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**Select Committee
on Financial Transparency**

**Comité spécial de
la transparence financière**

1st Session
42nd Parliament
Monday 15 October 2018

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Lundi 15 octobre 2018

Chair: Prabmeet Singh Sarkaria
Clerk: Valerie Quioc Lim

Président : Prabmeet Singh Sarkaria
Greffière : Valerie Quioc Lim

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

**SELECT COMMITTEE
ON FINANCIAL TRANSPARENCY**

**COMITÉ SPÉCIAL DE
LA TRANSPARENCE FINANCIÈRE**

Monday 15 October 2018

Lundi 15 octobre 2018

The committee met at 1300 in room 151.

The Chair (Mr. Prabmeet Singh Sarkaria): Good afternoon. The Select Committee on Financial Transparency will now come to order.

Just some housekeeping: You have on your desk in front of you right now documents received by the committee so far that were previously emailed, items that the committee requested the committee clerk to provide, and agendas for today's and tomorrow's meetings. So you will find that on your desk right now.

SUBCOMMITTEE REPORT

The Chair (Mr. Prabmeet Singh Sarkaria): The first item on the agenda is a report of the subcommittee on committee business. Can a member please read it into the record, please? Mr. Romano.

Mr. Ross Romano: Thank you, Chair.

Your subcommittee on committee business met on October 11, 2018, to consider the method of proceeding on the order of the House dated October 2, 2018, and recommends the following:

(1) That the committee call on Peter Weltman, Financial Accountability Officer, to appear before the committee as a witness with the panel from the Financial Accountability Office.

(2) That the committee clerk write to the Chartered Professional Accountants Canada (CPA Canada) to request the 2002 report entitled Financial Reporting by Rate-regulated Enterprises and the Canadian public sector accounting standards and any available documents related to the "substance over form" principle and any language which outlines it, pursuant to the motion passed by the committee on October 4, 2018.

(3) That the committee clerk update the committee once witnesses have confirmed their attendance.

(4) That the rounds of questioning be conducted in 20-minute rotations when possible, with the first question coming from the government on Mondays and from the official opposition on Tuesdays.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Romano has moved the adoption of the subcommittee report. Any discussion?

Mr. Ross Romano: Actually, I'll move that the report be adopted.

The Chair (Mr. Prabmeet Singh Sarkaria): Yes. Shall the motion carry? The motion is carried.

**OFFICE OF THE AUDITOR
GENERAL OF ONTARIO**

The Chair (Mr. Prabmeet Singh Sarkaria): I welcome the Auditor General, Bonnie Lysyk. Ms. Lysyk, you have up to 10 minutes for an introduction. We will then go in 20-minute rounds for questions, starting with the government. At the halfway point, I will propose a short recess for the committee. I now open it up to you for your initial introduction.

Ms. Bonnie Lysyk: Good afternoon. Thank you for inviting me here today. I also want to thank the Independent Financial Commission of Inquiry for taking our comments into consideration when it prepared its report and recommendations. Auditors General in Canada provide assurance that their work will be independent, impartial and objective because these requirements are enshrined in the legislation that created their functions and define their roles.

One significant role of my office under the Auditor General Act of Ontario is to examine and render an audit opinion on whether the annual consolidated financial statements for the province are prepared and presented fairly in accordance with Canadian public sector accounting standards. The issuance of a clean audit opinion accompanying these statements signals that the members of the Legislative Assembly and the citizens of Ontario can depend on the government's reported financial results to be reliable.

There were two areas of concern in the two prior years that did not allow me to issue a clean audit opinion. In 2015, we advised the government that we would be looking more closely at pension plan accounting. For instance, the Ontario Teachers' Pension Plan was using a different discount rate than the province when calculating the pension plan's liability. We researched discount rates used by other public sector pension plans in Canada and we conducted additional detailed audit work on the pension liability as at March 31, 2016.

Further, in the prior government's 2016 budget, the forecast pension expense for the teachers' plan was negative, or a revenue.

Consequently, we found that overall pension expenses were understated and recording revenue was contributing to a large and growing net pension asset related to the teachers' plan. In effect, the government was recording a growing accounts receivable from the pension plan even though the government had not, and did not, plan to

receive any money from the plan or reduce its minimum contributions to the plan. Overall, this treatment was making the province's consolidated financial statements less and less reliable.

We concluded that if overall expenses from the pension plans had been correctly presented, the government's other expenses and deficits at the time of its pre-election report would be more than \$8 billion higher between 2018-19 and 2020-21.

Instead, the government forecasted that it would receive \$3.4 billion in revenues from the Ontario Teachers' Pension Plan over the three-year period ending March 31, 2021, even though none of this money was expected to actually flow into government coffers. In fact, the province would have to continue to pay its regular contributions to the teachers' plan to match the contributions made by teachers. These payments were forecast to be \$5.3 billion over the same three-year period.

This widening gap of over \$8 billion between the government's calculated pension revenue and the province's pension contributions to the teachers' plan distorted the picture of forecasted resources available for government decision-makers to allocate in their fiscal planning.

Typically, a government running a balanced budget only needs to borrow money to finance its capital expenditures. However, the government's pension accounting treatment could result in a government reporting a balanced budget while borrowing to cover shortfalls in operations.

In late 2016, another area of concern was developing, this one relating to the prior government's policy decision to offer Ontarians relief from high electricity rates. After numerous and sustained complaints about the high cost of electricity, the prior government announced an average 25% discount on electricity rates.

My office did not, and does not, question the government's policy decision to reduce the cost of electricity; policy decisions are a government's prerogative. Our concern was that the planned accounting for the rate reduction in the government's budgets and in the province's consolidated financial statements was not in accordance with Canadian public sector accounting standards.

The government determined that it would have to borrow to pay for most of the rate reduction and legislated inappropriate accounting methods to defer the costs to later years by recording the costs as an asset. This avoided recording any costs in its bottom line. The borrowings were structured in a complex design at a significantly higher cost to Ontarians, in an attempt to get their desired accounting results.

The prior government said it was simply using rate-regulated accounting, a commonly accepted practice in the US. Rate-regulated accounting is usually applied to move expenditures into the future so that present ratepayers do not have to pay for present spending that may benefit future ratepayers. For example, the cost of building a new power-generating plant can typically be spread out over time and charged to current and future electricity ratepayers since both groups benefit from electricity

produced by the plant. However, in the case of the Fair Hydro Plan, a portion of purchased power contract current costs would be passed on to future generations even though this spending is for electricity for only today's ratepayers.

Further, rate-regulated accounting is normally applicable when an independent regulator has the authority to set rates that the utility can charge its customers. However, there was no ruling by an independent rate regulator over the rate reduction in Ontario; therefore, rate-regulated accounting was never applicable to begin with.

The prior government passed legislation to create, in a government agency, what it called "regulatory assets" and represented it as rate-regulated accounting to favorably alter its bottom line and net debt by deferring the current costs of its policy decision to future generations.

One year ago this month, we published a special report which examined how the prior government designed the process by which it could offer an electricity rate reduction and keep the cost from impacting the province's net debt and bottom line. We noted in that report, "Sound fiscal transparency and accountability require that the costs of any government policy decision be fairly reported to the Legislature and the people of Ontario. Value for money requires that the government consider the optimal use of resources to implement its policy decisions."

An early red flag for our office was the sudden decision by the Independent Electricity System Operator—the IESO—the agency which manages the province's power system, to retroactively change the accounting for an unrelated five-year-old transaction. We determined that this accounting policy change was needed to set the stage for the legislated accounting changes to come.

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We learned that the Ministry of Energy, with assistance from the accounting firm KPMG and several law firms, was leading the accounting objective of deferring the current cost of the rate reduction to future years. There was also input from members of senior management at the IESO, the Office of the Provincial Controller Division, Ontario Power Generation and the Ontario Financing Authority. As well, in discussions during 2017 and 2018 about this initiative, we met with atypical resistance to our inquiries from the IESO board and senior management.

Another odd aspect of this unprecedented accounting situation was the comprehensive legal protection that the IESO and OPG sought and obtained for their directors, officers and employees. An agreement signed by the Minister of Energy between the IESO and the province, effective June 1, 2017, indemnified the IESO and its directors, officers and employees from a long list of possible actions against them, specifically in connection with the Fair Hydro Plan. A similar agreement was signed for OPG and its directors, officers and employees.

The pension and fair hydro accounting issues came together in the government's 2018 Pre-Election Report on Ontario's Finances, released on March 28, 2018, as required by the Fiscal Transparency and Accountability Act and Ontario Regulation 41/18. This same act also

requires my office to review the pre-election report to determine whether the underlying assumptions about the future and the resulting forecasts are reasonable, and to provide a report outlining the results of our work. We concluded that the pre-election report was not a reasonable presentation of Ontario's finances insofar as its expense estimates, and thus its deficits, were understated as a result of the improper accounting for pensions and the Fair Hydro Plan.

On August 30 of this year, the Independent Financial Commission of Inquiry into Ontario's past spending and accounting practices issued a report. I support the commission's recommendations.

I want to thank the government for making the recommended accounting corrections for pension expenses and costs associated with the policy decision to reduce electricity rates in Ontario to be in accordance with Canadian public sector accounting standards. As a result of this, and for the first time in three years, I issued a clean opinion on the consolidated financial statements for the province of Ontario for the year ended March 31, 2018. This means the members of the Legislative Assembly and the citizens of Ontario can rely upon them.

In closing, I also want to thank my team of dedicated professionals for their excellent work and my external advisory committee for its excellent advice and guidance. We remain focused on serving all members of the Legislative Assembly and, through them, serving and protecting the public interest.

I would like to mention that I do have several members of my team here with us today, and I would also like to advise the committee that Mr. Tim Beauchamp is here today. Tim is a retired director of the Public Sector Accounting Board who is a member of our advisory committee as well as assisting us prior to that on the accounting issues.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you, Ms. Lysyk.

Ms. Bonnie Lysyk: That was fast.

The Chair (Mr. Prabmeet Singh Sarkaria): Right on time. I'd now like to open it up to the government side for questioning. Mr. Romano, please.

Mr. Ross Romano: Thank you very much, Ms. Lysyk, for your attendance here today. I know this can be somewhat difficult. I know you've been through a number of committee hearings in the past, so if at any point in time you need a break or anything like that, please let us know. If you need to refresh your memory with your notes, please, again, let us know.

As was explained earlier, we're going to start off with 20 minutes' worth of questions and then hand off, so we've got some time together. We'll try to make it as comfortable and easy as we possibly can.

My first question I want to ask you—if you can just provide me with some background with respect to your professional background, specifically your previous work in the electricity sector.

Ms. Bonnie Lysyk: Okay. So I graduated University of Manitoba and articulated with Coopers and Lybrand, now

PwC. From there I went to Manitoba Hydro, and I worked in a variety of roles within Manitoba Hydro. I was there for probably 10 to 11 years in total. I moved over to the Office of the Provincial Auditor—as it was called initially—in Manitoba. It became the Auditor General's Office there. I worked as the Deputy Provincial Auditor or Deputy Auditor General there. From there, I worked in private industry, in the pension industry and in the insurance industry, then I returned to be the Provincial Auditor of Saskatchewan. From Saskatchewan I came here as the Auditor General for Ontario.

At Manitoba Hydro, I started in internal audit. I audited throughout the corporation, moved from there into finance, worked on special projects, and then I became assistant to the president at Manitoba Hydro and was involved in the acquisition of Centra Gas. I was in charge of the integration of the utilities, and worked on various projects for reorganizing the finance areas as well as worked on contracts with Northern States Power.

Mr. Ross Romano: That's quite an extensive background, both in accounting, electricity, pensions—

Ms. Bonnie Lysyk: I forgot. I was actually head of internal audit and security at the liquor board as well, in Manitoba.

Mr. Ross Romano: Great. All right. Thank you very much. I don't think anyone here is going to question your expertise in the area.

My next question for you is, can you just please explain the mandate of the Office of the Auditor General of Ontario?

Ms. Bonnie Lysyk: We are established under the Auditor General Act of Ontario. We are responsible for auditing the government's consolidated financial statements for the province of Ontario. In addition, we audit a number of the entities that consolidate into those statements. We perform the attest audits. We conduct value-for-money audits on the ministries as well as the broader public sector—hospitals, long-term-care homes, school boards.

We also do follow-up work. Two years after we issue value-for-money reports, we follow up on the implementation of the recommendations.

We also get requests. I guess I'm going into my fifth year now, and I think we've had about 16 special requests from the Standing Committee on Public Accounts. I think we're working on two right now; 14 we've tabled.

Our objective, though, is to be an independent office of the Legislative Assembly, working for all members and, through the members, for the citizens of Ontario, to ensure the finances are reliably stated for the province and to ensure that there is good attention in implementing good changes in the public sector to enable economy, efficiency and effectiveness to thrive in the services offered.

Mr. Ross Romano: Thank you very much. So, in a nutshell, you're there to hold the government of the day accountable for their financial dealings.

Ms. Bonnie Lysyk: For the purpose of the consolidated statements, yes.

Mr. Ross Romano: Thank you. How many staff in your office?

Ms. Bonnie Lysyk: We have 117, including myself.

Mr. Ross Romano: Okay, great. Thank you.

Can you tell the committee when you first learned about the Fair Hydro Plan?

Ms. Bonnie Lysyk: We had known that there was an 8% reduction toward the end of I guess it was 2016—I've lost my years here—2016. But we didn't know how that would be accounted for. We had asked a few questions, but we didn't have any answers on the 8%.

But then we also send letters out to all the entities that consolidate within the government statements. We send letters to the private sector auditors who do those audits, asking them to provide us information on the audit that they're conducting, their planning reports, and to notify us of anything unusual happening. We had received all the responses, but we didn't receive the one from the auditor for IESO. My staff had to follow up with—I believe it was a phone call. The phone call was not returned. We eventually got some material, the planning report, but it didn't show anything in the planning report that was unusual.

The next thing we knew, there were statements posted on the IESO's website. My staff pulled off those statements, and we saw for the first time that they had booked a regulatory asset on those statements.

Mr. Ross Romano: All right.

Ms. Bonnie Lysyk: That was our trigger into what is happening. From there, we started meeting with people, getting copies of documents and proceeding that way.

Mr. Ross Romano: Would that have triggered your report *The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money*?

Ms. Bonnie Lysyk: That would have started us looking at it. I think when we became aware, the legislation had not yet been tabled, so I did go to the justice committee and highlight for the justice committee our concerns around that piece of legislation that had created the accounting within it. There is material that was presented to that committee, and that came before the special report.

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Before we wrote the special report, we were also trying to see whether or not people would change their minds and why this was all happening. Then we found out about all the planning. So we were hoping that at some point, we wouldn't have to write the report, but we did.

Mr. Ross Romano: Just two things arising from that: When you refer to the special report, obviously we're referring to the Fair Hydro Plan report?

Ms. Bonnie Lysyk: That's correct.

Mr. Ross Romano: Okay. You said you were hoping people would see the light, so to speak—those are my words, not yours—but by “people,” are you referring to the government of the day?

Ms. Bonnie Lysyk: During that whole process, we had meetings throughout the late spring, I guess, early summer and summer before we published the report. We were having meetings with the controller's division, with the

IESO, with OPG, with OFA. There had been discussion with the Treasury Board Secretariat, with the cabinet secretariat.

I was trying to get some traction that perhaps there was a misunderstanding and they didn't realize that putting a regulatory asset in a government organization like the IESO was highly unusual. It had never occurred in Canada before and was wrong. Unfortunately, I wasn't successful in getting any changes.

Mr. Ross Romano: I just want to make sure I got that. You're saying it was highly unusual, had never been done in Canada before and it was wrong?

Ms. Bonnie Lysyk: Correct. A government organization does not record regulatory assets, has never before recorded regulatory assets. It was the first time that that has happened. We checked with our colleagues across Canada and couldn't find a similar situation.

Mr. Ross Romano: Okay, thank you. Initially, you start this work. The report hasn't happened yet. You're having these conversations with members of the government, or the bureaucrats within the government and the staff within the government, to try to say, “Guys, this is not allowed. Maybe you just missed something.”

Ms. Bonnie Lysyk: A lot of our initial attention was toward the Independent Electricity System Operator's board and senior management group. Because it was their statements that we saw the accounting in, we wanted to explain to them. Perhaps there wasn't as thorough an understanding of why that was a concern, so we met with them—the board and senior management—and tried to explain the accounting from our perspective.

We also met with KPMG. We went all the way from the person responsible for the work right to the national level, to engage in a discussion around the issue.

The reason it was important was, obviously, there was a transaction for those year-end statements that we were concerned about. That would have been IESO, which has a December year-end, so those were their December 31, 2016, statements.

But our concern was that we already saw that the purpose of the changes in those statements was to basically put in place the mechanism for the Fair Hydro Plan transaction, which wouldn't have had a material impact on the government's statements until the next year.

So we were trying to explain why this was inappropriate, and to kind of stop the process before it got to the point where it was going to materially impact the government's statements.

Mr. Ross Romano: Okay, thank you. Just quickly: You referred to KPMG and a person you were speaking with there. Would that have been Michel Picard?

Ms. Bonnie Lysyk: Michel Picard worked as the adviser. He was advising through the Ministry of Energy as to how the structure would work. The attest partner was another fellow. Then the two of them were basically discussing the IESO's statements. So we did meet with both of them.

Mr. Ross Romano: Would you recall the name of the other fellow?

Ms. Bonnie Lysyk: Yes, Matthew Betik.

Mr. Ross Romano: Matthew Betik?

Ms. Bonnie Lysyk: Betik.

Mr. Ross Romano: Okay, thank you. You referenced that you tried to warn the government. Again, that's my word, so please correct me if that's not an appropriate characterization, but you mentioned warning them before you had to issue the special report. What steps did you take to warn them?

Ms. Bonnie Lysyk: They were designing the accounting, so our discussions were, first, to get an understanding of what was happening here, then to discuss why the accounting was inappropriate in the IESO and then to discuss the impact of that accounting on the government statements. So we shared information with the controller's office and with the external auditors. It was discussion and sharing of information.

