

Legislative
Assembly
of Ontario



Assemblée
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de l'Ontario

STANDING COMMITTEE ON PUBLIC ACCOUNTS

PUBLIC ACCOUNTS OF ONTARIO

(2020 ANNUAL REPORT OF THE OFFICE OF THE AUDITOR GENERAL OF
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2nd Session, 42nd Parliament
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The Honourable Ted Arnott, MPP
Speaker of the Legislative Assembly

Sir,

Your Standing Committee on Public Accounts has the honour to present its Report and commends it to the House.

A handwritten signature in blue ink, appearing to read "Taras Natyshak".

Taras Natyshak, MPP
Chair of the Committee

Queen's Park
February 2022

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2nd Session, 42nd Parliament

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1st and 2nd Session, 42nd Parliament

FRANCE GÉLINAS

(October 28, 2019 – October 25, 2021)

DARYL KRAMP

(September 22, 2020 – October 20, 2021)

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INTRODUCTION

On March 31, 2021, the Standing Committee on Public Accounts held public hearings on the audit of the Public Accounts of Ontario, a chapter in the Auditor General's *2020 Annual Report*.

The Committee endorses the Auditor's findings and recommendations, and presents its own findings, views, and recommendations in this report. The Committee requests that the Treasury Board Secretariat, the Ministry of Finance, and the Ministry of Children, Community and Social Services provide the Clerk of the Committee with written responses to the recommendations within 120 calendar days of the tabling of this report with the Speaker of the Legislative Assembly, unless specified otherwise.

ACKNOWLEDGEMENTS

The Committee extends its appreciation to officials from the Ministry of Finance (Ministry), the Office of the Provincial Controller Division (OPCD), the Office of the Comptroller General (OCG), and the Ontario Financing Authority (OFA). The Committee also acknowledges the assistance provided during the hearings and report-writing deliberations by the Office of the Auditor General, the Clerk of the Committee, and Legislative Research.

BACKGROUND

The government is responsible for preparing the consolidated financial statements and ensuring that this information, including many amounts based on estimates and judgment, is presented fairly. The government is also responsible for ensuring that an effective system of control, with supporting procedures, is in place to authorize transactions, safeguard assets, and maintain proper records.

AUDIT OBJECTIVE AND SCOPE

The Office of the Auditor General (Office) audits the consolidated financial statements, with the objective of expressing an opinion on whether the statements are free of significant errors or omissions and are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS). The consolidated financial statements, along with the independent Auditor's Report, are included in the province's annual report, along with the Financial Statement Discussion and Analyses.

In 2020, the Auditor issued an unqualified audit opinion on the province's consolidated financial statements for 2019/2020, indicating that the statements are reliable. The Auditor's audit opinion was unqualified for the third consecutive year.

The Office faced numerous challenges and identified additional risks associated with the audit as a result of the COVID-19 pandemic. The additional risks resulted from new provincial spending announcements, the quality and availability of information historically used by both the ministries and the Office, and capital market volatility caused by the pandemic. The Office performed additional work to address the risks, and they were considered when the unqualified opinion was issued.

MAIN POINTS OF AUDIT

The Auditor found that, as of October 2020, “the government met all reporting deadlines under the *Fiscal Sustainability, Transparency and Accountability Act, 2019*, with the exception of issuing the 2020 budget.” Other findings include:

- improvement in posting the audited financial statements of the consolidated government and broader public sector organizations by the date of release of the Public Accounts;
- lack of planning to enable the timely reporting of the wind-up of the Financial Services Commission of Ontario, with staff unable to support the financial statement preparation process;
- differences in the process that ministries use for updating contaminated sites annually and identifying new sites;
- establishment of a new governance structure within the Ontario Energy Board; and
- concerns regarding Ontario’s growing debt burden.

The Auditor also recommended the full consolidation of Ontario’s Children’s Aid Societies into the Public Accounts. The Auditor noted that, given “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 Auditor suggested, the Societies’ finances should be formally consolidated in the province’s financial statements.

In addition, the Auditor also examined the following programs and contracts specifically, and determined that they were appropriately reflected in the consolidated financial statements of the province:

- one-time funding for the Ontario Autism Program;
- ongoing accounting for cancelled Feed-In Tariff and Large Renewable Procurement energy contracts;
- cancellation of the Hamilton Light Rail Transit Project;
- redesign of the blue licence plates; and
- judicial review of the Nation Rise Wind Farm.

ISSUES RAISED IN THE AUDIT AND BEFORE THE COMMITTEE

A number of significant issues were raised in the audit and during the Committee's hearings. The Committee considers the following issues to be of particular importance.

Public Accounts Process and Roles

The Committee was interested in the annual process of preparing the Public Accounts documents, and how the COVID-19 pandemic has affected the process this year. The Office of the Provincial Controller Division (OPCD) said that, every year, the Public Accounts are prepared by the Treasury Board Secretariat, and the province's consolidated financial statements are independently audited by the Auditor General. The OPCD said that they delayed the year-end activities and timelines by three weeks this year, resulting in the Public Accounts process also being delayed by three weeks. In spite of the delay, the Public Accounts were released on September 23, meeting the legislated deadline of September 27.

