outlook Spring 2017,” FAO, May 31, 2017, accessed June 27, 2018, [www.fao-on.org/en/Blog/Publications/EFO\_Spring\_2017\_876023](http://www.fao-on.org/en/Blog/Publications/EFO_Spring_2017_876023).

Exhibit 3: Timeline of Events

|  |  |  |
| --- | --- | --- |
| Event | Date | News Release |
| 1 | October 3, 2016 | The Government of Ontario releases unaudited Public Accounts for the Province of Ontario for 2014–15, although the auditor general of Ontario has not issued an opinion on these statements (see Exhibit 4). |
| 2 | October 3, 2016 | The auditor responds to the government’s release of unaudited financial statements (see Exhibit 5). |
| 3 | October 6, 2016 | The auditor general releases a statement on tabling the Public Accounts of the province (see Exhibit 6). |
| 4 | October 6, 2016 | The Government of Ontario releases a statement on the auditor general’s “qualified” opinion, and states it will appoint an expert panel to review the accounting standards (see Exhibit 7). |
| 5 | November 10, 2016 | The Government of Ontario names the expert panel appointed to review pension net assets (see Exhibit 8). |
| 6 | November 30, 2016 | The auditor general issues a “qualified” opinion on the province’s books—the first time this has been done in 23 years (see Exhibit 9). |

Source: Case material.

Exhibit 4: Event 1— Excerpt of News Release on Ontario’s 2015–16 Financial Statements

|  |  |
| --- | --- |
|  | ***NEWS*** |
| **Treasury Board Secretariat** | |

Public Accounts are part of the Ontario government’s annual fiscal cycle and are a legislative requirement under the *Financial Administration Act*. The President of the Treasury Board submits the Public Accounts for each fiscal year to the Lieutenant Governor in Council on or before the 180th day after the end of the fiscal year. Public Accounts include the Province's annual report and consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB). PSAB independently establishes accounting standards for the public sector in Canada.

These accounting standards are common, nationally recognized standards used by governments across Canada in their financial reporting.

PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity’s financial statements.

The objective of PSAB standards is to meet the needs of the users of financial statements by providing the information needed for accountability and decision-making.

In preparing the Annual Report and Consolidated Financial Statements for 2015–16, professional public servants and the Auditor General engaged in discussions regarding the accounting treatment of pension assets.

The Ontario Public Service Employees’ Union Pension Plan (OPSEUPP) and the Ontario Teachers’ Pension Plan (OTPP) are jointly-sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of OPSEUPP and OTPP are held in trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.

During the 2015–16 Public Accounts audit, the Auditor General raised some concerns with regard to Ontario’s accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province’s professional accounting staff and the Auditor General continue to have differences of interpretation of PSAS standards as they relate to accounting for pension assets.

Given the differences in interpretation of the application of PSAB standards for the OTPP and OPSEUPP pension assets, Ontario approved a time-limited regulation which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015–16 Public Accounts. This is consistent with the fiscal outcome proposed by the Auditor General on September 13.

The *Financial Administration Act* allows [the] Treasury Board, subject to the approval of the Lieutenant Governor in Council, to make regulations respecting the accounting policies and practices to be followed regarding the preparation of the consolidated financial statements of the Province.

EXHIBIT 4 (CONTINUED)

The effect of the regulation is to reflect the fiscal impact of the Auditor General’s position pending further review and analysis on this accounting matter. The change in accounting treatment is not a reflection on the funding status of the plans, or the quality of financial reporting by the Province. The impact of the change resulted in an additional $10.7 billion being added to the Province’s net debt and accumulated deficit.

Prior to this change, Ontario had followed the same pension accounting treatment for all of the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

The Auditor General has not issued an audit opinion on the province’s financial statements for 2015–16. However the government is releasing these unaudited financial statements to ensure openness and transparency with respect to province’s financial position, and because it has passed the deadline to table the Public Accounts with the Lieutenant Governor in Council. The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario’s consolidated financial statements so that it can table the Public Accounts with the Lieutenant Governor in Council.

**Openness and Transparency**

As part of its commitment to Open Government, digital technology was used for the first time to visualize the province’s financial information in an interactive and easy to understand way. This year, Ontario is further increasing the openness and transparency of the Annual Report and unaudited Consolidated Financial Statements by:

* Creating new data visualizations, including interactive bar charts and interactive data tables
* Releasing data sets through Ontario’s [Open Data Catalogue](http://www.ontario.ca/open-data), including data on government organizations, government business enterprises and Trusts

Source: Treasury Board Secretariat, “Release of Ontario’s 2015-16 Financial Statements,” Government of Ontario, October 3, 2016, accessed June 27, 2018, <https://news.ontario.ca/tbs/en/2016/10/release-of-ontarios-2015-16-financial-statements.html>.