When you're in these situations, you want to make sure you're right. Every time something happened that it caused us to go, "Well, are we right?" We know we're right, but I also went out and got three non-conflicted national accounting firms' opinions as well on it. Between that, our own work, the opinions of my colleagues across Canada—and then I did introduce Mr. Tim Beauchamp at the beginning, and Tim's advice to us was very helpful. All of that information was being discussed and shared with government.

Mr. Ross Romano: It sounds like, from what you're saying, then you really wanted to work with the government and ensure that the information you had was 100% certain that this was not permitted, this form of rate-regulated accounting and you wanted to share that with the government, hoping they would see the light before you'd have to issue this report. I asked what steps you used to warn. You referred to discussions. Maybe you can just—were the emails? Were there letters from your office? Were there meetings you had together? What steps were used to warn?

Ms. Bonnie Lysyk: We had many meetings. It's funny; all the dates seem to gel together. I'm just going to try and find my timeline for a second. Sorry, just give me a minute. Okay.

We had been asking for information on the Fair Hydro Plan accounting since February of 2017. We had asked anecdotally, or asked for it not formally, before December 2016, but we started asking a little bit more beginning in February because we didn't understand what was happening with the 8%.

We met in April with IESO and KPMG. I invited the FAO to come as well because when we invited them to come, I was sure that there were some problems and so I did want the Financial Accountability Officer to hear it as well. That's where we had our first meeting, trying to figure out what was happening with IESO's statements. So we had quite a full meeting then.

We had many meetings between there and the end of May with KPMG and with the IESO. We met in May. We met with the Ontario Financing Authority, the Ontario Energy Board and Ontario Power Generation. The submission to the justice committee was in May 2017. The

government passed the act on May 31. We continued to meet with the IESO. We met with the IESO audit committee in June, and we presented a slide deck and discussed why the accounting wasn't appropriate for IESO—and continued discussing throughout June.

Subsequent meetings between June and October were with IESO staff, audit committee, board, KPMG, EY, the controller's division, OPG, the energy board and the Ontario Financing Authority. Throughout the summer up until the time we issued the report, we were having many meetings.

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There was one meeting—we asked to be briefed by the controller's office and the Ministry of Energy on what was happening on the rate reduction. We were actually just thinking the initial one at first. They kept telling us nothing was happening and there wasn't any decision. Then, we did go to one meeting and Ministry of Energy staff were there along with the controller's division. They, at that point, still just gave us a really high level. There was a comment that there wasn't any detail, and then that changed during the meeting. After that meeting, we started understanding more of what was happening.

I didn't mean to belabour that, but there were a lot of meetings. I don't have the exact dates for you, but I have a timeline here.

The Chair (Mr. Prabmeet Singh Sarkaria): Ms. Park.

Ms. Lindsey Park: You mentioned that you remember asking the Minister of Energy to be briefed. Do you remember approximately when that was?

Ms. Bonnie Lysyk: We started asking in February 2017. We wanted the accounting for the hydro rate reduction. That was before the Fair Hydro Plan. At that point in time, there were discussions going on about how the accounting was going to be designed, but they did not indicate that to us.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Romano. And, sorry, this is just a two-minute warning.

Mr. Ross Romano: Thank you.

Maybe we'll take you to the report now. The report itself: Can you please just explain to the committee what the key findings of the Auditor General's special report were?

Ms. Bonnie Lysyk: The key one—there were two, I think. We looked at it both from a value-for-money perspective and from an accounting perspective. We concluded that the accounting for the Fair Hydro Plan and how it was being designed would not be appropriate. Then we said that the financing that was needed to allow the accounting to happen would be approximately \$4 billion in excess of what it needed to be. We were quoting the number from the FAO for that.

If the financing had been structured through the OFA, it would have been cheaper, but that wouldn't have allowed for the accounting. If they had borrowed all the money through OFA, the accounting would have said that there was no more GBE. The OPG's accounting in the government statements would change and it would bring

OPG debt onto the government statements. That was why, initially, with the design they wanted, they couldn't finance it through OFA directly. There was a lot of discussion around that.

OFA recognized and pointed out that it would be more expensive, but they still went ahead with it.

Mr. Ross Romano: Just for the record, OFA, for all those—

Ms. Bonnie Lysyk: Ontario Financing Authority.

Mr. Ross Romano: And GBE?

Ms. Bonnie Lysyk: Government business enterprise: Organizations like OPG and Hydro One, in its past, would have been considered government business enterprises. They use an accounting framework that's different from PSAB. We just consolidate their bottom line. So the transactions that happen within those statements aren't line-by-line consolidated in the government statements like all the other agencies, like IESO.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you. I'm just going to turn it over to the opposition for their 20 minutes of questioning. Ms. Shaw?

Ms. Sandy Shaw: Thank you, Ms. Lysyk. We haven't met before, but I do feel like I know you. I've been reading your reports for a couple of weeks now. Thanks for that.

I'm wondering if you could just help me understand a specific piece of the accounting, and that is around the rate-regulated accounting, but specifically around the rate-regulated asset.

My understanding of accounting comes from the financial sector. When we have a loan, it's an asset, and there's a loan-loss provision that we provide for what we would consider doubtful assets. Is it my understanding that one of the problems here is that this regulatory asset that they created has the potential to be not an asset but in fact a liability, if that's correct? And then, if that is correct—I really have studied your schematic, honestly, but where does that asset currently exist? It's off-book for the province, but where does that asset currently sit?

Ms. Bonnie Lysyk: So there are a few points there. Our view was that there was no rate-regulated asset at all, because in order to have a rate-regulated asset you would need to have an independent rate regulator. There was no independent rate regulator that ruled that costs could be deferred to the future. So that was our primary basis. The term "rate-regulated asset" has been used with the assumption that, "Is it right or wrong in PSAS," in the case of the government's accounting? We're basically saying that it's irrelevant at the consolidated level of the government statements.

The asset under the Fair Hydro Plan gets created as being the difference between the amount that is collected from consumers and the amount that has to be paid to the power generators under contracts. That is what they're calling the asset—basically, the loss—because less money is being collected from electricity ratepayers to cover the cost of generation. That difference usually would show up as an expense, but in this case the legislation calls it a regulatory asset. That asset is then sold to OPG Trust and it basically is what is used as a backing to the borrowings.

I'm not sure if I answered all aspects.

Ms. Sandy Shaw: No, I think I've got it. And does that—around why it's an asset is because they're saying that they had the right to collect from future ratepayers? Is that why it's—

Ms. Bonnie Lysyk: That's what they say in the legislation.

Ms. Sandy Shaw: Yes—just so I understand that.

Ms. Bonnie Lysyk: The key thing there is that it's contracts. Rate regulation would happen—if you have an asset and it can be used over 20 years, then 20 years of its cost would be charged out. So a rate regulator would say, "Don't charge all of the costs for building that capital asset today. Put it into the future when that asset benefits future electricity users." In the case of this situation, there are contracts that have finite dates that were entered into. So once those dates end, there is no future use for the assets that are owned by somebody else.

Ms. Sandy Shaw: By George, I think I've got it.

Cutting to the chase, this government's intention is to continue, or perhaps to continue, the rate reduction that people have benefited from now. How would this be—I don't want to say dismantled, but how would this be reconfigured so that we could continue for ratepayers to see the reduction that they have now, but at the same time reduce this \$40 billion that is a debt on future ratepayers? And, really, let's just say taxpayers.

Ms. Bonnie Lysyk: It's just a matter of recording—calling the difference between the amount paid to the power generators and the amount collected from ratepayers an expense. That expense would flow through from IESO into the government statements and hit the bottom line. That was the adjustment that was made for the year-end statements that we've just completed, March 31, 2018, for some of the impact of the Fair Hydro Plan. And then the debt could still stay as OPG Trust debt, but the future borrowings would be cheaper if they were through OFA.

Ms. Sandy Shaw: Okay. Thank you.

The Chair (Mr. Prabmeet Singh Sarkaria): Ms. Fife?

Ms. Catherine Fife: Thank you very much for being here. I want to go back to revisit your original statement, when you said that there was an early red flag for your office when the IESO made the sudden decision "to retroactively change the accounting for an unrelated five-year-old transaction." Then you go on to say, "We determined that this accounting policy change was needed to set the stage for the legislated accounting changes to come."

Clearly, there were a lot of moving parts. How did you get to that point where you made that determination?

Ms. Bonnie Lysyk: When we saw the financial statements for the IESO posted on the website and my team looked at them, we saw that there was a regulatory asset on those statements that hadn't been there before. The note disclosure in those statements does explain that it's taking a transaction from five years ago and changing the accounting. That scenario only had—the life of that transaction was only two more years, so we knew that you wouldn't be doing this thing in the normal course of

business. They had already made a decision on how to account for the transaction. Really, some of it had to do with the MSD—there was a database that IESO had paid to develop, and those costs had all gone through the IESO's bottom line. This adjustment basically said that the prior years' statements had too much expense in them, and they were setting up an asset for the future two years.

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Ms. Catherine Fife: But that wasn't true; there wasn't additional expense.

Ms. Bonnie Lysyk: No, because, the way it was accounted for in the past, the expense had already gone through the financial statements. So this was kind of bringing it back on the books, right? That was one thing that triggered us, and then we started asking questions because we couldn't find out why that was happening. That's when we started our meetings with IESO and KPMG.

Ms. Catherine Fife: Part of the goal of this committee is to learn from what happened in the past. When you go on to say that the Ministry of Energy, with assistance from the accounting firm KPMG and several law firms, was trying to help the government move the—it's really like a shell game at this point in time. As you point out, this caught you off guard because it wasn't a common accounting practice, if I could say that.

I wonder if you could comment, though, on an accounting firm helping a government move money that's already on the books off the books and then try to put it back on the books. This is a serious concern for us because the government has pulled more private interests into this place and contracted out a lot of this work. You can imagine how it's alarming that an agency that obviously is being paid by the government is helping the government conduct themselves in this manner. Could you please speak to that, Ms. Lysyk?

Ms. Bonnie Lysyk: I guess the way it came about is, between January and April, the gentleman that I was asked about before, Michel Picard, was advising the Ministry of Energy on the overall design. Then the conversation went that the accounting needed to go through an entity. The entity that they decided it needed to go through—the power sale and creating that asset—was IESO. Then IESO is audited by KPMG; the consultant talked to the attest partner, and they basically talked, I guess. At the end of the day, though, they justified the change by saying that the accounting could be like that. They decided it was better, for transparency and disclosure, in IESO statements. When we talked to them, that's how it was put to us: It allowed for more transparency around these accounting transactions. But what we know was happening is that they realized they needed to have market accounts on the statements of IESO. They needed to demonstrate that IESO had rate-regulated accounting on its books already so that, in the subsequent year it would be accepted, because the legislation would be drafted in a way that would allow it to be processed.

Ms. Catherine Fife: So they drafted the legislation to make this look like that this was a common practice, if you will, or an accepted practice—pre-emptive.

Ms. Bonnie Lysyk: The legislation was definitely designed with input from accounting firms: “We need this in the legislation to make the accounting look like this. We need it like this to look like this.” That was the process that was happening while that legislation was being designed.

Ms. Catherine Fife: Okay. I'm going to pass it off to my other colleague, but I just wanted to—the other thing that you reference in here is the legal protection that was crafted for IESO and OPG. You say that this legal protection for these agencies, and for their staff as well, would protect them from a long list of possible actions against them, specifically in connection with the Fair Hydro Plan. Why was the Minister of Energy signing away the responsibility on an issue this important?

Ms. Bonnie Lysyk: I think that's probably a good question for the minister—

Ms. Catherine Fife: The Minister of Energy; that's right.

Ms. Bonnie Lysyk: I guess what I'd say is that once we became aware of the indemnification—and that was during our special attest audit at IESO—I think then we understood why we were getting as much pushback as we were getting in working with them on the accounting issues.

Ms. Catherine Fife: Okay. I'll pass it off. Do you want to go?

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Vanthof?

Mr. John Vanthof: Bonnie, how are you doing?

Ms. Bonnie Lysyk: Hi, John.

Mr. John Vanthof: As the Fair Hydro Plan wound its way through the Legislature, through public accounts, it got pretty testy. But the one thing that always bothered me was, when we asked a question about how the changes worked, the answer—I'm going to paraphrase here; I'm looking up the Hansard—was often that, “Well, we've got three or four very competent firms looking at this, and they all agree with us.” They didn't agree with you.

When is an audit an audit, or when is it an opinion? Because we've run into the same thing with the current government a little bit, not nearly as badly. The Independent Financial Commission of Inquiry was named an “audit” too, by some people. So when is an audit of the provincial government an audit, and who is qualified to do that? Because that's where we ran into a lot of troubles.

Ms. Bonnie Lysyk: Yes. In terms of the consolidated financial statements, under law, the Office of the Auditor General is the auditor. We are the auditor. The Auditor General is the auditor of the consolidated financial statements.

In terms of what the firms did with respect to the Fair Hydro Plan, I can say that KPMG was the primary auditor of the IESO, so they definitely would have audited the IESO. The OPG auditors are EY. They would have audited OPG.

I believe there was one firm—Deloitte was hired by, I think, KPMG to provide their opinion on whether rate-regulated accounting could be used with respect to IESO, but they then said that they didn't know; they didn't apply

it to IESO specifically. So in theory, it could be used, but maybe not for IESO.

KPMG never did any work on the government's consolidated financial statements. They were put out there as if their view applied at the consolidated level, and that's not the case. There isn't one document I've seen that says KPMG had an opinion at the consolidated level.

Deloitte as well never had any document out there to say that they had an audit opinion at the consolidated level on the accounting.

Similarly, EY never said they had an audit opinion on the Fair Hydro Plan at the consolidated level.

KPMG was working at the IESO level, and on their statements. EY was working on the OPG. Deloitte just did a little bit in the background with KPMG.

The term "audit opinion": There would only be one audit opinion on the government's statements, and that's ours, or mine.

Mr. John Vanthof: Okay. When the government was defending it by them having lots of opinions, it maybe wasn't an accurate statement.

Ms. Bonnie Lysyk: They would go out for—not opinions, but they might seek advice. KPMG was contracted to provide them with advice. Now, interestingly enough, though, the contract was with IESO, not with the government, and it was signed after the consulting started with the government. But they would provide their advice as a consultant on how to design the accounting. It's very different than if you're signing what I would be signing and saying things are fairly presented.

EY would not have opined, but they would be saying that the aspects that apply to OPG are okay for them to sign an opinion on OPG under US accounting. So they as well had to provide the government with how to put things in legislation that would allow them to sign an opinion under US accounting.

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I think I've gone on a bit. Maybe cut me off if there's something specific that I should be honing in on.

Mr. John Vanthof: No, no. This is going to be maybe a tough question to answer, but with both of the pension and with the Fair Hydro Plan, were you surprised or was the auditing community—I'm assuming you auditors talk to each other—surprised at the actions that the government was taking since they seemed kind of beyond the norm of what other governments were doing?

Ms. Bonnie Lysyk: Yes. The pension accounting ones started off as, "There's a problem in the statements. Let's talk together and figure out how this could be worked out so that the statements are adjusted correctly." So that had a different start to it, right? That one was, from an auditor perspective, "We found some issues; we need to solve it together."

The Fair Hydro Plan one was: We were left out of the picture and we had to figure out what was happening, even after we were asking questions. Auditors General in Canada, and myself in the past too, would normally experience that pension issue: "Something has happened during the audit. We need to figure out what needs to be done to

correct the statements." It's very rare that you get into a situation like the Fair Hydro Plan. That one, for my colleagues across Canada, would be considered extremely unique.

The pension accounting—the situation, not the issue—has come up. That's what we're there for, right? As auditors, we see something, and we say, "Okay, now we have to talk, and this needs to be corrected," or, "Let's figure out what the best way to handle this is." Sometimes things pop up in statements—like, all of a sudden there's a site that's determined to be contaminated, and the cleanup cost is \$500 million. Management might not have known that at March 31, but now that they know it in June, as the auditors we say, "This needs to be recorded." And you work through it.

I would say that my colleagues were very surprised about the Fair Hydro Plan. The pension one: At the beginning, it was going to be like a normal discussion of a pretty significant accounting issue.

The Chair (Mr. Prabmeet Singh Sarkaria): Just a reminder: about a minute and 30 seconds left for questioning.

Mr. John Vanthof: Okay. So very quick: Other than making reports, there's not much you can do, other than report that, in your opinion, the government is doing something that you don't recommend.

Ms. Bonnie Lysyk: Yes, that's right. Audit opinions are extremely important. I remember hearing—or my staff remembered seeing it at one press conference—where a senior person in the government made a comment that audit opinions don't mean that much; qualifications are okay and nothing really happens. That's wrong. The audit opinion is extremely important because it highlights whether those statements can be relied upon and used for decision-making by members of the assembly, by the bureaucracy, and by the public if they need to look at those statements—credit rating agencies. So it is extremely important. We work very hard to ensure that those statements are correct.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you. I'll now turn it back over to the government side. Mr. Romano: 20 minutes.

Mr. Ross Romano: Thank you, Ms. Lysyk. I'm not an accountant. The majority of the people in this room, I trust, are not accountants. When you hear a lot of these numbers, it gets a little confusing for the layperson. I'm one of those lay people who can very easily get confused, so I just want to make sure that I understand this correctly. My appreciation, at the end of the day, is that when we're doing accounting we've got to look at balancing a budget. If we're talking about trying to balance a budget, one column is your assets or your positive numbers and in the other column you've got your liabilities or your negative numbers. Is that fair?

Ms. Bonnie Lysyk: That's fair. Yes.

Mr. Ross Romano: Okay. Basically, as I understand what you're saying happened here was that there were things that the government put into the asset column, the plus column, that should have been in the minus column

so as to make the numbers look different than they really were.

Ms. Bonnie Lysyk: The creation of the pension asset and not taking a valuation allowance—having a receivable and not writing it down—understated pension expenses and made it look like there was a net asset.

On the Fair Hydro Plan, setting up a regulatory asset would contribute to understating the expenses in the government's statements.

Mr. Ross Romano: So these two things you identified, both this rate-regulated thing in the Fair Hydro Plan and the pensions, those should have been recorded in the negative column, not in the plus column; fair to say?

Ms. Bonnie Lysyk: Fair to say.