The OPCD concurred with the Committee on the importance of receiving a clean audit opinion from the Auditor General and using the standards set by the Public Sector Accounting Board (PSAB). The Committee heard that the clean audit opinion is a signal of transparency and reliability, while following PSAB standards ensures consistency among Canadian jurisdictions.

The Committee asked about the relationship between the OPCD and the Auditor General, and heard that the OPCD works closely with the AG's office. Staff from both offices meet monthly to discuss new and outstanding high-risk issues for which the AG's involvement is required. The issues discussed have the potential to have a significant impact on the Public Accounts and the fiscal plan, and include items such as the accounting treatment or presentation of transactions, or government decisions in financial statements, as well as compliance with the relevant financial reporting framework. The OPCD said that there are also multiple online document sharing portals that both offices can access. During the lead up to the Public Accounts, the offices meet on a weekly basis.

The use of external consultants and audit firms by government bodies was also discussed. The OPCD reassured the Committee that it has implemented an accounting consultation request form process. Through this process, the Auditor General is to be given notice and is asked for comments on the use of any external auditing firms by government ministries for the purpose of audit or accounting advice. Government ministries are required to notify both the OPCD and the AG's office prior to engaging any external accounting bodies, while agencies and crown corporations are strongly encouraged to follow the same process.

Committee members were also interested in the distinction between the role of the Office of the Comptroller General (OCG), created in 2020, and the Provincial Controller. The Committee heard that, in terms of organizational structure, the Provincial Controller reports to the Comptroller General. Further, the OCG has broader responsibilities including risk management and internal auditing services.

The Committee inquired about the role of the Chief Risk Officer, and the government's enterprise risk management. The OCG explained that the Chief Risk Officer reports to the OCG's office, and is responsible for setting risk policies, improving risk capacity across the Ontario public service, identifying risk trends, and advising Ministry risk tables of key decision makers.

Enterprise risk management refers to the systemic practice of identifying, assessing, prioritizing and managing the uncertainties within an organization. In the context of the Ontario government, these uncertainties include financial risks, human resourcing risks and informational technology risks, as well as risks associated with ongoing operations, projects, and business continuity.

Committee Recommendation

The Standing Committee on Public Accounts recommends that:

- 1) The Office of the Provincial Controller Division work with the Auditor General's office to ensure continued transparency and accountability in the Public Accounts process.**

Liabilities for Contaminated Sites

In the audit of the Public Accounts, the Auditor noted that while ministries have mechanisms in place to annually update contaminated site liabilities, the processes differ from one ministry to another. Identification of new sites, for example, is done by reviewing engineering reports and studies in one ministry, while another is relying on reports completed as a result of other activities such as disposition, transfer and easement.

The Committee inquired about the lack of a uniform approach among ministries when identifying and updating liabilities associated with contaminated sites. The OPCD said that the contaminated sites might be evaluated differently, depending on the category of the site. Contaminated mine sites, for example, are subject to the *Mining Act*, and are evaluated in accordance with that Act. As a result of the variation in the type of contaminated sites, the nature of the contamination, and the governing legislation, the approach to evaluating these sites might be different. As for the identification of new sites, the OPCD stressed that ministries have to make sure that all the requirements under the accounting standards for contaminated sites are met when setting up a new liability.

The Committee also asked about the annual number of assessments of contaminated sites, which dropped from 228 assessments in 2014/15 to 3 assessments in 2019/20. The OPCD suggested that the large number in 2014/15 could be the result of the contaminated sites accounting standard being introduced that year. The OCG said that the ministries review their respective sites on an annual basis, but acknowledged that the consistency of the reviews is an issue that is currently being worked on by an inter-ministerial Associate Deputy Minister working group.

In response to Committee questions on why the OPCD hasn't required ministries to put in place an annual review process of their contaminated sites liabilities, the OPCD said that the review of contaminated sites is part of the ministries' annual certificate of assurance. The certificate of assurance is an annual attestation

provided by each ministry in support of the Public Accounts. By signing the certificate, ministries attest to the existence of an internal control system, as well as to compliance with legislation, regulations, directives and policies. The OPCD is relying on these signed certificates to accurately reflect the actions taken by the ministries.

Committee Recommendation

The Standing Committee on Public Accounts recommends that:

- 2) The Treasury Board Secretariat work with the ministries that have contaminated site liabilities to:**
 - a) implement a uniform approach across all ministries to ensure that all identified contaminated sites are evaluated consistently across the province; and**
 - b) 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.**

Debt and the Contingency Fund

Ontario's growing debt was a prominent topic of discussion. The Committee asked whether Ontario's debt burden was sustainable and how it might impact Ontario's credit rating. The Ministry said that the government remains committed to reducing the debt, but cautioned that the recovery might not be quick. The government has set a goal to slow the rate of increase in the net debt-to-GDP ratio (not to exceed 50.5% as a long-term maximum), and the Ministry believes that this goal will be supported by growth from the economic recovery. As for Ontario's credit rating, the Committee heard that Ontario maintains an AA rating with three of its four credit rating agencies. The Ministry further explained that it tracks and reports on other measures of debt sustainability, such as the net debt-to-revenue and interest on debt-to-revenue ratios.