Exhibit 5: Event 2—News Release: Auditor’s Response to Government’s Release of Unaudited Financial Statements

**October 3, 2016**

**Auditor’s Response to Government’s Release of Unaudited Financial Statements**

(Toronto) The Office of the Auditor General is disappointed that the government decided to release the Consolidated Financial Statements for the Province of Ontario without the Auditor’s opinion, the Auditor General of Ontario said today.

“This is the first time in the history of Ontario that the statements have been released without the audit opinion,” Bonnie Lysyk said.

“As late as 10:30 a.m. this morning, we were still in discussions over an accounting issue that we brought to the government’s attention in June of this year,” Lysyk added.

Lysyk concluded, “We continue to work toward finalizing the opinion on the Consolidated Financial Statements for the Province of Ontario for the year ended March 31, 2016.”

Source: “Auditor’s Response to Government’s Release of Unaudited Financial Statements,” Office of the Auditor General of Ontario, October 3, 2016, accessed June 27, 2018, www.auditor.on.ca/en/content/news/response%20to%20release%20unauditedFS.pdf.

Exhibit 6: Event 3—News Release: Statement by the Auditor General on Tabling of Public Accounts of the Province

**October 6, 2016**

**Statement by the Auditor General on Tabling of Public Accounts of the Province**

(Toronto) The Consolidated Financial Statements for the Province of Ontario for the year ended March 31, 2016, present fairly the province’s annual deficit, accumulated deficit, pension liabilities and pension expense, Auditor General Bonnie Lysyk said after the government today tabled the 2015/16 Ontario Public Accounts.

Lysyk added, however, that her opinion was qualified because the 2014/15 comparative figures have not been restated to correctly adjust:

* the 2014/15 accumulated deficit upward by $8.201 billion;
* the education expense and general government and other expense upward by $953 million; and
* the annual deficit upward by $953 million.

As well, the Financial Statement Discussion and Analysis accompanying the Consolidated Financial Statements does not reflect this adjustment.

The issue discussed over the last few days pertains to the government’s accounting treatment of pension assets related to the Ontario Teachers’ Pension Plan and the Ontario Public Service Employees’ Union Pension Plan. The government previously included these pension assets in its financial statements—even though the province did not control or have unilateral access to those assets.

As the preparer of its own financial statements, the government did not put forward adequate evidence to its external auditors—the Office of the Auditor General—to support its view that pension assets should continue to be recorded in the Consolidated Financial Statements of the Province of Ontario.

Our Office identified an issue with the province’s accounting for pension assets following an in depth review this year triggered by a significant rise in their value, and advised the Office of the Provincial Controller’s Division of its concerns last June.

Lysyk said her Office did considerable work in reaching its position on pension assets. This position is also in line with Public Sector Accounting Standards, and the application of those standards used by the provinces of British Columbia and New Brunswick.

Lysyk said her Office will review and consider any new information that the government provides during the next year to support its position.

Source: “Statement by the Auditor General on Tabling of Public Accounts of the Province,” Office of the Auditor General of Ontario, October 6, 2016, accessed June 27, 2018, [www.auditor.on.ca/en/content/news/statement\_tabling\_publicaccounts.pdf](http://www.auditor.on.ca/en/content/news/statement_tabling_publicaccounts.pdf).

Exhibit 7: Event 4—News Release: Ontario Releases 2015–16 Public Accounts

|  |  |
| --- | --- |
|  | ***NEWS*** |
| **Treasury Board Secretariat** | |

**Expert Panel to Review Accounting Standards**

**October 6, 2016 1:15 p.m.**

Ontario’s Annual Report and Consolidated Financial Statements for 2015–16 show Ontario’s deficit is $3.5 billion lower than the $8.5 billion projected in the 2015 Budget, with the province’s deficit for 2015–16 at $5 billion. This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

The government has received the Auditor General’s opinion on the 2015–16 Public Accounts of Ontario, enabling it to release them. The results reported in the Public Accounts are identical to the unaudited financial statements released earlier this week. They confirm Ontario has beaten its annual deficit target for the seventh year in a row.

The Auditor General has provided her opinion, which says that the 2015–16 results are fairly stated but qualifies her opinion for lack of restatement of the 2014–15 results.

In preparing the Public Accounts, the province’s professional accounting staff and the Auditor General’s Office engaged in discussions about the appropriate application of the Public Sector Accounting Board’s (PSAB) standards, specifically in relation to pension accounting for the province's jointly sponsored pension plans.

A regulation was made to allow the public service to sign off on the impact of the Auditor General’s view on accounting for pension assets in Ontario’s 2015–16 financial statements. The province filed a time-limited regulation, which legislates the accounting for pension assets of two jointly-sponsored pension plans for 2015–16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit and an increase in the annual deficit of $1.5 billion.