Mr. Ross Romano: Okay. When you talk about this rate-regulated stuff—again, I'm not an accountant; I think Ms. Fife referenced it—the way I gathered from what you were saying when you were talking about OPG and OPG Trust and IESO and all those great acronyms we've got: There was a reference to a shell game. Is it fair to say, then—and I get the idea of a shell game; I think most people do. Is it fair to say that creating this rate-regulated asset was essentially some kind of a shell game so that you could put stuff in the plus column that was supposed to be in the negative column?

Ms. Bonnie Lysyk: I would say that the accounting and financing design was done to enable a rate reduction to be given without any impact on the government's bottom line or net debt. It was designed so that, at the end of the day, no expense would be recorded anywhere associated with the Fair Hydro Plan.

Mr. Ross Romano: So in a nutshell, the reason why it was done, in your expert belief, was to make sure that the people of Ontario would think that the books were a lot better than they really were.

Ms. Bonnie Lysyk: I think it was to avoid having the financial impact of a policy decision versus a rate-regulatory decision showing up on the bottom line.

Mr. Ross Romano: So in essence, then, we will not show any of these numbers on the bottom line. The people won't see the effect of this policy decision.

Ms. Bonnie Lysyk: Correct.

Mr. Ross Romano: Okay. As far as Ms. Fife's reference, my reference—maybe you're as confused as I am, Catherine, but is it fair to call this rate-regulated situation—is it fair to basically refer to that in lay people's terms as a shell game?

Ms. Bonnie Lysyk: I don't want to use the word.

Mr. Ross Romano: I can see you're really struggling. You want to use it but you don't want to use it.

Ms. Bonnie Lysyk: Again, I go back and I would say that it was a design that would keep the bottom line from showing the financial expense impact of a decision so that the bottom line would look better, and net debt would also not be growing at the rate that it would be if the accounting was right.

Mr. Ross Romano: So the purpose at the end of the say was to hide.

Ms. Bonnie Lysyk: I think it was to eliminate any impact from this policy decision.

Mr. Ross Romano: The net effect would be that people wouldn't see it.

Ms. Bonnie Lysyk: Correct.

Mr. Ross Romano: Thank you. During your time reviewing and preparing, hoping that the government would see the light, as we were referring to earlier—when that didn't come to be and you had to prepare the special report: Throughout that entire plan, researching into the Fair Hydro Plan, did you encounter any members of the government, whether it be in cabinet or senior staff, who voiced opposition to using this type of accounting scheme?

Ms. Bonnie Lysyk: Did I see anybody in—

Mr. Ross Romano: Government, staff, cabinet—the whole gamut there.

Ms. Bonnie Lysyk: I would say that some of the people who were engaged in the design exercise expressed concern that it would cost people more than it should. I also think that, at the beginning, people didn't think it was possible to keep the impact off the bottom line. I think that was the case. There were some people who maybe weren't as comfortable.

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Mr. Ross Romano: Do you recall specifically who those people might have been?

Ms. Bonnie Lysyk: I think you're going to be meeting with ministries and other staff, and I think that's probably where the question would be.

Part of it is, when we do audits and people tell us things, or we have information that we have in written form, that all constitutes part of our working papers. I have to be careful, because it's really important that that not be breached, because that would mean that if we do audits down the road and people share their thoughts or their information with us—knowing that it could come out, they wouldn't do that.

Mr. Ross Romano: Okay. That's fair.

Ms. Bonnie Lysyk: I think if I can ask you to see it from—

Mr. Ross Romano: So I guess the simple answer is, you obviously have the names but you essentially feel that that's privileged at this time.

Ms. Bonnie Lysyk: I would just say that there are individuals within the entities—within OFA is a good example, or within OPG—who I think had some concern.

Mr. Ross Romano: Okay. Do you think that if we're able to determine, and your office is able to determine, that it would not be a breach of privilege, would you then be prepared to share those names with us as long as you're certain that there's no breach of privilege?

Ms. Bonnie Lysyk: Again, it's not privilege, but it's our act, so it would be law.

Mr. Ross Romano: Understood. Okay. I'll move on. When you were speaking with the Kathleen Wynne Liberal government throughout this entire process, did you tell them directly that this was not appropriate and not

allowed—it was wrong, as you said earlier—and if so, what was their reaction?

Ms. Bonnie Lysyk: Yes. We met with the Deputy Minister of Treasury Board, the Deputy Minister of Finance, the minister of Treasury Board, the Minister of Finance, and their chiefs of staff. We met with the Premier and the Premier's chief of staff and the Secretary of Treasury Board. On both issues, one at each time, there wasn't a pickup in the accounting, so there was not a response that anything would change.

When the pension issue was the key issue that we were dealing with, we weren't even aware that the government would be releasing the statements without my audit opinion. So that is probably, in my mind, the worst situation that occurred. We had met with—

Mr. Ross Romano: Sorry. Can you just repeat that last part?

Ms. Bonnie Lysyk: Yes. I was just trying to think back. When we were dealing with the pension—because you asked who we met with.

Mr. Ross Romano: Yes.

Ms. Bonnie Lysyk: We met with everybody—controllers, everybody. We met in the morning—I think it was October 3 when the government released the financial statements without our audit opinion. That morning, we had still been in discussion with the Minister of Finance, the minister of Treasury Board, their chiefs of staff and the two deputy ministers. We walked out of that meeting thinking we were still going to be talking about it, and then they released the statements without the audit opinion. So that was probably, in our minds, a very bad situation.

Mr. Ross Romano: Okay. That was on the pension side?

Ms. Bonnie Lysyk: That was on the pension issue, so I was thinking—yes.

Mr. Ross Romano: Yes. I gather there were a lot of moments with respect to the Fair Hydro Plan Act side that were equally concerning from your perspective. If you're telling them, meeting with them regularly, "I don't agree with this practice. Our office of 117 people—it's not just me the individual; it's our office—we don't agree. We've got all this independent information. We've backed this up with other experts. This is wrong. You can't do this," and they continued to move forward—was there ever, at any point in time, a reaction they provided to you that caused you to, say, maybe feel as bad as you did about that pension issue?

Ms. Bonnie Lysyk: We just continued to persevere and continued to try to open the door for discussions. I think at some point we recognized that nothing was going to change, but we still kept going down that path. At the end of the day, we still had to do our job, and if we had to qualify, then we still had to make sure we had all our ducks in order before we put out a qualification on the government's statements.

It's hard to think back, but I do know that in the last two years—and I've got my team back here—we have worked intently on trying to move the bar on the accounting on those two issues.

Mr. Ross Romano: Okay. Again, forgive me, I like to take these little analogies; it helps me understand things. I almost get the feeling—it's kind of like a hockey player. He or she goes out and they buy a helmet with a visor because they want to protect their eyes, and then they put it on and they say, "This looks really silly. I don't like it." So they take the visor off and get hit with a puck in the face and blame the visor company for not making a nice-looking visor.

Your job as the Auditor General, your office's job, is to hold the government to account, to keep an eye on the books. When you're warning them and working with them, saying, "Guys, this isn't working. This isn't allowed. You can't do it this way," obviously the reaction you were met with was frustrating and counterproductive and not willing to work with you. Would that be a fair characterization?

Ms. Bonnie Lysyk: I would say that I've never seen it before. I don't think in my career I've ever seen a situation like the ones we've encountered in the last couple of years, in meetings and that, where we go in and we're trying to discuss the accounting and our points aren't even acknowledged as being reality—or, the reality we're hearing from them isn't reality. We walked out of many meetings going, "What was that about?", or, "Why are they seeing it this way?"

It all becomes a blur after a while, but I think we were just so used to going into meetings realizing that nothing was going to change, but we still persevered.

Mr. Ross Romano: These meetings you referred to were the meetings that you were referring to earlier, even before you prepared the special report?

Ms. Bonnie Lysyk: Oh, yes. We had a lot of meetings before we did the special. The special was necessary because nobody was listening to us. It was important that all members be aware of this because—when you work in the Auditor General's office and you're auditing the government's statements, you're dealing with the bureaucracy and you're dealing with the ministers of the day, but all the other members don't know what's happening behind the scenes on this. So it was important that we put out a report that would highlight some of that situation that was happening, because it was highly unusual, it was the wrong accounting and it was being designed to be the wrong accounting. So we issued a public report. Under the Auditor General Act, it is mine and my office's responsibility to communicate to all members when we encounter a situation like that.

Mr. Ross Romano: I find this very important. All of these meetings you're doing in your capacity as the Auditor General, your office, you're there, you're trying to work with the government to say, "Hey, this isn't going to work," and basically what you're saying is that in these meetings they didn't care at all. They didn't want to listen. They weren't hearing you.

Ms. Bonnie Lysyk: Part of what we don't know what was happening behind the scenes—and we still don't—is that a lot of our discussions on the technical side would be with the controller's division. That's as well where all my

staff and myself would have discussions, with the controller's division.

They had brought in a new controller in July of 2016—that was just when the pension issue was coming up—and immediately, from then on for the last two years, it was very tense. The meetings were very intense.

We didn't know, though, what was being communicated from the controller's office through to the deputy ministers and through to the government. I had tried to figure out whether everybody understood what was being communicated because I wasn't sure if what the controller's office was telling people was right or wrong.

I think the thing was, when I went to the justice committee on the Fair Hydro Plan and the bill still went through, even after going there and saying, "This is legislated accounting; this is wrong," you recognize that the government obviously wanted to do legislated accounting.

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The Chair (Mr. Prabmeet Singh Sarkaria): Ms. Park?

Ms. Lindsey Park: I'm just going to draw your attention to one of the sections of your report in particular that I had questions about. It's page 6 of the Fair Hydro Plan special report, under the heading, "Summary of Concerns." You state: "After reviewing the information available to us, it is clear to us that the government's intention in creating the accounting/financing design to handle the costs of the electricity rate reduction was to avoid affecting its fiscal plan. That is, the intention was to avoid showing a deficit in the province's budgets and consolidated financial statements for 2017-18 to 2019-20, and to likewise show no increase in the provincial net debt."

You say, "It is clear." That's a very forceful statement. Are you saying that it's 100% clear?

Ms. Bonnie Lysyk: Yes. There is documentation that part of the discussion that took place—there were groups of people who were meeting on the accounting issue, and the direction provided was, "Make sure that whatever is designed here doesn't affect net debt and doesn't allow the cost to hit the bottom line." So, yes, I am very comfortable with this.

Ms. Lindsey Park: In your professional opinion, can you think of any other way, using PSAS, where that result could have been achieved?

The Chair (Mr. Prabmeet Singh Sarkaria): Sorry; just a friendly reminder that we've got two minutes left of questioning.

Ms. Bonnie Lysyk: Where that result could have been achieved? No.

Ms. Lindsey Park: Can you entertain or can you think of any other motive that would result in such a scheme being chosen?

Ms. Bonnie Lysyk: No. In the fall of 2017, there were a lot of discussions. People were concerned about electricity rates in Ontario, so there was a lot of discussion in the Ministry of Energy as to what could be done to alleviate the situation. So I think they were looking at various options, and this is the one that was chosen.

Ms. Lindsey Park: I'll just clarify that when I said "PSAS," you know what I'm referring to, but just for the committee and for the room, I was referring to the public sector accounting standards.

Is there anything you want to add to that quote that I highlighted in the "Summary of Concerns" section about why you think this was done?

Ms. Bonnie Lysyk: No. I think this report speaks fully on what was designed and why. I'll let it stand.

The Chair (Mr. Prabmeet Singh Sarkaria): All right. Thank you very much. The 20-minute rotation is over, so I'll pass it back over to the opposition.

Ms. Shaw, please? Your 20 minutes starts.

Ms. Sandy Shaw: Thank you, Mr. Chair. I think what we're clearly establishing, and you said it a number of times, is that this government was trying to insulate themselves from the financial impact of their policy decision. What is that expression? They wanted to have their cake and eat it too—is really what this seems like it was an exercise in doing.

We've talked a lot about the Fair Hydro Plan, but one of the other things that the government did that was controversial was that they did sell off a substantial part of Hydro One, which is a policy decision that they made. It could be read as an attempt, again, to reduce the deficit. The recent commission of inquiry here just noted that, of course, one-time revenues from the sale of Hydro One reduced the deficit significantly but at the same time limited future potential revenues. I guess my question to you would be: Do you see that that policy decision was in the same vein, trying to reduce the net debt?

I watched you on TVO a lot, and the whole idea that net-debt-to-GDP seemed to be a number they were really fixated on, and this would have been perhaps an attempt to keep that number below 40%. In all of this, was there any input from your department with Hydro One—any of the Hydro One executives, the board? Is that something that you would like to comment on?

Ms. Bonnie Lysyk: To your first question: No, it is a separate situation. It's a separate policy decision as to whether to keep or sell a crown. They chose to sell it. The accounting was recorded in accordance with public sector accounting standards. Based on the information we had, we think the accounting was correct.

In terms of anything else around Hydro One, it's not for me to comment. There wouldn't have been any conversation with our office about that decision. We would double-check the accounting when we got information on Hydro One statements at the time. My team would talk to Hydro One's accountants in terms of the accounting. We were understanding what the accounting would be.

Ms. Sandy Shaw: Perhaps it's not your office, but would—I guess the question is, maybe it's the FAO that would provide more information in terms of what the lost revenue or the net impact of this would be on the books.

Ms. Bonnie Lysyk: Yes. It's true that when you sell something off—in this case, you record a gain, you record the revenue, so it is a one-year hit to your statements unless there are tranches being sold, and then you book the revenue.

Ms. Sandy Shaw: Right.

Ms. Bonnie Lysyk: That wouldn't be unusual. In terms of what the lost future revenue will be, I think that is a question for the FAO. I know that they put out the report where they looked at the lost revenue in the future. But that's all in a different realm than this. I would say that it's two separate issues.

Ms. Sandy Shaw: Okay. As you know, we're trying to use this information from this committee, not just as a rearguard action but going forward, to see what decisions we'll be making in the future and how that will impact the—

Ms. Bonnie Lysyk: We wouldn't know what drove the decision to sell Hydro One, whether it was a financial statement one-year impact or whether there was something beyond that.

Ms. Sandy Shaw: Okay, thank you.

Can I just go back to the pension? You're just going to school me—pension 101. I think I understand that the accounting treatment of the pension plan asset was that the liquidity of it was not something that the government could use as an asset because they didn't have control over that. Is that fair to say?

Ms. Bonnie Lysyk: There are a couple of things. One is, to have a pension asset on your statements you need to be able to demonstrate that you will be reducing minimum contributions or withdrawing surplus. Those are two key things. Using it to give benefits out doesn't make it a pension asset. We needed evidence from the government that would support not writing it down. All they needed to give us was a letter saying that they were going to reduce minimum contributions or take the surplus.

There's another calculation in the accounting handbook that also checks to see whether or not you need this valuation allowance. The reason we were different from the province is that we said that you have to, in this calculation, remember that contributions from teachers are continuing year after year after year. So our math included that assumption.

The pension panel and the government's math said that, the day after March 31, there were no more minimum payments from any teachers. Had they used our assumption, they would see that the valuation allowance would be needed. Because they were using an assumption that no contributions would be made any more from the government or the teachers themselves to their pension plan, that gave them the justification to say, "We don't want to take a valuation allowance."

Our numbers come from the actuaries for teachers and OPSEU. Their assumption came from their contracted adviser from EY, who was on the panel.

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Ms. Sandy Shaw: Okay. So where we are today with the actual funded-ness, I guess, of the pension—you talked about the discount rate that the government was using. I guess my question is: Do we have any concerns with whether or not there is a liability in this pension plan? I know it's heavily regulated, but you mentioned the discount rate. I know that's one way that they can change

whether this is an unfunded liability or what the actual funded-ness of both of these plans would be.

Ms. Bonnie Lysyk: When we scanned Canada, we found that the Ontario teachers' plan and the province of Ontario were the only two parties that had that big of a gap. Typically in other provinces, there is a discount rate that the province uses, and that's similar—within a quarter or a half per cent—to the discount rate used in the pension plan. But in Ontario, the spread was about 3%. That also factors into this asset because, when the province says that there is a pension asset, if you pull the statements for the teachers you'll see that there was a liability. So the picture on the same pension plan was different depending on whose statements you looked at. One would say, "We need more money from the teachers and the government," and the other one would say, "We paid in too much and so we're owed."

Ms. Sandy Shaw: How do we assure ourselves what the actual state of both of those pensions—has that been clarified with the current commission of inquiry and the reconciliation of the public accounts?

Ms. Bonnie Lysyk: I think so. We had similar recommendations that there are things that need to be looked at between the province and the teachers' pension plan on assumptions and the discount rate. Yes, the report from the commission did highlight areas that could be looked at to try and bring the discount rate and perhaps other factors closer together.

Ms. Sandy Shaw: If that's looked at, will that be something that will impact the books going forward, if there is a re-evaluation of that?

Ms. Bonnie Lysyk: Yes. Future decisions will change whether there is a pension liability or whether there really is a pension asset on the government statements. For instance, that pension asset for accounting on the government statements could be realized if they collect money back from the pension fund. But our key point on that was that no matter what the decision is, the unions have to agree.

Ms. Sandy Shaw: Okay, thank you.

The Chair (Mr. Prabmeet Singh Sarkaria): Ms. Fife.

Ms. Catherine Fife: Thank you very much. I just want to go back to how the accounting firms influenced—or empowered or abetted, if you will—the government in this, as you call it, accounting design treatment—which is a very good term. I'm going to use that a lot now.

I'm going to tie it to the report of the Independent Financial Commission of Inquiry, because the Ford government brought in Gordon Campbell and Michael Horgan and Mr. Rosen. They reviewed what we already had reviewed, and they came forward with a number of recommendations. I'm not sure if the recommendations, particularly to the contracting out of auditing services, will be helpful. So I'm going to be asking you around this line. In order to do that, I need to just revisit how KPMG, in this instance, and several law firms, were leading the accounting objective of deferring the current costs of the rate reduction for future years.

I see, as you've described in your report, that this firm was—I mean, this is the case. These firms are hired by the

government to advise the government, but part of advising the government means that they're going to continue to get government contracts, right? If, for instance, KPMG had said to the government, "Listen, these are not common accounting practices. This is not an accounting treatment which actually conforms with the Public Sector Accounting Board"—the PSAB. But why would they do that? If they were to do that, then they would lose the contract. They wouldn't have the work. So the commission, in a go-forward perspective, has said—and this is one of the recommendations—I'm sure you've had a chance to read the report, have you?