Committee members asked how Ontario's debt compares to neighbouring US jurisdictions. The Ministry said that, from a rating agency's perspective, Ontario is different from the US states. The province has more flexibility in raising revenue, with a system of income, corporate, and sales taxes, as well as full control over excise taxes. One implication of this system is the ability of the province to affect business competitiveness by adjusting certain tax rates.

When asked about Ontario's debt reduction strategy, the Ministry said that it is outlined in the 2021 Budget. The strategy includes an objective of not exceeding 50.5% in the net debt-to-GDP ratio (as noted above), as well as introducing and setting objectives in the future for additional measures (net debt-to-revenue and interest on debt-to-revenue ratios (no targets yet set)). Following questions on how Ontario's debt reduction strategy compares to other Canadian jurisdictions, the Ministry said that Ontario's debt reduction strategy is a legislated requirement, which is not the case in every province. Given the inability to compare debt reduction strategies, the Ministry is instead comparing the debt

loads among provinces. The Committee also heard that not all debt is the same. The Ministry presented the example of borrowing to fund infrastructure projects, where the government borrows large sums up front, and then amortizes the cost of the asset over its useful life period.

The Ontario Financing Authority (OFA) was asked about the province's creditors, and responded that Ontario borrows from institutional retail investors, both domestically and internationally. The target is to conduct 65%-80% of the borrowing in the domestic market, with investors including pension funds, banks, insurance companies, and various mutual funds. Internationally, the investors are mostly central banks. The OFA noted that the province does not directly sell bonds to investors – rather, the transactions are facilitated by the institutions that underwrite the bonds, usually the big Canadian and international banks.

The Committee was also interested in the province's contingency fund and the extent to which it was used in the 2019/20 fiscal year. The Ministry explained that contingency funds are built into the government's fiscal plan to help mitigate expense risks. Specifically, the funding may be used when health and safety may be compromised, or when services are jeopardized. The fund levels are reset annually. The Ministry further clarified that the contingency fund is drawn down during the fiscal year, with the spending reflected in the program areas for which the fund was used. The government expects all contingency funds for the 2020/21 fiscal year to be spent.

The Committee also heard that the costs associated with some of the specific programs and contracts examined by the Auditor could change from year to year. The Ontario Autism Program, for example, is an ongoing program, and has a varying annual cost.

Committee Recommendation

The Standing Committee on Public Accounts recommends that:

- 3) The Ministry of Finance continue to implement their debt burden strategy, and provide public updates on the strategy on an annual basis.**

Consolidation of Children's Aid Societies

Committee members expressed concerns about the untimely submission of audited financial statements by some Children's Aid Societies. The OPCD said that the Ministry of Children, Community and Social Services (MCCSS) is the body responsible for receiving these statements by the deadline of July 31. At the time of the hearing, all required statements had been received by MCCSS.

The Committee was also interested in the status of the Auditor's recommendation relating to the consolidation of Children's Aid Societies' financial statements into the province's Public Accounts. The OCG and the OPCD said that the analysis process is not straightforward, as consolidation requires evidence of a significant level of control by the government, which requires judgment about the degree of its influence in the governance of the organizations. As part of the audit of the 2021/22 Public Accounts, MCCSS completed a formal consolidation analysis of the Children's Aid Societies.

MCCSS, OPCD and the Auditor concurred that all non-Indigenous Children's Aid Societies are controlled by the province and their financial information should be consolidated into the Public Accounts by 2022/23.

Committee Recommendations

The Standing Committee on Public Accounts recommends that:

- 4) The Ministry of Children, Community and Social Services (Ministry) should work with the Children's Aid Societies to have their financial statements audits completed and submitted to the Ministry within the required reporting timelines.**
- 5) The Treasury Board Secretariat should work with the Ministry of Children, Community and Social Services to consolidate the non-Indigenous controlled Children's Aid Societies into the Public Accounts by 2022/23.**

CONSOLIDATED LIST OF COMMITTEE RECOMMENDATIONS

The Standing Committee on Public Accounts recommends that:

- 1) The Office of the Provincial Controller Division work with the Auditor General's office to ensure continued transparency and accountability in the Public Accounts process.**
- 2) The Treasury Board Secretariat work with the ministries that have contaminated site liabilities to:**
 - a) implement a uniform approach across all ministries to ensure that all identified contaminated sites are evaluated consistently across the province; and**
 - b) 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.**
- 3) The Ministry of Finance continue to implement their debt burden strategy, and provide public updates on the strategy on an annual basis.**
- 4) The Ministry of Children, Community and Social Services (Ministry) should work with the Children's Aid Societies to have their financial statements audits completed and submitted to the Ministry within the required reporting timelines.**
- 5) The Treasury Board Secretariat should work with the Ministry of Children, Community and Social Services to consolidate the non-Indigenous controlled Children's Aid Societies into the Public Accounts by 2022/23.**