The Auditor General’s qualified opinion is based on the government’s decision to report the accounting change in 2015–16 without restating the prior year’s results. Restating the previous year’s results would have had no impact on the financial results for 2015–16, including the annual deficit and net debt.

The Auditor General’s qualification relates only to the presentation of the 2014–15 comparative financial information. There is no impact on the 2015–16 annual deficit, accumulated deficit or net debt as illustrated in the table below.

EXHIBIT 7 (CONTINUED)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| (in CA$ millions) | **Annual Deficit**  **2014–15** | **Accumulated Deficit**  **2014–15** | **Net Debt**  **2014–15** | **Annual Deficit**  **2015–16** | **Accumulated Deficit**  **2015–16** | **Net Debt**  **2015–16** |
| Province’s 2015–16 financial statements | 10,315 | 187,511 | 284,576 | 5,029 | 202,697 | 305,233 |
| Auditor General’s 2015–16 opinion | 11,268 | 196,665 | 293,730 | 5,029 | 202,697 | 305,233 |
| Auditor General’s 2014–15 opinion | 10,315 | 187,511 | 284,576 | n/a | n/a | n/a |

The government is forming an independent expert panel to deliver advice and recommendations to the government as to the application of public sector accounting standards to Ontario’s pension assets.

Panel members will also provide advice on how to value pension assets reported on the province’s books, taking into account future decisions which might be made by the plan’s sponsor or sponsors. The report is expected later this year.

Responsible financial management is part of our plan to create jobs, grow our economy and help people in their everyday lives.

**Quotes**

“I wish to thank the Auditor General for providing her audit opinion of the 2015–16 Public Accounts. The Public Accounts confirm this is the seventh year in a row that Ontario has beaten its annual deficit target. Ontario remains committed to balancing the budget in 2017–18 while remaining balanced in 2018–19.”

-Liz Sandals

President of the Treasury Board

**Quick Facts**

* Public Accounts are a retrospective report that compares Ontario’s actual performance to what was planned in the Budget.
* Treasury Board Secretariat prepares Public Accounts in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board.

Source: Treasury Board Secretariat, “Archived News Release: Ontario Releases 2015-16 Public Accounts – Expert Panel to Review Accounting Standards,” Government of Ontario, October 6, 2016, accessed June 27, 2018, <https://news.ontario.ca/tbs/en/2016/10/ontario-releases-2015-16-public-accounts.html>.

Exhibit 8: Event 5—News Release: Pension Asset Expert Advisory Panel Members

|  |  |
| --- | --- |
|  | ***NEWS*** |
| **Treasury Board Secretariat** | |

November 10, 2016 1:33 p.m.

In preparing the 2015–16 Public Accounts of Ontario, the province’s professional accounting staff and the Auditor General’s Office engaged in discussions about the appropriate application of Public Sector Accounting Board (PSAB) standards regarding pension accounting for the province’s jointly-sponsored pension plans. Despite best efforts to resolve concerns, the province’s professional accounting staff and the Auditor General continue to have differences of opinion. The government committed to forming an independent expert panel to deliver advice and recommendations on this issue.

The following four members have been appointed to the Pension Asset Expert Advisory Panel:

* Tricia O’Malley (Chair)
* Murray Gold
* Uros Karadzic
* Paul Martin

**Tricia O’Malley** was Chair of the Canadian Accounting Standards Board (AcSB) from 2009 to 2010 and also served as its first full-time Chair from 1999 to 2001. She was a member of the International Accounting Standards Board (IASB) from 2001 until 2007 and she served on its staff as Director of Implementation Activities from 2007 to 2009. Supported by AcSB staff, she chaired the International Forum of Accounting Standard Setters, an informal association of bodies with a responsibility for setting or reviewing accounting standards in their various jurisdictions, from 2011 until April 2016. Before joining the AcSB in 1999, Ms. O’Malley spent 17 years as a partner in the National Assurance and Professional Practice Group of KPMG Canada, where she consulted on complex accounting issues, focusing on financial instruments and structured finance transactions.

Ms. O’Malley has been a member of the Canadian Actuarial Standards Oversight Council since 2012, serving as Chair since January 2015. She has also been a member of the Canadian Accounting Standards Oversight Council since 2013. She is currently a member of the Board and Chair of the Audit Committee of Assuris, which guarantees benefits on policies written by life insurers in Canada.

In 2011, Ms. O’Malley was named as one of Canada's Top 100 Most Powerful Women by the Women’s Executive Network. In 2012, she received the Queen Elizabeth II Diamond Jubilee Medal. In June 2016, Ms. O’Malley received a Doctor of Laws *honoris causa* degree from the University of Waterloo.

**Murray Gold** is a leading practitioner and senior pension and benefits partner at Koskie Minsky LLP. Mr. Gold advises governing boards of public sector, multi-employer and jointly-trusteed pension and benefits plans across Canada on compliance issues and best practices. He represents pension boards, as well as plan sponsors, retiree groups and active members in pension litigation in pension regulatory and judicial proceedings.