Ms. Bonnie Lysyk: Yes.

Ms. Catherine Fife: It says that it requires "that the Auditor General is given advance notification and is asked for comment when a ministry or an agency consolidated in the financial statements of the province proposes to engage a private sector firm to provide accounting advice."

So they're going to ask you for your opinion, and they're going to notify you that they're contracting out to another accounting firm.

"In addition, require that the province approve, after consultation with the Auditor General, the retention of the same private-sector firm for both accounting advice and auditing services."

When I just look at what happened under the former Liberal government, and what the current government is proposing—I mean, you were consulted. You took a lot of meetings with KPMG and with these law firms about what was happening through the IESO. You sat in those meetings. You spoke; they pretended to listen; and nothing really changed.

So how do we make sure that the Auditor General, who obviously has the legal responsibility under the law to present accurate public accounts to the government, is held as the top priority for any government going forward? The goal is to not have a future Auditor General be undermined by any government, because the public is not served when that happens.

Ms. Bonnie Lysyk: There is a difference between this and what happened with us. We weren't consulted. In terms of KPMG, and whether it was Deloitte or OPG or PwC, when those firms would have been hired, we weren't provided notification or copies of their terms of engagement. When it came to looking at the Fair Hydro Plan, we actually asked for that. We went back to the controller's division in IESO and we said, "We want to see the contracts for the people you've engaged, to understand what they're working on." That's really important, because all of this consultation and discussion with us was conducted in a certain way. There is a different way, which is like a legal second opinion, that you could also have discussions with us, and for the Fair Hydro Plan, that process didn't happen.

In terms of the recommendation, I think—and we offered input into that.

Ms. Catherine Fife: Into this document?

Ms. Bonnie Lysyk: To this recommendation. There's one caveat: We do want to be notified when there are firms

that are providing accounting advice that are the auditors of the organization or generally are looking at accounting treatments for organizations. Because we're the parent auditor and they're the component auditor, we need to be aware of what's happening in those entities. Otherwise, we may be addressing things too late.

We're fine with the recommendation. I think our preference would have been that we could reject a recommendation. So if an entity was bringing on one of the firms to do advisory services, and we felt that there was risk that the work might be compromising the attest side, then we would have liked to have vetoed that. Obviously, it doesn't show up like that, so I'm accepting that this is the decision. But that would have given us a little bit more—

Ms. Catherine Fife: Confidence?

Ms. Bonnie Lysyk: Well, confidence that we could avoid the kinds of games we experienced this round.

Generally, in my experience, working with the firms has been positive. When I worked with the firms in Manitoba and Saskatchewan, they would phone our office and say, "We have a problem in one of the government entities. What are your thoughts?" And we would provide some guidance, because they knew that their work was impacting our work and vice versa, to some extent.

When I came to Ontario, because Ontario is so big and there are so many partners—the bigger firms have lots of partners who are working out there—it's harder to keep that relationship.

In terms of the communication, I think we're going to be reaching out. After the Fair Hydro Plan, and when we found what was happening, we reached out to the professional practice partners and I had them in my office. We were talking about what we should do on a go-forward basis to avoid this situation. We're just going to have more of that.

In fact, a couple of my team members here, David and Ben, are going to be coordinating that as part of our—we have an accounting centre of excellence, and we're going to be reaching out.

So the recommendation is fine. Would we have liked to be able to veto? Yes.

Ms. Catherine Fife: Sure.

Ms. Bonnie Lysyk: But this is better than not knowing at all.

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Ms. Catherine Fife: To go back to the interaction between the Ministry of Energy and IESO and the legal protection that was offered to IESO and OPG: Does that indemnification still exist today? Are they still protected from legal action based on—

Ms. Bonnie Lysyk: I don't know what has transpired since we reported, so I'm not sure what has happened behind the scenes on that. I just know that we became aware of the indemnifications when we were conducting our own attest audit of IESO. That document was among some of the records that were provided to us.

Ms. Catherine Fife: You do say, though, "Another odd aspect of this unprecedented accounting situation was the

comprehensive legal protection that the IESO and OPG sought”—Ontario Power Generation. So they asked for protection—

Ms. Bonnie Lysyk: Yes.

Ms. Catherine Fife: —which is strange, is it not? It’s unprecedented.

Ms. Bonnie Lysyk: Yes. I haven’t seen it before, and neither has my staff.

Ms. Catherine Fife: For a government agency to be seeking protection—is there some recognition that this was a very uncomfortable or risky endeavour to be moving forward in?

The Chair (Mr. Prabmeet Singh Sarkaria): Just a two-minute warning.

Ms. Bonnie Lysyk: I think that’s a question for those individuals. I think we find it unusual for us. I think it explained a lot to us in terms of the behaviours that we saw when we were working to try and resolve the issue with IESO.

Ms. Catherine Fife: Yes. So, as it stands right now, based on what we know or what the current information is, IESO and OPG, its directors, its officers and its employees are protected from a long list of possible actions against some, specifically in connection with the Fair Hydro Plan as it is today. We don’t know if they are still protected, but no one has told you otherwise.

Ms. Bonnie Lysyk: I don’t know—

Ms. Catherine Fife: So, they’re protected from something, from legal action, based on their involvement in a government initiative. Is this right? Is this true?

Ms. Bonnie Lysyk: That’s correct.

Ms. Catherine Fife: Okay, thank you.

That’s it for me.

The Chair (Mr. Prabmeet Singh Sarkaria): All right, thank you.

I’m going to turn the questioning back to the government side. Mr. Downey, please: 20 minutes.

Mr. Doug Downey: Good afternoon. You’ve been fairly clear—you’ve been very clear—that the accounting scheme was used to hide the debt. Is there any other reason the government would have done it this way, the Fair Hydro Plan?

Ms. Bonnie Lysyk: I don’t see it. I guess we thought, when we heard the rate reductions, it would hit the bottom line and net debt would go up, and borrowings would be through OFA like in the past. So, no.

Mr. Doug Downey: You said earlier, with the IESO, that they restated the books, and they were doing it—I think what I heard you say—so that they could show previous accounting consistency.

Ms. Bonnie Lysyk: They explained it to us that they were doing it so that their statements could be more transparent.

Mr. Doug Downey: I understand that’s what they said, but your interpretation? Is there any other reason they would restate the books?

Ms. Bonnie Lysyk: No. We viewed it as the steps that needed to be taken in order to create the accounting needed for the Fair Hydro Plan a year ahead of time.

Mr. Doug Downey: Did you become aware of the indemnities, for the directors and officers and such, before or after the restatement? Do you remember the timing on that?

Ms. Bonnie Lysyk: Yes. We just became aware of that this past year. The restatement was the year before—December 31, 2016, statements. We became aware of it in early spring of 2018.

Mr. Doug Downey: Do you know when the indemnities were given?

Ms. Bonnie Lysyk: I believe they were retroactive to June 1, 2017. I think they were given in June or July, maybe. I don’t know exactly.

Mr. Doug Downey: Of this year?

Ms. Bonnie Lysyk: Of 2017.

Mr. Doug Downey: So they were given in June of 2017—

Ms. Bonnie Lysyk: Retroactive to the beginning of the month—June 1.

Mr. Doug Downey: Okay. I just want to make sure it wasn’t retroactive for the whole year. That’s not what you’re saying.

Ms. Bonnie Lysyk: No, it was just retroactive to June 1, 2017, for both OPG and IESO.

Mr. Doug Downey: Okay. Do you know if similar indemnities have been offered for anything accounting-related in the previous Liberal government?

Ms. Bonnie Lysyk: No. We haven’t come across any.

Mr. Doug Downey: How did you find out about them?

Ms. Bonnie Lysyk: When my attest team here finished the audit of IESO, we acquired some board minutes from IESO. They were given in a box of papers, and it was at the bottom of the box of papers.

Mr. Doug Downey: So you just happened upon them.

Ms. Bonnie Lysyk: Yes. We did not know.

Mr. Doug Downey: And you found about the restatements when they got posted? You had said earlier that when they got posted online—

Ms. Bonnie Lysyk: No, that was the year before. In 2017 is when we became aware of the change in accounting.

This year, because we couldn’t rely on the statements and we didn’t know what else was going to be happening, I corresponded with the IESO. We offered to either do a joint audit with KPMG, go in ourselves, or we would audit by ourselves and KPMG would do an audit by themselves. Actually, my team went in in January this year and conducted our own attest audit. That’s when we found out: at the end of that audit.

Mr. Doug Downey: I’m just trying to understand the relationship with the government, that you—I’m going to turn to the pensions, briefly. They released the financials by surprise as well.

Ms. Bonnie Lysyk: That was in 2016, yes.

Mr. Doug Downey: When you talk about sharing information, is this a one-way sharing?

Ms. Bonnie Lysyk: We’ve had many discussions in the office around trust because, as part of being the auditors for an organization, you need to trust the people you’re

dealing with. Because we were operating in the environment we were, we had to conduct work even more than we did in the past: Our sample size would have been bigger and we would have looked at more things to compensate and to be able to say that we could sign an opinion.

In the private sector, you don't see qualifications that much because auditors are allowed to quit. But we can't quit, which is why—people say, “Well, why, in the public sector, would you see qualifications?” Because the Auditor Generals in Canada can't quit; we have to hold our ground when we know we're right.

Mr. Doug Downey: Do you feel you were lied to by omission? Is that's what is happening here?

Ms. Bonnie Lysyk: On the Fair Hydro Plan, yes.

Mr. Doug Downey: As an accounting professional, the consequences of misrepresenting the financial standing of an entity, whether it be public or private—how serious is that, in your mind?

Ms. Bonnie Lysyk: Could you repeat your question?

Mr. Doug Downey: In terms of misrepresenting the financial standing of an entity, how serious is that?

Ms. Bonnie Lysyk: Obviously, we do our work to be able to sign an opinion. I have signed the opinions over the last few years, and I would say that we had sufficient evidence to say that the statements were presented reliably, with the exception of the Fair Hydro Plan and the pension expense. We did more work to be able to get there.

Mr. Doug Downey: You had stated earlier that the opinions given by a variety of accounting firms didn't comment on the public accounts, on the consolidated statements. Would you be surprised if they were giving advice to the government that has not been shared, giving opinions on how to manage those?

Ms. Bonnie Lysyk: We asked for information. If we didn't receive some information, I wouldn't know. I would hope that we have received everything, but I can't be sure. One thing we do is, we have letters of representation signed. Deputy ministers had to sign letters saying they gave us all the information. There is some good faith that you have to consider when you're signing off. They did sign off on those letters.

Mr. Doug Downey: The same people that didn't disclose things to you.

Ms. Bonnie Lysyk: The same people—let's say: The disclosure was delayed.

Mr. Doug Downey: Well, in some cases, it was non-existent.

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Ms. Bonnie Lysyk: Yes, I would agree.

Mr. Doug Downey: Would it be fair to say that the Fair Hydro Plan is unprecedented in terms of its set-up and its execution in Ontario, if not Canada?

Ms. Bonnie Lysyk: Yes, it is. Also, the magnitude of the regulatory asset would be unusual in Canada—probably even in the States.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Romano.

Mr. Ross Romano: As you've probably noticed, I tend to digress a bit in some of the way my questions might

come out. You've been engulfed in this process. I can tell from your evidence here today that it has been years of difficulty. I'm sure you have read the press. I'm sure that there's been a lot of difficulty through this, even for yourself as an individual, aside from your role as the leader of an office of 117 people. I spent last night reading countless articles from that time. There were articles from the Star and the Sun, Martin Regg Cohn, Jim Warren. In one, you're compared to André Marin.

I'm curious, on a very personal level: How did it make you, as an individual, feel personally? It seems as though the government was coming after you on a personal level and attacking your credibility, your integrity, even your fitness, and your level of understanding at times. I'm just curious. Did you feel like you were being attacked personally by the government, and how did that make you feel personally?

The Chair (Mr. Prabmeet Singh Sarkaria): Just before you answer the question, I'm going to direct our members to know that I will allow the AG to answer the question but we are, in specific, talking with reference to the report as well. But if the AG does wish to answer, I will allow it.

Ms. Bonnie Lysyk: You know what? I never take it personally. I think the thing is, you're in this role, this job, and you have, like you said, 117 people. We're all here to do the right thing. You just keep focused on that. The rest of it doesn't really matter. You make sure you do your job. We're doing our job. You move on.

Mr. Ross Romano: I gather that. Of course, we're all in that role. Certainly, as MPPs, you can be the subject of criticism, but it does hurt. Is it fair to say that you felt personally attacked?

Ms. Bonnie Lysyk: I'll be honest: I don't think about it. I never really thought of it that way. I guess I just thought that we're doing our job and there seem to be diverse opinions and diverse thoughts on it, and that's just the way it's going to be, and move on. I don't think you can get caught up in that.

Mr. Ross Romano: Okay.

Ms. Bonnie Lysyk: I never was.

Mr. Ross Romano: Maybe aside from the media, did you think the government was trying to create that attack on you on a personal level in terms of your integrity, your credibility, your fitness?

Ms. Bonnie Lysyk: Again, I never really gave that a lot of thought, other than, “That's interesting.” You'd hear something and you'd go, “Oh, that's interesting,” and then you just move on. I never personalized it. I never really gave it that depth of thought.

I think the thing is that in an audit office like ours, when there are issues that you are dealing with that perhaps the government of the day is not happy with, you know there will be different responses. In my experience, having worked—this is my third province. I'd have to say that each province has a very different response to issues.

Ontario, in terms of the way they responded to our bringing issues, was much more—a little bit more—I don't want to say it was extreme, but there was a lot more

happening around the issues when we identified them here than I've seen in my past.

Mr. Ross Romano: Okay, thank you.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Downey.

Mr. Doug Downey: You're obviously a professional. I appreciate your candidness, but I am not sure everybody was here to do the right thing, based on what you've told us so far.

Liz Sandals, the President of the Ontario Treasury Board at the time, said, "The public wants to know, are you managing your deficit? Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."

Was this just an accounting disagreement? Is it that simple?

Ms. Bonnie Lysyk: When you think about that, what is that? That is, basically, a commentary to take the discussion to something else, right? Ours is pretty simple: "Here are the numbers. Here's what the numbers should be. Here's all the evidence of why we say that."

We view those types of comments as just taking it to a different level of discussion that, really, we didn't engage in.

Mr. Doug Downey: When did you realize the relationship had broken down with the government, looking back?

Ms. Bonnie Lysyk: You know, it's funny, because you don't view things that way. I don't view it that way. I don't think we viewed it as a relationship thing, but more as, "Here is an issue, and here's how we need to resolve it." We try and we try, and if it doesn't get resolved, one day it will.

If you talk to my colleagues across Canada—there have been accounting issues in different provinces over the years. Typically, they become resolved with time and experience. Obviously, government changes sometimes make a difference.

Mr. Doug Downey: It just feels, from listening to you give testimony, that it's kind of like when I walk in my house and my kids are standing in the kitchen doing nothing, and I'm like, "What's happening here?" You caught them. You don't know what you caught them doing, and then you find out. That's how it feels. I know you're being very professional and you're being very measured in your responses.

Following the production of the Fair Hydro Plan, they did set out to discredit you, in a political sense. You're saying that didn't bother you, because you were focused on the professional side of the business.

Ms. Bonnie Lysyk: That's true.

Mr. Doug Downey: That's fair?

Ms. Bonnie Lysyk: Yes.

Mr. Doug Downey: Was there anybody counselling you to try to explain that this was not just a dispute between accountants? I mean, they're trying to minimize it. They're saying, "Oh, it's these people over here disagreeing. They don't know any better."

It's just almost a coincidence that your background is so strong in hydro and pensions, and this is where they decided to monkey around.

Ms. Bonnie Lysyk: I guess the thing is, though: Could we, as an office, have taken a different approach? Could we have been out there responding to different comments and different articles? I'm not sure it would have made any difference. I think we thought we were taking the high road and just continuing on. That's how we did it.

Mr. Doug Downey: I've been involved in a lot of corporate reorganizations and whatnot. You used words like "bogus," "deceptive" and "unreliable." If I read that in a financial statement, in the notes or otherwise, I'd be warning my client: "This is not a company you want to look at."

It was very strong wording. Is that still appropriate wording?

Ms. Bonnie Lysyk: I can't remember the context within which the words were spoken or written or said, so I'd have to have examples. But I think, if they're on paper, then we vetted it very well in our office, so I'm not hesitant to say that however they're written, they're right.

Mr. Doug Downey: But you wouldn't characterize this as just an accounting dispute.

Ms. Bonnie Lysyk: Oh, no. This is not just an accounting—the word "dispute," I think, has been used—perhaps that's the way it has been portrayed. What I view is, there is a controller's group and Treasury Board that prepare the government statements, and they do it in accordance with their interpretation.

Here we come, and we're the auditors, and we're saying, "There is a significant issue. There are errors in the financial statements. This is the opinion, and this is how much the errors are." So, it's not like an accountant to an accountant. There is an accounting being done, and the auditors are saying it's wrong.

Again, I go back to: If we were private sector auditors in this situation, we would leave our client. But unfortunately, we couldn't leave our client, so we issued qualifications—

Mr. Doug Downey: On a scale of 1 to 10, how significant is this dispute?

Ms. Bonnie Lysyk: You're using the word. How significant was the Fair Hydro Plan in terms of taking the impact of the decision off the bottom line and net debt? I would say it was very significant. I would say it is up there, close to a 10.

The pension issue is very significant, but again, it started differently. It was a discussion of an accounting issue. Although it's material and needed to be adjusted, it didn't have all of the other aspects to it that you see in the Fair Hydro Plan. So that's maybe a 6 or a 7.

Mr. Doug Downey: Is there any doubt in your mind that there was a wilful intention to set up the scheme to hide the debt?

Ms. Bonnie Lysyk: We believe that the accounting design was put in place to keep the impact off of the bottom line and net debt from not going on the balance sheet, yes.

Mr. Doug Downey: Can you give any details on how previous governments dealt with electricity sector debt?

The Chair (Mr. Prabmeet Singh Sarkaria): Sorry: just a quick two-minute warning.

Mr. Doug Downey: Sure.

Ms. Bonnie Lysyk: Could you repeat the question?

Mr. Doug Downey: Sure. How have previous governments dealt with electrical debt? How did they deal with it, as opposed to this way?

Ms. Bonnie Lysyk: It's a different scenario. We were commenting on the way a transaction was pulled together to not have it impact the consolidated statements and not have a rate-regulatory process. There are utilities such as OPG or, in my experience in the past in the west, utilities where there are hearings and there are rate-regulatory decisions—

Mr. Doug Downey: But they set their own rates, those entities in the west?

Ms. Bonnie Lysyk: The regulator would issue an order, and then that would approve or negate the order.

Mr. Doug Downey: So it's a different scenario, then.

Ms. Bonnie Lysyk: It's a different scenario. The OEB might have been asked a couple of questions, but they weren't in there opining on this decision from a rate-regulatory perspective.

Mr. Doug Downey: Okay. Thank you.

The Chair (Mr. Prabmeet Singh Sarkaria): Before I pass it over for questioning, I propose a short break, a short recess. If the committee is agreeable to five or 10 minutes—are there any suggestions as to five or 10? Is 10 okay, or five?

Ms. Catherine Fife: Ten is good.

The Chair (Mr. Prabmeet Singh Sarkaria): Ten is fine? Okay, so we will reconvene at 3:02. The committee is in recess till 3:02.

The committee recessed from 1452 to 1503.

The Chair (Mr. Prabmeet Singh Sarkaria): The committee will now return to session. As we left off on the government side, I will pass on the next 20 minutes of questioning to the opposition. Ms. Shaw, if you would like to start?

Ms. Sandy Shaw: Hi. We were just talking about the nature of the ongoing relationship between the Office of the Auditor General and the government of the day. In your Fair Hydro Plan report, one of the many remarkable things in it that I thought was remarkable is that you were saying that this was a government—the previous Liberal government—that knew that you were going to be issuing a qualified audit opinion, and they didn't seem to care about that. That didn't seem to be something that concerned them.

Can you just explain to us what you saw as an impact of a qualified accounting opinion? I know, from whatever boards I've sat on and from governance training, that directors and officers of organizations will do anything to make sure that they do not get that kind of response to their books. Can you just explain why that was so unusual to you and what the impact of that would be, not just for this government but for the credit rating and for people trusting

and understanding that the Legislature had the right information to make those decisions?

Ms. Bonnie Lysyk: I think we were surprised, when we were during our audit work, to learn that we were considered the risk. The risk of the Auditor General's office disagreeing with the accounting was weighted against doing the accounting a certain way. That was obvious to us in the material that we looked at, that we were a risk. I think that was why we kind of had to find out about what was being planned by ourselves, because there was a recognition that if we were looking at this sooner, we would probably say, "This is not correct," and that creates a different dynamic, whereas if you can continue planning without somebody interfering like that, it's an easier route to follow.

In terms of the significance, I do think there was—you know, if there's a qualification, it's another qualification, right? There was already the qualification on the pension issue; this would be another one. Like I had indicated earlier at one of the media sessions, there was sort of a commentary that was playing down the importance of an audit opinion. Obviously, we think audit opinions, as Auditors General in Canada, are extremely important, because we're sending a signal with the audit opinions as to whether the financial statements are right or not right and to what degree they are right or not right. We actually quantify in our opinion, if we can, the potential error when there is a qualification. I think what it conveys, when there is a qualification—when people read a government's financial statements, they need to factor in the impact of what the auditor is saying in the opinion. So if we can quantify an error, you need to factor that into the way you read the statements. That's huge.

Some audit opinions are qualified because you're not able to quantify. Then you have to judge whether you think that changes the nature of the statements that people read. For auditors, if there is an accounting mistake that takes the government between a deficit and a budget, that's pretty significant. As a reader, that would definitely affect your opinion. So that has to be considered.

The rating agencies: Their starting point is the audited statements for the province. Then they go through and do adjustments for cash flow. They do start with our statements; they do use them as a basis. It's interesting. We did have meetings—we met with DBRS in a different scenario, but they did comment that they had already taken the pension accounting issue into account in their rating. I believe they would have done the same with the Fair Hydro Plan already.

Ms. Sandy Shaw: So it was baked in.

Ms. Bonnie Lysyk: Yes. They look at cash; cash is king, I guess.

Ms. Sandy Shaw: Or queen.

Ms. Bonnie Lysyk: Queen. I'm sorry. I should say that right: "Cash is queen." I'm quoting somebody in my office.

Ms. Sandy Shaw: I'm just morbidly curious to know: Was there any discussion on what would have been the

accounting red line to make this an adverse opinion as opposed to just a qualified opinion?

Ms. Bonnie Lysyk: When you issue a qualified opinion, you can quantify and say what the impact is, and a reader could easily take that information and figure out the impact on the financial statements. You get into “adverse” territory when the error is pervasive, meaning it affects a multitude of line items on the financial statements or financial statement disclosures themselves.

In terms of the pension issue, you can pretty much take it and identify the financial impact. People can go, “Okay, it affects pension expense and it affects this pension asset.” It can be figured out more easily. When you look at the Fair Hydro Plan—you saw the chart in our special report; it’s quite complicated. You would have to know that to figure out the ins and outs on the government statements and what’s being impacted and what’s not impacted. That’s why the significance in magnitude would be higher. Plus, if the Fair Hydro Plan was the one that took the government into a deficit versus a balanced budget, then the magnitude to a reader would also be much more significant.

1510

So all these things are taken into account to determine whether there’s a qualified, or you go to that next level, where there’s an adverse and there is just so much that’s wrong in different accounts and line items and disclosures that you have to basically say that.

Ms. Sandy Shaw: Essentially, what you’re saying is that even though it was complicated or opaque, it was contained. It didn’t impact all the other—

Ms. Bonnie Lysyk: The pension issue was contained.

Ms. Sandy Shaw: Yes.

Ms. Bonnie Lysyk: We didn’t have to issue a qualified opinion or an adverse opinion on the Fair Hydro Plan because the accounting for the March 31, 2018, statements is correct. So we never went to that further step of having to make that decision.

Ms. Sandy Shaw: Okay, thank you. Again, back to the nature of a working, collaborative relationship with the government of the day: The commission of inquiry—one of the recommendations from that report was that they would accept your accounting treatment on a provisional basis around the pension allocation. Can you just comment a little bit on that and why it’s provisional? How do you feel about that, as an accountant?

Ms. Bonnie Lysyk: We were always saying that if you can give us the evidence that demonstrates there should be a pension asset of the full amount or of a lesser amount there, then that’s fine. The “provisional,” to me, means providing us with more evidence to indicate that the pension asset has a value.

Also, when I read the commission’s reports, and from our discussions, I think the government will also be looking at the various assumptions around the pension plans—both the way it’s done in the government, and those assumptions at Teachers—and have discussions around that.

That also could change the accounting if they make a decision, for instance, that they’re going to change benefits. Maybe the government is going to reduce minimum contributions, because your pension asset goes away if you do that, and in that way, we bring the revenue back on the statements. A lot can happen.

For me and for my office, “provisional” really meant more information, more decisions, more research.

Ms. Sandy Shaw: So, to finish, it’s more of a statement than—I mean, essentially, the commission of inquiry, the way I read it—it was almost like they’re going to split the difference, is how it read to me. But, certainly, there’s going to be a lot more information for them to come to that decision on how to treat the pension. Will that be something that your office will be involved in?

Ms. Bonnie Lysyk: Yes. Now, the “split the difference” is an interesting one. Because of the difference in the discount rates, the province is sitting—I don’t know if I have the number exactly right—on \$11 billion in the pension asset. Okay? Well, you know it’s never going to be \$11 billion. Part of the reason it’s \$11 billion is because there is a 3% spread between the Teachers’ discount rate and the government’s. So that literally cuts it, let’s say, in half.

You still need proof on the 50%, then. That means taking it down, writing it down—50% is kind of a logic. There still needs to be proof that there is another \$5 billion there that has value, that the government will use to reduce minimum contributions or to withdraw surplus.

The accounting that we put forward, and the way I’m talking and everything, is exactly what has been used in British Columbia for years on their pension plan. The TTC in Toronto follows the accounting we suggested—and the government in New Brunswick. The reason there are not more following what we’re saying is because a lot of pension plans are still in liability positions. But as you see more and more come, it seems likely that the interpretation will be the same that we’ve used. The only other accounting that’s done is the one that has been demonstrated, the one we’re saying.

We’re going to work together. We’ll keep talking about it, definitely. If there are changes made, we’ll redo calculations. But we do believe that this is public sector accounting standards that the government did now adjust to.

It’s not like a negotiation. You can’t negotiate the accounting treatment, because it just doesn’t make sense. I can’t explain it other than to say that if, any time they want to sit down and say, “Okay, what about this logic? What about this?”, yes, we’ll listen and we’ll talk about it, for sure.

The Chair (Mr. Prabmeet Singh Sarkaria): Ms. Fife.

Ms. Catherine Fife: Thank you. I have to keep going back to this whole issue with two government agencies requesting protection by implementing the so-called Fair Hydro Plan. Did you say that you found out that the directors, its officers and employees were protected, and you found this information in the bottom of a box when you had requested materials from the IESO? Is that truly what happened?

Ms. Bonnie Lysyk: Yes.

Ms. Catherine Fife: It's pretty cloak and dagger. I have to say, it's something that I've never heard of. So somebody shared information—otherwise we wouldn't know, as legislators, that these agencies requested protection from possible legal action and that the government and the Minister of Energy signed off on protecting these two agencies for implementing government policy. Otherwise we wouldn't know; is that right?

Ms. Bonnie Lysyk: We were not aware, prior to receiving—

Ms. Catherine Fife: You were not made aware?

Ms. Bonnie Lysyk: No.

Ms. Catherine Fife: So there's no legal requirement for an agency to disclose that they've signed a document asking for protection against implementing government policy?

Ms. Bonnie Lysyk: I haven't seen it before, but that doesn't mean it doesn't exist out there. I've just never seen it before.

Ms. Catherine Fife: It sounds pretty unprecedented, I have to say.

What would the list of possible actions against them be? Would the people of Ontario take the directors of IESO potentially to court for bringing in this fair hydro scheme? What sort of actions would we expect to see? I'm very curious.

Ms. Bonnie Lysyk: I'm not a lawyer, so I can't comment on the technical aspects. We never had it legally reviewed, so it would be unfair for me to comment on it. I might be giving you a wrong answer. So I'd suggest that it's probably better to ask the IESO.

Ms. Catherine Fife: But is this a document that we can request as a committee? I guess that would be the question. I would be curious to see this document that was signed by the government and by these agencies. That leads me to some of the questions I have, because we did pass, by motion, at our last meeting, a request to your office for some documents. We received a letter this morning from your office basically stating that any working papers of the Office of the Auditor General shall not be laid before the assembly or any committee of the assembly because you operate in a sphere of confidentiality around the audit process. Can you just give us some insight as to why these documents can't come to us in this committee setting?

Ms. Bonnie Lysyk: Yes. Within the Auditor General Act, we have a section on working papers. I'll quote from it as soon as I can—just a sec. Sorry.

Sorry, Catherine. I don't want to take your time here. I've just got to find the section so I can read it, and for some odd reason—oh, here it is. Section 19 in the Auditor General Act says, "Audit working papers of the Office of the Auditor General shall not be laid before the assembly or any committee of the assembly."

The concept behind that is, because we interview people, people come talk to us, there are things that we write in our working papers. It's to protect people and to hope that they will continue talking to us. So it's a law versus anything else.

Ms. Catherine Fife: You did make a recommendation that we, instead of asking for the actual papers or the documents—because I think that there are still a lot of unanswered questions as to what transpired and also how to prevent it from happening again. You make a recommendation that the committee may wish to reword the motion so as to ask witnesses for documents pertaining or related to the government's Fair Hydro Plan so as not to contravene that very part of the act that you just referenced.

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Ms. Bonnie Lysyk: What happens is, sometimes—let's say we have commentary in our report. There have been incidents or situations in the past where somebody will put in a freedom-of-information request, saying, "On page so-and-so of the Auditor General's report, they say this, and somebody said this, and somebody did this." They'll go to the ministry and they'll say to the ministry, "Provide us exactly what you provided the Auditor General." Our lawyer looked at that, and we worked with—I think I had a conversation with the freedom of information officer. Our working-papers section is applied to that situation.

In that situation, people are told, "You can ask for a document, but you can't ask for a document when you're pointing and saying, 'It's what you gave the Auditor General's office.'" But if they knew the name of a document, the freedom-of-information request could just name the document. If things exist there that we've used, those are always accessible. For things that were created for us, for our work, they would be considered part of our working papers.

Ms. Catherine Fife: I see.

Ms. Bonnie Lysyk: So that's why just that minor change in the wording still, I believe, provides you with the information, but doesn't affect this section of our act.

Ms. Catherine Fife: Okay. Thank you. John?

Mr. John Vanthof: I'm going to come back to the indemnification part. I just can't get over the bottom—

The Chair (Mr. Prabmeet Singh Sarkaria): Sorry. I just have to recognize you, Mr. Vanthof.

Mr. John Vanthof: Oh, sorry.

The Chair (Mr. Prabmeet Singh Sarkaria): Just a quick, friendly reminder: two minutes.

Mr. John Vanthof: Sure. I can't get over the bottom of the box. Is that how stuff is usually presented to the Auditor General? This seems like farming in the 1950s: the bottom of the shoe box.

Ms. Bonnie Lysyk: You're right in your commentary, in that we typically, nowadays, get electronic versions of information, but in this case, we didn't. We just got a box of minutes and papers.

Mr. John Vanthof: But that's not normal, or, in your opinion, it's not conducive to make it easier to provide an adequate audit either, is it?

Ms. Bonnie Lysyk: Yes. We had audited the attest side of IESO. We had done their financial statement. In that same box, we had the collateral agreement. IESO has pledged their assets to the OPG Trust. For us, getting that

information also required us to ask IESO to book a note disclosure in their financial statements. So we had the minutes, we had that agreement and we had a notification that they had pledged the assets as collateral.

Mr. John Vanthof: That was a treasure box, wasn't it?

Ms. Bonnie Lysyk: When we obtained that information, we actually were the ones that provided that information, as well, to the external auditors.

Mr. John Vanthof: Just in the short time I have—and I've heard this before—it's not normal practice to have those—like, section Z, where everyone gets indemnified for actions they've taken on behalf of the provincial government.

Ms. Bonnie Lysyk: I haven't seen it. That doesn't mean that they don't exist; I just can say that I haven't seen that before around an accounting transaction or around the financing side of something like this.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you. We will now pass it back over to the government side. Mr. Baber will take the questions for 20 minutes. Mr. Baber?

Mr. Roman Baber: Thank you, Mr. Chair. Thank you, Auditor General.

I heard you say earlier that rate-regulated accounting has not been used in Canada in the public sphere previously. Is that correct?

Ms. Bonnie Lysyk: No. Rate-regulated accounting has not been used in a statement in an organization that is called a "government organization" that applies public sector accounting standards.

Mr. Roman Baber: Because it would be contrary to the public sector accounting standards?

Ms. Bonnie Lysyk: The public sector accounting framework, we believe, is silent, but that means it does not permit rate-regulated accounting. All other frameworks in the world—basically, when they permit it, they highlight that they permit it; otherwise, they're silent.

Mr. Roman Baber: In fact, I understand that back in 2015, IESO decided against adopting rate-regulated accounting, and that was on the advice of its auditors, KPMG.

Ms. Bonnie Lysyk: That's correct.

Mr. Roman Baber: And as late as February 2017, the CFO of IESO, Ms. Marshall, presented and authored statements that went into public accounts and presented statements to the public accounts committee in which the statements were prepared in an ordinary fashion without using rate-regulated accounting.

Ms. Bonnie Lysyk: She presented them to IESO's audit committee—not the public accounts committee, but their own audit committee, yes.

Mr. Roman Baber: As late as February 2017?

Ms. Bonnie Lysyk: Correct.

Mr. Roman Baber: And then shortly thereafter, she proceeded to restate the IESO statements to reflect rate-regulated accounting. Is that correct?

Ms. Bonnie Lysyk: Correct.

Mr. Roman Baber: And that, in turn, necessitated a restatement of several years back as well. Is that correct?

Ms. Bonnie Lysyk: Correct.

Mr. Roman Baber: About five years back?

Ms. Bonnie Lysyk: Correct.

Mr. Roman Baber: So all of a sudden, the IESO created an alternate past accounting universe, you could say, that previously hasn't existed?

Ms. Bonnie Lysyk: In their statements, correct.

Mr. Roman Baber: Thank you.

Auditor General, I note that it was in fact KPMG and several other firms that assisted the IESO in devising the new accounting scheme. Is that correct?

Ms. Bonnie Lysyk: It was KPMG.

Mr. Roman Baber: And this is despite the fact that just two years earlier, KPMG did not assent and would not recommend rate-regulated accounting. Is that correct?

Ms. Bonnie Lysyk: They signed off on statements that didn't use rate-regulated accounting, correct.

Mr. Roman Baber: Do you know if anything changed in terms of public or accounting policy in the meantime to bring KPMG around to revising their stance on such accounting issues?

Ms. Bonnie Lysyk: I don't believe there were any changes.

Mr. Roman Baber: And, Auditor General, to your knowledge, do you know how much the consulting firms were paid in total in connection with the preparation of the Fair Hydro Plan?

Ms. Bonnie Lysyk: We knew, and we published, that the audit fee was about \$85,000, but I believe at the time we reported, the audit plus the consulting was closing in on \$700,000.

Mr. Roman Baber: So, in fact, I would humbly suggest to you that the only thing that changed in between the two years is that KPMG's bill increased about tenfold. Is that correct?

Ms. Bonnie Lysyk: Their billings were higher. I think that expense also reflects the work that they were doing for the Ministry of Energy as well.

Mr. Roman Baber: Thank you.

Auditor General, I want to speak about the total cost of the plan for a minute, and specifically I want to take you to your recommendation at page 1 of your report on the Fair Hydro Plan. In recommendation (b), the Office of the Auditor General recommends the use of "a financing structure to fund the rate reduction that is least costly for Ontarians."