Mr. Gold has been lead counsel for Koskie Minsky in regard to pension reform initiatives and litigation in Newfoundland, New Brunswick, Ontario and Alberta, and health benefit plan reforms in Ontario and British

exhibit 8 (continued)

Columbia. Mr. Gold was appointed by the Premier of Ontario to Ontario’s Technical Advisory Group on Retirement Security in February 2014. In 2008 he served as an expert advisor to the Ontario Expert Commission on Pensions, and in 2016, he served as a first director of the Ontario Retirement Pension Plan Administration Corporation.

Mr. Gold is a Fellow of the Ontario Teachers’ Federation, recognizing his work with the Ontario Teachers’ Pension Plan. Murray served on the firm’s executive committee and then as the firm’s managing partner from 2012–2016.

**Uros Karadzic** is a partner at EY’s People Advisory Services Reward practice, which includes pension, benefit and compensation consulting. As a pension actuary, Mr. Karadzic has extensive experience in accounting for benefit plan obligations. He works with numerous EY audit teams, the EY Professional Practice (Canadian and Global) and industry bodies on benefit accounting issues.

Mr. Karadzic has advised Canadian and multinational clients on all aspects of their pension and benefit plans, including accounting, funding, design, implementation, management, risk and administration. His primary focus is in:

* Pension audit and internal audit
* Pension and benefit issues in merger and acquisition transactions
* Ongoing advisory services on retirement benefit plans

Since 2006, Mr. Karadzic has been a Fellow of the Society of Actuaries (FSA) and a Fellow of the Canadian Institute of Actuaries (FCIA).

**Paul Martin** is Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP. He is a respected leader with more than 35 years of experience. He has significant expertise with Public Accounting Standards and pension plans including the shared risk/targeted benefit models. Mr. Martin is a past president of the New Brunswick Institute of Chartered Accountants and currently serves as a member of the CPA Canada Employment Benefits Task Force.

Note: EY = Ernst & Young

Source: Treasury Board Secretariat, “Pension Asset Expert Advisory Panel Members,” Government of Ontario, November 10, 2016, accessed June 27, 2018, <https://news.ontario.ca/tbs/en/2016/11/pension-asset-expert-advisory-panel-members.html>.

Exhibit 9: Event 6—News Release: Auditor General Issues “Qualified” Opinion on Province’s Books

November 30, 2016

(TORONTO) For the first time in 23 years, the Auditor General issued a qualified opinion on the Consolidated Financial Statements of the Province of Ontario because the financial statements did not properly present the pension asset adjustment in the comparative 2014/15 numbers as required by Canadian accounting standards, Auditor General Bonnie Lysyk says in her 2016 Annual Report.

“Although the government correctly adjusted its financial statements this year to reflect the fact it could not claim as assets any money in two public pension plans, it is important for the government to provide comparable numbers between fiscal years so that users of the Statements can make ‘apples-to-apples’ comparisons,” Lysyk said today after her Report was tabled in the Legislative Assembly.

Accordingly, if the comparative 2014/15 numbers were restated, opening accumulated deficit would have increased by $8.201 billion, education expense would have increased by $956 million, general government and other expense would have decreased by $3 million, the annual deficit would have increased by $953 million, and the ending accumulated deficit would have increased by $9.154 billion.

The Office of the Auditor General notified the provincial Controller’s office in June 2016 that there was a potential accounting issue related to the pension assets of plans the government jointly sponsors with teachers and public servants. The government sought external actuarial, accounting and legal advice from July through October, but was still unable to provide adequate support for its view that these pension assets should remain on the government’s financial statements.

Lysyk said she was “surprised” on October 3 when, for the first time, the government released the statements without an opinion from the Auditor, which was provided on October 5. She added that it was also unusual for the government to pass a regulation that allowed it to only partially comply with Canadian accounting standards.

“We continue to caution against the use of legislated accounting treatments, which could increase the risk that the future financial results of the Province may not be fairly stated,” she added.

For example, the government previously approved another regulation requiring Ontario Power Generation and Hydro One to prepare their financial statements using U.S. accounting rules. Subsequently, the government included the two entities’ financial statements, based on the U.S. accounting rules instead of the required Canadian accounting standards, in the Consolidated Financial Statements of the Province. This could potentially lead to material differences in financial results as early as the next fiscal year.

Source: “News Release: Auditor General Issues “Qualified” Opinion on Province’s Books,” Office of the Auditor General of Ontario, November 30, 2016, accessed June 27, 2018, [www.auditor.on.ca/en/content/news/16\_newsreleases/2016news\_2.00.pdf](http://www.auditor.on.ca/en/content/news/16_newsreleases/2016news_2.00.pdf).

ENDNOTES

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