Is my understanding correct that the method by which the government decided to finance the Fair Hydro Plan was not the least costly method for Ontarians?

Ms. Bonnie Lysyk: That's correct.

Mr. Roman Baber: In fact, they have opted for a method that, by your own estimation, had at the very least added an additional \$4 billion worth of expense to Ontario's books?

Ms. Bonnie Lysyk: The \$4 billion represented the cost for the whole program. So nothing had been incurred at the time we were talking about it, and that figure—in our report we do reference the FAO's report that indicated the \$4-billion cost.

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Mr. Roman Baber: Specifically, I understand that the additional \$4-billion cost stems from the fact that the government decided to attempt to hide the borrowing through another entity as opposed to reflecting it on its own books, thereby subjecting themselves to a higher interest rate.

Ms. Bonnie Lysyk: The assumptions are that if they had borrowed the money through the OFA, they would have had a lower interest rate than borrowing the money through OPG Trust—another vehicle. So it is more expensive. It is more expensive to borrow through OPG Trust than if OFA were to borrow directly.

Mr. Roman Baber: And throughout the cost of the plan, you calculated that it will end up being approximately \$4 billion more expensive.

Ms. Bonnie Lysyk: The FAO did the report that estimated that amount over the life of the Fair Hydro Plan, and we quoted the FAO's report.

Mr. Roman Baber: You don't have any reason to disagree with the FAO; correct?

Ms. Bonnie Lysyk: No. No, we don't disagree.

Mr. Roman Baber: I recall that you have opined repeatedly on the effect of the Liberal gas plant scandal, which concluded that, for a political decision, the Liberals subjected the taxpayers to additional \$2 billion worth of unnecessary expense. Here, using simple arithmetic, if we're to accept the number of \$4 billion, the Liberal government has subjected the taxpayer to double the amount of the gas plant scandal—maybe even four gas plants.

Ms. Bonnie Lysyk: I think the gas plant estimate is \$1 billion. This is much more—four times.

Mr. Roman Baber: In fact, this decision by the Liberal government has subjected Ontario taxpayers to four times the expense of the gas plants.

Ms. Bonnie Lysyk: Only if it continued through the structure that they were proposing. They were using estimated interest rates. With the assumptions that were used, that would be correct.

Mr. Roman Baber: This is provided that the Liberal plan is executed through its 25-year term.

Ms. Bonnie Lysyk: Yes, the \$4 billion represents the whole period. I think \$39 billion was the total cost. Interest would have been \$21 billion, and I think \$19 billion was the actual amount that would have to be borrowed.

Mr. Roman Baber: If I could just clarify specifically the numbers: the Liberal plan has subjected us to \$19 billion worth of interest.

Ms. Bonnie Lysyk: It's \$21 billion.

Mr. Roman Baber: Twenty-one.

Ms. Bonnie Lysyk: The estimate, yes.

Mr. Roman Baber: To refinance \$18 billion worth of debt?

Ms. Bonnie Lysyk: Correct.

Mr. Roman Baber: Now I want to take you to your second recommendation, recommendation (a), in which you recommended that the government "record the true financial impact" of the Fair Hydro Plan. Is that correct?

Ms. Bonnie Lysyk: Yes.

Mr. Roman Baber: Is it correct that our new Progressive Conservative government has, in fact, done that within the last couple of weeks?

Ms. Bonnie Lysyk: I issued the opinion on the province's financial statements, and the accounting has been corrected for the impact that would have happened for the past year. So yes, it has been corrected.

Mr. Roman Baber: Which, combined with the restatement of the pension, has enabled your office to issue a clean audit opinion for the province of Ontario.

Ms. Bonnie Lysyk: That's correct.

Mr. Roman Baber: I want to point to something that I heard you say earlier in your testimony. You suggested that there are a couple of effects of the overstatement of the net effect of the Fair Hydro Plan: One of them is that we now truly understand the cost of the Fair Hydro Plan, correct?

Ms. Bonnie Lysyk: Yes.

Mr. Roman Baber: And the second effect is that now, by the current government restating and putting the Fair Hydro Plan on our books as it belongs, where it was originally supposed to be, that would allow our government to borrow at a better rate. Is that correct?

Ms. Bonnie Lysyk: That is our understanding. That is correct.

Mr. Roman Baber: Because now we would be able to get away from the shell game and Ontario would be able to borrow through the Ontario Financing Authority, correct?

Ms. Bonnie Lysyk: That's correct.

Mr. Roman Baber: And that would potentially save us a significant amount of money on interest, specifically with respect to the \$4 billion worth of interest that we were discussing earlier.

Ms. Bonnie Lysyk: That is correct.

Mr. Roman Baber: I want to take you back for a minute to some of the discussions that were held here with respect to the indemnification sought by some of the regulators and some of the authorities and some of the officers and directors involved in the scheme. I understand that you are hesitant to hypothesize, but I would like to suggest to you a number of options. Would it be possible that some of the government insiders, or the insiders working at the IESO, were worried about the fact that they would be misrepresenting the state of the books to the market at large?

Ms. Bonnie Lysyk: I really can't comment on what was behind all the decision-making or what was behind the request for that. I really can't.

Mr. Roman Baber: I want to briefly touch on the pension accounting. Auditor General, I want to clarify something. There is consensus among accounting professionals that in order to gain a credit of a net pension asset to add it to your books, at the very least there must be agreement between the co-sponsors of the plan as to the future contribution limit. Is that correct?

Ms. Bonnie Lysyk: Correct.

Mr. Roman Baber: But the Liberal government did not have such an agreement, neither with OPSEU nor with OSSTF. Is that correct?

Ms. Bonnie Lysyk: That's correct.

Mr. Roman Baber: And nobody, in fact—even the expert panel—suggested that they had such an agreement. There was never an agreement to try to value those pensions.

Ms. Bonnie Lysyk: There was never an agreement as to the pension asset. There was no agreement as to reducing minimum contributions or the government pulling out surplus funds.

Mr. Roman Baber: So then, Auditor General, the Liberal government was not allowed to include the net pension asset, not only in the 2018-19 fiscal year but also in the 2017-18 fiscal year. Is that correct?

Ms. Bonnie Lysyk: That is correct. We believed an allowance was necessary.

Mr. Roman Baber: But they did so anyway. They did include the net pension asset, to the tune of about \$2.2 billion in 2017-18.

Ms. Bonnie Lysyk: In their budget documents?

Mr. Roman Baber: Yes.

Ms. Bonnie Lysyk: That is correct.

Mr. Roman Baber: So when the Liberal government told the voters that for fiscal year 2017-18 the province had a balanced budget, that was not true.

Ms. Bonnie Lysyk: In our pre-election report, we did highlight that that was something we didn't agree with and that the proposed budget was understating the deficit.

Mr. Roman Baber: So the suggestion by the Liberal government that they balanced the books for 2017-18 was objectively false?

Ms. Bonnie Lysyk: Had that accounting been used in 2017-18, we—

Mr. Roman Baber: Had the improper accounting been used.

Ms. Bonnie Lysyk: Yes. Had the improper accounting been used, we would have objected to it and indicated that the bottom line should have been worse off because more costs should have been shown on that bottom line.

Mr. Roman Baber: And not a surplus, as the Liberals would have the public believe? Sorry—not a balance.

Ms. Bonnie Lysyk: If the math were the same as it ended up, there would not have been a balanced budget.

Mr. Roman Baber: Auditor General, would you be kind enough to—

Ms. Bonnie Lysyk: The balanced actuals. Sorry. Actuals, yes.

Mr. Roman Baber: Right. Can you tell us why you would suppose that the government would seek to misrepresent the truth that way?

Ms. Bonnie Lysyk: Again, I can't speak for the government.

The Chair (Mr. Prabmeet Singh Sarkaria): Sorry, I'm just going to step in and remind everyone to temper our language a bit here and make sure that our questions are within the mandate, which is reviewing the report.

Mr. Baber, continue.

Mr. Roman Baber: Thank you, Mr. Chair.

I also understand that the very type of—I would call it an accounting malfeasance since it deviates from PSAB

standards by all accountants. There's consensus on all sides that there was no agreement as to whether the pension could have been drawn down or not, or the pension contribution could have been drawn down. That practice has continued into the current year of 2018-19.

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Ms. Bonnie Lysyk: We haven't conducted the attest audit of 2018-19. After signing off on the March 31, 2018, statements, we haven't done any work on that, so I can't comment on what has changed in terms of discussions with Teachers. I'm not—if that was what your question was.

Mr. Roman Baber: But in the preparation of the budget, and specifically the consolidated financial statements, and the budget anticipated for 2018-19—

Ms. Bonnie Lysyk: Oh, the pre-election report? Yes.

Mr. Roman Baber: The pre-election report. The net pension assets in the current fiscal year were not recorded accurately.

Ms. Bonnie Lysyk: Based on our work, I would say that the accounting assets were not recorded properly in those—

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Romano—sorry.

Mr. Roman Baber: In the pension assets. In fact, they were over-represented to the tune of at least \$2.5 billion. Is that correct?

Ms. Bonnie Lysyk: That would be correct.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Romano.

Mr. Ross Romano: I just wanted to summarize a couple of points from earlier. I believe the evidence you provided earlier to the committee in this last line of questioning was that Kim Marshall would have told the province's public accounts committee in February 2017 that the financial statements that had been prepared at that time by the government were done in the usual way.

Ms. Bonnie Lysyk: No. In February—let me just get my times. In February 2017, Kim, if we're talking the same scenario, would have been presenting to her own audit committee, not to a committee of the Legislature. At that point in time—

Mr. Ross Romano: That's what was told to the province's public accounts committee, is what I'm saying.

Ms. Bonnie Lysyk: Pardon me?

Mr. Ross Romano: That's what was told to the province's public accounts committee initially: that the books were done in the usual accounting practice.

Ms. Bonnie Lysyk: You know, I'm not sure. She came to the public accounts committee, yes, but she came in 2018 to the public accounts committee, not 2017.

Mr. Ross Romano: Okay. This was something I heard earlier, and that's why I just wanted to make sure I got this right. Initially, though, the books were done in the usual way.

Ms. Bonnie Lysyk: Yes, correct.

The Chair (Mr. Prabmeet Singh Sarkaria): Sorry, just one minute 30 left.

Mr. Ross Romano: Initially, they're done in the usual way, and then it's about a month later that you find out that they had gone to this rate-regulated system.

Ms. Bonnie Lysyk: We do talk to this in our report. The CFO had taken a set of draft statements to her audit committee, and they were not reflecting rate-regulated accounting and they did not show market accounts on their statements.

They had a discussion and meeting, and then they deferred approval until March. Around the middle of March, they then approved the statements, with rate-regulated accounting being used in market accounts on those statements.

Mr. Ross Romano: So, obviously, a substantial difference from what was initially prepared, using the usual accounting method, and then, months later or thereabouts, this rate-regulated accounting standard?

Ms. Bonnie Lysyk: Yes. I think the discussion was deferred because I think what they were looking at doing was quantifying the statements.

Mr. Ross Romano: And the only thing you knew in that intervening period was that KPMG, their accountant, had racked up—I think the quote we heard earlier was 10 times additional fees in that intervening period.

Ms. Bonnie Lysyk: No, I think those fees would have been from January 2017 and not even to December 2017—to maybe September?

Interjection: December.

Ms. Bonnie Lysyk: December 2017.

Mr. Ross Romano: They were in that same year.

Ms. Bonnie Lysyk: In that year, yes.

Mr. Ross Romano: Right.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you. That's the 20 minutes up.

Before I pass it back to the opposition, I just want to make a comment to please refrain from using any unparliamentary language, and to keep the questions on the mandate, which is reviewing the report.

I will now pass it over for 20 minutes to Ms. Fife.

Ms. Catherine Fife: Thanks very much for that clarification about where the money was being reported, and the timelines. I think that's very helpful for this committee.

I also think that maybe we should just stop calling it the Fair Hydro Plan and officially call it the unfair hydro plan. A rebranding exercise may be in order.

Accounting is not the most exciting topic. This is not a huge stretch. Everybody has calmed down. However, it does speak to trust in government. I think the integrity of the books that not only are presented to the Legislature but also our various government agencies is very important.

Given that and given the recommendation from the commission auditor, which recommended that the "accounting practices of the government are in accordance with the letter and spirit of Canadian public sector accounting standards," I wonder if we could apply that lens to some of the other agencies, because I think we're trying to get to a pattern, if you will, or a culture around reporting of financial documents to the Ontario Legislature from agencies.

I know you've been very vocal in the past as it relates to public-private partnerships. In fact, your report—I think it was 2016—called into question an expenditure of almost \$8 billion in high financing fees around our infrastructure in Ontario. I know the Liberals rebranded it as "alternative financing procurement." I wonder if you could give us a quick synopsis of how the P3 financing is conducted in Ontario and some of the concerns you've articulated in your reports to the Legislature around AFPs.

Ms. Bonnie Lysyk: Okay.

Ms. Catherine Fife: You know it off by heart, I know.

Ms. Bonnie Lysyk: That's a different subject that I haven't had my head around lately, so let me just think about that.

Mr. Roman Baber: Chair, a point of order.

Mr. Prabmeet Singh Sarkaria: Mr. Baber?

Mr. Roman Baber: I don't believe that public-private partnership was contemplated anywhere here, and certainly not subject to the report of the current financial commission of inquiry.

Ms. Catherine Fife: Chair?

The Chair (Mr. Prabmeet Singh Sarkaria): Yes, Ms. Fife.

Ms. Catherine Fife: It's actually very topical, MPP Baber, because the Public Sector Accounting Board that drafts these standards is currently reviewing the rules, and in light of that, I think it's relevant. If we're talking about the integrity of the accounting practices and treatments or designs in Ontario, I think it makes sense for us to actually delve into the integrity of the Auditor General reports, as she is right before us. It's a unique opportunity to get to the truth of the numbers in the province of Ontario.

Mr. Roman Baber: MPP Fife, with respect, the Canadian public standard accounting principles speak to a lot of issues. We're specifically discussing one or two of them. But in particular, the reason I have objected to your question is that the financing model which you now propose to question the witness about has nothing to do whatsoever with any of the issues contemplated in the report of the financial inquiry or the Auditor General's report on which she's here giving testimony.

Ms. Catherine Fife: Actually—

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you. I appreciate that.

I'll allow you to ask the question, but I will keep note if it's going too wide—discretion on that. I will allow you to put the question, but if I do feel it's outside the scope, then I will ask you to revise.

Ms. Catherine Fife: Thank you.

Ms. Bonnie Lysyk: So the question is, we looked at how—could you repeat it one more time?

Ms. Catherine Fife: Sure. I believe it was the 2016 Auditor General's report—

Ms. Bonnie Lysyk: It was 2015.

Ms. Catherine Fife: Sorry, 2015—you came back with another recommendation, but as it pertains to how the financing is reported publicly with regard to public-private partnerships or alternative financing procurement that specifically relates to Infrastructure Ontario.

Ms. Bonnie Lysyk: There is a committee of the Canadian Public Sector Accounting Board that is looking at accounting for P3s. The exposure draft will be coming out soon, so that will discuss the accounting that's being proposed going forward.

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Right now, in terms of the accounting, there is no disclosure in the financial statements around the commitments because some of these P3s—when you engage somebody to design, build, finance, maintain, the “maintain” part provides for costs to be paid to people way into the future, so there's disclosure right now. I think the question that is being looked at is how much of those P3s should be booked in the statements and whether disclosure is sufficient.

What we looked at that in that audit, though, was whether or not a comparison of a project conducted under a P3 was cheaper than a project conducted under a general, normal—a government doing the construction themselves. What we found out is, in justifying P3s, the main difference between one doing the construction themselves and one doing the P3 is the assumptions that are used. The assumptions that are used basically weigh more positively in favour of choosing a P3. We comment on the difference being about \$8 billion for the sample of contracts we looked at at Infrastructure Ontario mainly because we were looking for support for those assumptions based on the reality and what has happened in the past, and we couldn't find it.

At some point, we're hoping that there will be examples of P3s that can be used to justify the mathematics around selecting a P3 option versus a build. Is that what you're—

Ms. Catherine Fife: I think that your point is well taken. In the Fair Hydro Plan, the government really pushed future debt, by a considerable amount, down the road. That is not unlike what is happening with public-private partnerships. As well, the similarities between these two issues also resonate with the use of external consultants who are employed by the government to advise the government as to, essentially, what they want to hear. There are no inherent, built-in checks and balances with external consultants when they're advising the government. The potential for conflict of interest is there.

I think the integrity of reporting the cost of infrastructure projects in the province of Ontario should reflect the true cost, including down the line. There should be a very open and transparent process, which was clearly not present with the Fair Hydro Plan, with Infrastructure Ontario whereby publicly funding a project versus contracting it out to a third party should be reported in the financial documentation as real dollars, not just projected down the line.

Ms. Bonnie Lysyk: I do have—

The Chair (Mr. Prabmeet Singh Sarkaria): I would just ask that the question be toward the mandate of our report. Either tie it in, or we've got to—

Ms. Catherine Fife: Honestly, I did think I was asking a question within the mandate. We are trying to improve the reporting of accounting practices in Ontario. This

should extend. We have 15 years of Auditor General reports which demonstrate practices that have not been corrected. I was hopeful that this committee could rectify this situation by having the Auditor General here as well.

The Chair (Mr. Prabmeet Singh Sarkaria): I appreciate that. I do believe that, when we are taking these questions under the guide of the report—that we are reviewing the mandate, which is reviewing the report. The questions should be more direct to that.

Ms. Catherine Fife: Thank you very much, Chair. I appreciate that. I think that if we're talking, truly, about financial accountability, though, it has to be across the board. If the goal is to learn from the accounting treatment as it relates to the pension documents as well as the Fair Hydro Plan—if this committee is going to be effective, then it should change the practice of the government.

Those were my questions on public-private partnership, so thank you for your indulgence.

The Chair (Mr. Prabmeet Singh Sarkaria): I take your points. But I do think we could have that discussion within the context of the report. That was the point that I was trying to get across. But I appreciate your comments and pass it on to Mr. Vanthof.

Mr. John Vanthof: Auditor General, we've covered a lot of ground today, and we'll probably cover a bit more. I want to delve a little bit into—this has been characterized as the largest scandal to ever hit Ontario. A scandal is usually something that no one has heard about before. I'd like you to comment on how much information—I'm not saying that the government didn't ignore the information—the government has had and also the opposition has had. This isn't, in my opinion—feel free to disagree—something that just fell out of the sky like a treasure box; this is something that your office has been documenting for quite a while and has provided lots of information. So although it's good to be delving into why the government didn't react to that information, could you comment on how that information has been disseminated and to whom?

Ms. Bonnie Lysyk: We write a chapter 2 in the annual report every year, and that chapter 2 has had commentary on the staging of the ability of governments in Ontario to use legislation to enact accounting. I would draw your attention to our chapter 2 sections in previous years, because we talk about the sequence of events that happened in Ontario where legislation was created that would allow government to create their accounting treatment. Legislation in Ontario doesn't indicate that the statements have to be prepared in accordance with PSAB. We have been commenting on that in our annual reports. That's the history.

We have also commented on rate-regulated accounting, so you're correct in that we've highlighted that whole issue quite differently than this scenario, but we still commented on rate-regulated accounting.

The first time we reported on the pension issue would have been in 2016. We wrote, in chapter 2 in 2016, on the accounting issue. In 2017, in our chapter 2, we also wrote about accounting issues, including the Fair Hydro Plan, IESO and pensions. Then our special report came out. That

one, we issued in 2017, and we talked about this situation that we're speaking about today. In the pre-election report we spoke about these issues as well this year.

We went to the Standing Committee on Public Accounts. There were two chapters heard in the last couple of years in the Standing Committee on Public Accounts where this was discussed—not the Fair Hydro Plan, though.

Then we also did a submission to the standing committee on the work we did at IESO.

Mr. John Vanthof: I distinctly remember that one. What I'm trying to get at is, I don't want this to be characterized that this caught everyone by surprise. We need to be looking at this issue. I don't think it caught everyone by surprise, because your office was doing their job. It was ignored by the government, in many cases. I sat at committee hearings and listened to your presentations. I've met with you and talked about this issue. Have other MPPs from the opposition met with you on this issue?

Ms. Bonnie Lysyk: I think I've had discussions with others over the years, yes.

Mr. John Vanthof: Specifically the finance critic for the former opposition, now the finance minister?

Ms. Bonnie Lysyk: Yes. You're talking about Mr. Fedeli?

Mr. John Vanthof: Yes.

Ms. Bonnie Lysyk: Yes, because he wrote the books on it. We received copies of the books as well, and we had conversations around the books.

Mr. John Vanthof: Thank you.

The Chair (Mr. Prabmeet Singh Sarkaria): Further questions? Ms. Shaw.

Ms. Sandy Shaw: How much time do we have?

The Chair (Mr. Prabmeet Singh Sarkaria): We have six minutes—just under six.

Ms. Sandy Shaw: I guess I'm going to build on what Mr. Vanthof is saying. We, as participants in this committee, want to ensure that we are—again, it's not all about rearguard action—moving forward. Some of the question that he wants to establish is that this is not necessarily a surprise to anyone. There were many projections that the debt and deficit would be pretty much in line with what the commission established.

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I think average Ontarians, voters who pay attention, are tired of this, what they see as a cycle. It gets commented on all the time that—you know, the Liberals take over for the PC governments and they throw up their hands that the books were in terrible shape. We've seen that over and over again. If one of the mandates of this committee is to establish trust and accountability in governments, we do not want to be seen as just replicating that hamster wheel, if you will.

So my question is about moving forward at this point. One of the things that we were trying to get at in the previous line of questioning about the treatment of P3s, going forward, is that there is discussion—it happens in the Legislature and it happened in the government's own commission—about ways that they would be perhaps

building infrastructure or monetizing assets in the future. Specifically, there is a recommendation in the report, and I will just read it out here. It says that we would like to “Establish transparency for the taxpayer and general public as the top priority in preparing the budget, public accounts and other financial reports. Ensure that accounting practices of the government are in accordance with the letter and spirit of Canadian public sector accounting standards.” So I'm coming back to the idea that this is very relevant to the recommendations that came specifically from the commission and from some discussions and some of the general direction we're talking about with this government.

Could you comment a little bit further on some of the assumptions that you talked about, the difference between the assumptions and P3s and other ways that we do public infrastructure projects, specifically through the lens—sorry; I'm getting to the end of my question—of value for money, sort of the economy, efficiency and effectiveness of P3s?

Ms. Bonnie Lysyk: I just have to get back into that report in my head.

The Chair (Mr. Prabmeet Singh Sarkaria): I appreciate the question, the value, as you were saying, but I would still like the question to be tied in. I understand that it was a recommendation from the report, but how can we tie that into what we are discussing in the report? I don't know that the P3s were specifically addressed, and the information on those. I would allow you to ask the question, but if you could directly relate it to the report and what we have been discussing within the mandate of the report.

Ms. Sandy Shaw: Okay. Let's go at this one more time, shall we?

Based on that recommendation that's in the report and your office's mandate to look at actions and decisions of the government through the value-for-money audit—

Ms. Bonnie Lysyk: I can offer a comment—

Ms. Sandy Shaw: That would be great.

The Chair (Mr. Prabmeet Singh Sarkaria): We've got just under two minutes.

Ms. Bonnie Lysyk: I was just checking with Tim. I think one of the things for P3s is that all of this is all around transparency. When P3s are booked in statements, not everyone will understand the interest rate issue behind P3s, because they come at different costs and they might come at higher costs than what you can borrow at as a government, or they might come at a lower cost, depending, but usually at a higher interest rate cost.

We actually had a meeting with Infrastructure Ontario to discuss the higher interest rate cost, which really was what was making a huge difference in their comparisons. They have advanced money quicker in order to reduce the interest paid by the contractors, but there still is a difference.

In terms of financial statements, the standard coming out of PSAS is hopefully going to enable more transparency around the interest rates and how P3s are accounted for in government statements. There might be inconsistencies in Canada because of there being no standard. There

will be improvement, hopefully. A person from my office actually sits on that committee.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you. That concludes the 20 minutes. We will now pass it over to Mr. Downey for 20 minutes.

Mr. Doug Downey: Yes. If she wants to finish her thought—

The Chair (Mr. Prabmeet Singh Sarkaria): Sorry. My apologies, Ms. Lysyk. Would you like to finish your response to the previous—or are you okay?

Ms. Bonnie Lysyk: I was just marking it in case she came around again to the question. But it is also up to the preparers. For instance, if you go to British Columbia's annual report, you'll see there a listing of their P3s and their interest rates. That detail isn't in Ontario's financial disclosure at this point in time, in their statements. The standard is supposed to standardize all of that.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you. So I will ask Mr. Downey.

Mr. Doug Downey: I'm going to build on that in a bit of a different way. If we wanted to take a principled approach to changing a standard or evolving a standard in PSAS, what does that look like? How would a rational process look?

Ms. Bonnie Lysyk: Just so you get a better answer than I maybe will give you, we do have Mr. Tim Beauchamp, the former director of the Public Sector Accounting Board. He retired. He would probably be able to give you just a quick overview of that process. Would that be of assistance to you?

The Chair (Mr. Prabmeet Singh Sarkaria): If the committee agrees to that.

Ms. Catherine Fife: Sure.

The Chair (Mr. Prabmeet Singh Sarkaria): Yes, please.

Mr. Tim Beauchamp: So I don't get a choice?

Laughter.

The Chair (Mr. Prabmeet Singh Sarkaria): Could I just get you to repeat your name for Hansard, please?

Mr. Tim Beauchamp: Yes, my name is Tim Beauchamp.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you.

Mr. Tim Beauchamp: You're welcome.

There is quite an established due process when it comes to establishing a new accounting standard or changing an existing one. It starts out with a project proposal. The board has to agree to that. It scopes out the project and identifies the issues. We go through discussions with a task force, committee, subcommittee—call it what you want. They develop a statement of principles that goes out for public comment. Then the public has an opportunity for input into the development of the standard. We then look at those responses. We issue a public exposure draft. It's a little different than the first statement of principles because that one has got alternatives in it. The public exposure draft has no more alternatives in it: "This is what we think is the right thing to do." It goes out for public comment. Then the board will decide whether or not to

issue a final standard. That typically takes from two and a half to three years, depending upon the nature of the issue.

Mr. Doug Downey: Thank you very much.

Back to the Auditor General: Was there any point at which the Liberals followed that process, or did they skirt the whole thing by doing the accounting the way they did?

Ms. Bonnie Lysyk: In our opinion, the Fair Hydro Plan, the legislation—

Mr. Doug Downey: Sorry, I'm talking about the Fair Hydro Plan and the pensions.

Ms. Bonnie Lysyk: Yes. The Fair Hydro Plan legislation has a very detailed outline of accounting in it, and it basically creates a regulatory asset. It calls the difference between what generators are paid and what's collected from ratepayers—the difference there, because it's a shortfall, is called a "regulatory asset" by virtue of the legislation, not because it is, but by virtue of the legislation. That's where all the input came in, in writing wording that would create the accounting.

We called that, even when I went to the justice committee, "legislated accounting," not accounting that would be in line with the public sector accounting standards.

Mr. Doug Downey: So it's a polite way of calling it "We're making up our own rules."

Ms. Bonnie Lysyk: I would say it's legislated accounting, correct: a government passing a piece of legislation that permits in its own statements a particular accounting treatment separate from PSAS.

Mr. Doug Downey: Do you believe the firms were hired to undermine you personally or the Office of the Auditor General?

Ms. Bonnie Lysyk: I can't speculate on what was discussed with the firms about our office or me.

Mr. Doug Downey: You are obviously aware that they spent about two million bucks setting up the scheme, and you said—I'll start with that. Is that the right number?

Ms. Bonnie Lysyk: I believe we quote a number in the fair hydro report that sounds close to it, if that's where you're quoting from. It sounds reasonable.

Mr. Doug Downey: It strikes me that they moved fast; they legislated their own rules. Why would they go through all the trouble? Do you have any insights or beliefs on why then and why that fast?

Ms. Bonnie Lysyk: Well, I think if the transaction had just occurred, so the policy decision was made, naturally, that decision would cause the expense to be booked in the government statements and hit the bottom line, and the borrowings would cause the net debt to go up. So establishing this framework keeps that from happening and also allows for financing through another entity outside of the Ontario Financing Authority.

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Mr. Doug Downey: Would it be fair to say it's not a coincidence that an election was around the corner?

Ms. Bonnie Lysyk: Again, you know—

Mr. Doug Downey: It's hard to speak to their motive.

Ms. Bonnie Lysyk: Correct.

Mr. Doug Downey: I'm sure you have a belief. You're being much too polite.

The Chair (Mr. Prabmeet Singh Sarkaria): We just want to be careful about imputing motive.

Mr. Doug Downey: Okay.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you, Mr. Downey.

Mr. Doug Downey: On page 8 of your report, you state, “Senior officials and staff from several departments and agencies, led by” the MOE, “came together to plan an accounting/financing structure, identify risks, make decisions and take other actions to meet the mandate.”

I just want to clarify, again, “identify risks.” What were the risks?

Ms. Bonnie Lysyk: I think that’s a good question for the people who were involved in the process. I would say, generally, like anything, I think there are probably risks around the financing. We were a risk; I think timing was a risk. There are a number of things that I believe they’ll probably speak to.

Mr. Doug Downey: Okay. The report, on page 7, the page before it, says, “The government set this as the mandate to the senior officials and private sector external advisers designing the accounting and financing for the rate reduction.”

Do you know who in government gave that direction?

Ms. Bonnie Lysyk: Obviously, from the situation, there was discussion at the ministerial level.

Mr. Doug Downey: Do you know if there was discussion in the Premier’s office?

Ms. Bonnie Lysyk: I guess I would know and, I think, generally have said that, likely, for something like this, there would have been.

We looked more at the operational side, where there was direction coming from the Ministry of Energy. That was the group that was basically coordinating everything.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Romano.

Mr. Ross Romano: Sorry; forgive me. Did you say that, likely, the direction would have come from the Premier’s office?

Ms. Bonnie Lysyk: Well, I think the briefings—we do know there were briefings with ministers, and there would have been briefings with the Premier’s office when they were closer to making the final decisions. I mean cabinet, right? Cabinet.

Mr. Ross Romano: Okay, fair. So, yes.

Ms. Bonnie Lysyk: Because the cabinet was making decisions based on cabinet submissions and approvals, and that whole process was working with respect to this, right? It was initiated with respect to this.

Mr. Ross Romano: Okay. So that was a yes.

Ms. Bonnie Lysyk: Yes. Sorry.

Mr. Ross Romano: Sorry. Thank you.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Downey.

Mr. Doug Downey: I want to go to the same page. You’re quoting somebody on page 7 saying that the rate reduction should not “affect the fiscal plan.” Are you at liberty to disclose who you’re quoting?

Ms. Bonnie Lysyk: No. We don’t put the name in the report, so no.

Mr. Doug Downey: I understand your office has to function with some level of confidentiality. You addressed that earlier.

Ms. Bonnie Lysyk: I think you had put in requests for information. I can comment that it would likely be in that material.

Mr. Doug Downey: Okay. Similarly, but I’ll ask anyway, on page 13 you reference an email from a senior official: “Hopefully they’ll come to the conclusion that it can be financed by the province ... rather than externally, as that would be a lot simpler and cheaper.”

Similarly, if you know who the senior official is, you’re probably not at liberty to disclose?

Ms. Bonnie Lysyk: Yes. I wouldn’t feel comfortable disclosing, but I think you will get the answer in the material requested.

Mr. Doug Downey: A couple of members suggested what the definition of a scandal is, and “undisclosed scandal” versus “disclosed scandal,” that kind of thing.

The indemnity from the bottom of the box: I don’t know if you’ve actually been asked directly if you are in a position to disclose that. I heard you say that, through FOI, we could get it.

Ms. Bonnie Lysyk: I would suggest that you can request the IESO one from IESO, and the OPG one directly from OPG, and they will provide it.

Mr. Doug Downey: Do you remember a reaction from anybody when you conveyed that you had the indemnity from the bottom of the box?

Ms. Bonnie Lysyk: No, I don’t recall a particular reaction, other than, “Yes, we have one.”

Mr. Doug Downey: I think that’s it for me.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Romano.

Mr. Ross Romano: Perhaps, Ms. Lysyk, just before I finish the question, we’ll give the Chair a moment to pause, because there has been some discussion about this, so there may be some concern from the Chair.

I just want to stress that the mandate of this committee is certainly to look at the policy objectives, specifically in relation to the Ontario Fair Hydro Plan Act. My contention is that, certainly, the reason why that act would have been passed would be very relevant to what it is we are here to do. As you’ve said, for instance, just to summarize a bit of your evidence: You’ve told us that you were 100% clear that the purpose of the Ontario Fair Hydro Plan Act was to, in essence—we learn later—hide the true state of Ontario’s finances.

Ms. Bonnie Lysyk: Okay—

Mr. Ross Romano: So—sorry, go ahead.

Ms. Bonnie Lysyk: No, I would just comment that there was more in that legislation than the accounting that was being prescribed in there. One element of it is what I spoke of, and that is that the accounting and the financing that is legislated in there was what was going to be used for recording the transactions.

Mr. Ross Romano: Right. So my statement that you were 100% clear that the purpose of the act specifically that created this rate-regulated aspect of things—the specific purpose of that was to hide the true state of

Ontario's finances. That's just summarizing what we've said so far. That is certainly a motive, if you will, or a reason why this was created.

My more specific question is—and I think you had, at one point, referenced something political about it. But certainly, I'm sure, given everything I've heard from you today and the fact that we're even still here and dealing with this, that it's an important issue. This is a big deal. There was a lot of energy and time invested by your office to suggest that these accounting practices were inappropriate and, as you suggested today, wrong, unusual and not ever done in the country before, and an equal amount—if not more—of energy, time and money on the government side to discredit your office's findings and challenge them and say, "No, we will continue down this path."

There had to be more than just a reason to keep that hidden, if you will, from the books, the true state of the debt and the deficit. There had to be something more to it. Wouldn't you agree?

Ms. Bonnie Lysyk: I can just—

The Chair (Mr. Prabmeet Singh Sarkaria): I'll just make a quick comment here before you make the answer. We have to be very careful with imputing motive. I will let you answer that, but let's just keep that in mind: that we're not going to be imputing motive. Thank you.

Ms. Bonnie Lysyk: Yes, I can't impute motive. But I can comment that, when you don't have a regulator that is dealing with this particular issue—the OEB was not involved, so they can't create the situation where there is a rate-regulated asset here—then I think the advice they had from their adviser was to legislate it.

Mr. Ross Romano: Okay. So I guess you don't want to be in a position, obviously, to impute motive, and I can appreciate that. Is it fair to say there was clearly a bigger reason, though, than just simply, "We don't want to show this on the books"?

Ms. Bonnie Lysyk: I really can't comment on that.

Mr. Ross Romano: Okay, thank you.

Mr. Roman Baber: Point of order, Mr. Chair.

The Chair (Mr. Prabmeet Singh Sarkaria): Yes, Mr. Baber?

Mr. Roman Baber: Mr. Chair, I appreciate that the decisions of the Chair are not subject to appeal; nonetheless, I'd like to call the Chair's attention to the mandate of the select committee. If I can please point you to paragraph 2 of such mandate: to "investigate and report on the accounting practices, decision-making and policy objectives of the previous government or any other aspect of the report that the committee deems relevant."

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My respectful submission, Mr. Chair, is that decision-making and policy objectives must, by implication, go into the realm of some motive. So while I appreciate that the standing orders preclude us from doing so, the mandate of the select committee specifically allows us to look at least at the intent, potentially. That is what this committee is here to do, in part.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you. I appreciate that.

You may continue.

Mr. Ross Romano: Thank you. I really had it there. I appreciate the position that you are in and I won't ask you to specify what, but isn't it fair to say that there had to be a bigger reason than just simply making sure that it wasn't on the books?

Ms. Bonnie Lysyk: I guess being the auditors of statements, that was our focus: to look at the financial impact of what was happening there. We weren't looking for any other motive other than working to ensure that those financial statements were prepared correctly and being able to opine on correct statements. In terms of how they got there, I'm sorry, but I really don't know.

Mr. Ross Romano: Okay, that's fair. Thank you. I appreciate your indulgence.

The Chair (Mr. Prabmeet Singh Sarkaria): Ms. Park.

Ms. Lindsey Park: We're going to change gears a little bit here. I just want to talk a little bit about the process you undergo when you're starting an inquiry or starting to look into things. "Inquiry" is maybe a strong word; that sounds quite formal, but sometimes when you're starting to look into things.

Can you just clarify for me: Is it correct to say that under the Auditor General Act you have the legal authority to compel documents from the government?

Ms. Bonnie Lysyk: That's correct. If we use a summons, we can compel them that way. Historically and continuing, we work on a request-and-receive basis, but we have used a summons as well, outside of the government.

Ms. Lindsey Park: In regard to the Fair Hydro Plan, did you ever have to use a summons?

Ms. Bonnie Lysyk: No.

Ms. Lindsey Park: You were just dealing with requests, I guess, when it came to the Fair Hydro Plan. Your office requested documents and emails related to the creation of the Fair Hydro Plan; is that correct?

Ms. Bonnie Lysyk: I can explain the context that that started.

Ms. Lindsey Park: Sure.

Ms. Bonnie Lysyk: Because we were concerned about the IESO, we actually had a meeting. We invited the IESO and KPMG into our offices. That's when we started asking some questions and that's when, at the end of the meeting, I said that I would like to request all of IESO's emails. Those were the first emails that we received and those were the first ones we got through and that's basically, through that, how we started understanding what was happening. That was triggered by a request right at a meeting.

Ms. Lindsey Park: The first request you made was to the IESO?

Ms. Bonnie Lysyk: Yes, and then basically sent emails out to the various ministries asking for—

The Chair (Mr. Prabmeet Singh Sarkaria): Just one minute.

Ms. Lindsey Park: That's great. That leads to my next question. We'll continue on when it comes back to the government side here.

Did every ministry that you requested documents from comply with that request?

Ms. Bonnie Lysyk: I would say that they all complied eventually. All of them complied before we issued the final report except the Ministry of Energy. The Ministry of Energy sent us the bulk of the emails after we issued the report.

Ms. Lindsey Park: Did they give you a reason why they delayed in responding to that request?

Ms. Bonnie Lysyk: They had initiated a process by themselves to hire somebody—I think it was a legal firm—to go through the emails first before they gave them to us. I did check on status from time to time, but it was taking long. We couldn't wait. We already knew what was happening, so we wrote the report with the information we had.

Ms. Lindsey Park: But they didn't give—

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you.

Ms. Lindsey Park: And just one final point, just to close the loop on this: Did they ever give you a reason for that delay?

Ms. Bonnie Lysyk: Just that they had so many emails, it was taking long and they needed to go through them first to make sure they weren't sending us more than what we needed.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you. Just before I turn it over for questioning again, I understand that the objective here is to look into the decision-making and the policy objectives, but that doesn't mean that we can impute false motives or unavowed motives to other members or previous governments. I'm just cautioning on that line of questioning.

I'll turn it over to Mr. Vanthof.

Mr. John Vanthof: Thank you, Chair. I'm going to change gears a little bit too. You mentioned how BC does some things differently with their reporting standards. At the outset, I believe Mr. Romano asked you to describe your office. Considering that sometimes you get stuff in the bottom of a box, could you kind of describe your staff complement compared to some of the other provinces to see how much work—so we can see what we're comparing?

Ms. Bonnie Lysyk: Each office across Canada is very different. The biggest office in Canada is the federal office. There's probably between 500 to 600-and-some-odd employees. Quebec would be next with about 250. Then we're talking, I believe, British Columbia, and then Alberta and then us, then the Prairies and then the Maritimes. That's sort of size-wise.

We obviously think we're very productive and very effective with our resources of 117. I would suggest we work a lot of overtime, though, and that's to my staff's credit that we get things done.

But all offices are created under the Legislature. All have acts. In terms of the quality of the work, we all are inspected by the CPA of our province, so CPA Ontario. We have a peer process where all our files are reviewed

rotationally by other offices. Our 2017 audit file for the public accounts was reviewed by the Alberta office.

Is that, John—

Interjection.

Ms. Bonnie Lysyk: Yes, okay. Our work, in the last few years—when I came in, the office was down to 105 because of the freezing of the salaries, so we couldn't staff to a complement of 117. But then the Board of Internal Economy three years ago upped us to 117. I do have a request for an additional eight people because in the last five years we've done, like I mentioned, probably more specials than have been done probably in the previous decade. So we've been working pretty hard.

We also are doing more in the attest area than we've done in the past. Plus, as a result of the accounting issues, we would never have issued the special report with the resources that—that's an addition. It's an additional report on our table, and on the pension issues, and that has taken a lot of work.

We typically have spent about 75% of our work on VFMs in Ontario and about 25% in the attest. Unfortunately, because of the accounting issues and that, we now spend about 66% on our VFMs and we've upped our work on the financial attest to 34%.

Mr. John Vanthof: Okay, thank you. Now I'm going to shift gears again. The Fair Hydro Plan passed in this Legislature. It was time-allocated, so basically the government decided boom, boom, boom, right? I believe there were three days of hearings, one day of clause-by-clause, but there was no actual debate on it because once you time-allocate, it's a done deal, basically.

This may not be a question for the Auditor General but it certainly fits in the role of the committee. Do you think, had we had more time to actually have fulsome debate on this and not been cut off, that we could have fixed some of these problems before they became the quagmire that they are?

Ms. Bonnie Lysyk: I can't really comment, other than to say that I guess my hope in doing a presentation to the committee is that it would resonate and there could be a redress of the content of the legislation and the issue of legislated accounting, but it was pretty far down. The train was moving. So I don't know—I don't obviously think that it would have had.

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Mr. John Vanthof: I think you're leading to my second: Did you feel at that point, in a time-allocated committee, that the process was actually working?

Ms. Bonnie Lysyk: Honestly, John, I didn't know it was a time-allocated committee; I'll be honest with you.

Mr. John Vanthof: You do now.

Ms. Bonnie Lysyk: I was there just to present the report and hope that it provided information that would assist the members in making a decision on the bill. So I can't really comment on that.

Mr. John Vanthof: Before I turn over the mike I'd just like to put on the record that one of the problems with a lot of legislation is time allocation. That's something that we

are all suffering from, and every government seems to do it more and more.

The Chair (Mr. Prabmeet Singh Sarkaria): Ms. Fife?

Ms. Catherine Fife: Just really quickly: I'm sure you know what the mandate of the select committee is. We actually have to do an interim report on November 1. You have made some commentary about the commission's report and what you would like to see in a go-forward perspective.

In addition to your commentary that you've given to us with regard to the pension treatment and the Fair Hydro Plan, would you make some recommendations to the committee publicly right now, but also perhaps in writing, on a go-forward perspective on how this could actually be prevented? Because this committee now is going to be tasked with trying to undo a piece of legislation which will negatively financially impact this province for years to come. The goal, I hope, is to put into legislation, not just regulation, a protocol that would prevent any government in the future from taking such action as the Liberal government did with regard to the Fair Hydro Plan.

Ms. Bonnie Lysyk: It's funny, because when you started talking, I got the sense that that might be where you were going, so I have a page we had prepared for a different reason. We talked about this in the office in terms of me coming here and what would be important to mention.

In hindsight, we now know some of the issues around our legislation. For instance, in terms of obstruction, there's a section in the Auditor General Act, section 11.2. We think that section can be strengthened to address obstruction by government employees, boards, management of government agencies and crowns, because unless you have something—I had never encountered the meetings that we had during the Fair Hydro Plan discussions. I think strengthening that section would be very helpful, and probably a restriction on any provincial government releasing the consolidated financial statements without an audit opinion because that was pretty much a shock, and pretty much unnecessary.

We had only received a draft on a Thursday. My staff worked until 1 a.m. on the Monday, adjusting the statement because there were some errors in it. We sent it back to them on the Friday. And then this meeting we had was on the Monday or Tuesday, so we thought we were still working with them on the statements.

The controller's office—it may be some type of protocol in terms of the communication from the controller's office in that they do need to keep us informed of things that are happening throughout the year, because it also protects the person in that position too, if you think about it.

The indication in legislation that consolidated statements be prepared in accordance with Public Sector Accounting Board standards: In Ontario, that isn't in legislation, where it is in other provinces. That would be helpful.

The other area is the strengthening of oversight of external auditors as auditors of government agencies and crown-controlled—so our legislation. If IESO was a government agency, we would have had more of an opportunity to work closer with the auditor and with the board. Because it's a crown-controlled corporation, our act isn't as strong with the work we can do with a crown-controlled corporation. So that's another area.

In Saskatchewan and in Manitoba—more particularly in Saskatchewan, when I was the Auditor General there—we also, obviously, audited the consolidated statements. The subsidiary auditors, the external auditors, actually gave us the draft plans and the draft statements before they were approved by the organization's board, so we could take a look at them and provide comment back.

You asked, so I'm going through a list.

That one would be excellent, because I saw nothing but positive things, in terms of the relationship with the firms in Saskatchewan, because of that relationship and the sharing of information.

I think the commission—I already commented on the one the commission has indicated. That's pretty much it.

Ms. Catherine Fife: Thank you very much for that. I hope that we could get that in writing as well, Auditor.

Ms. Bonnie Lysyk: Sure.

Ms. Catherine Fife: Thank you. Those are very good recommendations.

With regard to strengthening the legislation to prevent the obstruction of the work of the Auditor General's office in Ontario, are there other provincial jurisdictions that actually need legislation to ensure that the work of the Auditor General is not obstructed?

Ms. Bonnie Lysyk: Even in ours, there is a section in there—

Ms. Catherine Fife: You want it strengthened, though.

Ms. Bonnie Lysyk: Pardon me?

Ms. Catherine Fife: You want it strengthened?

Ms. Bonnie Lysyk: Yes, because it didn't apply to IESO. It would apply to our conduct of our VFM audits, but it didn't apply in this situation to a financial statement auditor and a government entity audited by another auditor.

There's a fine or imprisonment. Typically, when you look across Canada, most acts have something in there. But the section here is limited.

When you have that type of authority in an act, obviously, you don't want to use it and you don't use it lightly, but it's there as a deterrent more than anything. But we didn't have a deterrent in our act for this situation.

Ms. Catherine Fife: Okay. So in other jurisdictions, if the work of the Auditor General is obstructed in a significant manner, then there is a penalty of a fine or imprisonment?

Ms. Bonnie Lysyk: In ours as well.

Ms. Catherine Fife: Well, how come you couldn't use it in this case?

Ms. Bonnie Lysyk: The section reference doesn't—our act is a 1990 act, which, when I think about 1990,

doesn't seem that far gone. But it is the oldest act in Canada that hasn't been updated.

Ms. Catherine Fife: So there's a requirement for that act to be updated?

Ms. Bonnie Lysyk: I think it is timely that we look at it.

Ms. Catherine Fife: Yes.

Ms. Bonnie Lysyk: I think it's section 11.2, but there is a section in the Auditor General Act that speaks to fines.

Ms. Catherine Fife: I noticed that you didn't make any recommendations, though, around indemnification. I mean, this is your opportunity to comment on that. Do you think it's appropriate for the government to give legal protection, in this case to directors and/or employees as they carry out some level of work around the legislation, such as the Fair Hydro Plan?

Ms. Bonnie Lysyk: I can comment in terms of governance. Historically, entities were established by governments so that the decision-making could be made by a group of people who were focused on that organization. Through consolidation into the consolidated financial statements, that contributed more and more to government involvement.

But I think maybe the thing is that board members—there's a governance issue, perhaps, of independence somewhat more than what exists. It will never be independent, obviously, but there is maybe a case to be made that boards of crown-controlled entities should be focused on what's good for their organization.

I'm not saying that that wasn't the case at IESO. I'm just saying that perhaps people have different behaviours when that's their focus.

I'll point to an example: the report we issued on the conservation authority at Niagara Peninsula. The board represented the municipality and they were right, under law, but to the employees of that organization, it wasn't a good governance situation.

1640

So I would say governance is an issue, maybe, to be looked at, and how crowns—

Ms. Catherine Fife: For the request to come through with regard to providing some sort of protection, I think those employees or perhaps those board members were put in a very uncomfortable position. I think we have to be mindful of that.

One of your recommendations also that you just articulated was with regard to the controller office. I don't think that's come out, actually, in our line of questioning this afternoon. What role did the controller play in the Fair Hydro Plan?

Ms. Bonnie Lysyk: The controller, I believe, was approached by the Ministry of Energy either in December or January and was asked to be part of the group of people who were putting in place the accounting design. I believe that she worked closely with the IESO's CFO and attended all the meetings that the Ministry of Energy had with the group that was looking at the accounting and finance—initially, I think, didn't see that we would agree with this, and then obviously supported the accounting.

Ms. Catherine Fife: So your recommendation is that there should be some form of protocol for the controller in this province to ensure that their standards are held to a higher level?

Ms. Bonnie Lysyk: I think we depend, for our work, on the statements. We need trust. We need to trust the person in that role, and we need transparency. To be honest with you, we've never seen that situation before, where something as major as this wouldn't have even been highlighted or discussed.

There was a very good working relationship with our office and the former controller for the province. There was discussion around accounting issues. We'd like to see that come back again. That's important.

Ms. Catherine Fife: Okay.

Finally, you referenced the need to legislate that the province of Ontario adhere to a level of public sector accounting guidelines, or perhaps I—

Ms. Bonnie Lysyk: It's a simple line in some provinces. They just say that the government's financial statements shall be prepared in accordance with Canadian public sector accounting standards, and that's all it is. We have signed an opinion. The statements are done here in accordance with Canadian public sector accounting standards for the year ended March 31, 2018. It's just not in legislation.

In the early 2000s, the government created legislation to allow it to change the accounting. In our chapter 2, we speak to the series of pieces of legislation that were passed. We talk about it weakening the system of following proper public sector accounting standards.

The Chair (Mr. Prabmeet Singh Sarkaria): Just under two minutes.

Ms. Catherine Fife: Because there are consequences, right? We can see the consequences of this plan on the people of this province, for sure.

Ms. Bonnie Lysyk: The one interesting thing is OPG and Hydro One. They use a different accounting framework. I'm going to just call it "IFRS." When that came into the province of Ontario, they didn't speak, in their handbook, to the use of rate-regulated accounting. What happened in Ontario is, the government passed legislation here moving them to US accounting, because there was a threat that they wouldn't be able to use rate-regulated accounting. But rate-regulated accounting was decided to be okay for IFRS. We were always hoping the OPG and Hydro One statements would go back to using Canadian accounting standards. There is another reason to have US standards for issuance and shares and that now. But there was another example of legislation being put into place.

Ms. Catherine Fife: Sure. I just want to say that when I was reading the chapter on the unfair hydro plan where you actually found out that the government had already released the financial documents and you had just met with them in the morning—I do remember that day. I genuinely remember how shocked you were to have your office and the work of your employees and the integrity of your office truly undermined by this government. I can only

imagine that your opening remarks today must have felt pretty good.

Thank you very much.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you.

Before I turn it over, if members are in agreement, we can take a 15-minute break, if the committee agrees. Okay. Thank you.

The committee is now recessed until 5 o'clock.

The committee recessed from 1645 to 1702.

The Chair (Mr. Prabmeet Singh Sarkaria): The committee is back in session. In the interest of time—we have an hour remaining—we can go 20, 20, and then 10, 10, if the committee is agreeable to that, if that's okay. All right; that's what we will do.

Questions from the government? Lindsey? Oh, sorry; Ms. Park. My apologies. Please go ahead.

Ms. Lindsey Park: Thank you.

Thank you so much for going into your recommendations for how we can maybe strengthen the role of the Auditor General in our province and ensure that this type of situation doesn't happen again—or at least if, God forbid, it does happen again, you have the tools to deal with it.

I know that I really appreciated those recommendations and, judging by the reaction of everyone on the committee, I think we all did.

We've been talking a lot, as a government, about restoring trust and accountability. I appreciated you talking about how that's really top of mind in everything you do in your office and in the discussions you have. You said, in your words, you were talking a lot about trust.

One of the recommendations you made was—you spoke about a section in the Auditor General Act that deals with obstruction. I just wanted to go back to that, because I thought that maybe you would have more to say on that. In specific, how do you think that section of the act could be strengthened?

Ms. Bonnie Lysyk: I can cite a couple of examples, maybe.

Ms. Lindsey Park: Sure.

Ms. Bonnie Lysyk: One example would be with the controller's division. We had constantly been asking for a certain mathematical calculation to be done regarding the pension asset, and we were told, "I'm not giving it to you." We were repeatedly told that, to the point that we had to go outside and we had our own actuary. But we also then smartened up and started asking the actuaries of the teachers' plan and IESO to give us the information.

But that should have been something that—if we asked a controller's division during the course of an audit, "Please provide us with something"—to be told no, and we go, "Why?"

"Well, because we don't agree with your accounting."

I said, "It has nothing to do with that. We've asked you for some information. Maybe if we look at it, maybe there's a discussion that we could have"—

"No."

So that's one example.

Another one is when we did the special audit at IESO. As part of all of our audits, we get a sign-off that says, "You've provided us all the information. You've made us aware of everything."

In the case of the sign-off for our financial statement audit at IESO, they would not sign off for us. They refused to sign off. They refused to sign off because they kept saying, "Well, KPMG are our auditors." And we'd go, "We know they're your auditors, but we're doing a special audit and our protocol is, we need you to sign this."

Instead of signing it and allowing us to issue at that point what would have been a qualified audit opinion, we had to do what is called a "disclaimer," which means we can't even give an audit opinion other than to tell a reader, "This is why we couldn't give an audit opinion."

In those two cases, the behaviour and the response to what would be normal requests for all our audits weren't.

I'm sure there are others. There are other scenarios that we've been involved in over the last while that, probably, if there were a little bit more teeth to that section and a little more applicability—because it wasn't really applicable in the IESO section—it might have made a little bit of a difference.

Again, I don't know the content. I can't legally understand and I haven't had it interpreted on the full-indemnity side, but it does make us wonder: Was it because of us? I don't think so. I think there were other reasons, but I'm just saying that I don't know. I don't know.

So those are a couple of examples of why that section would help.

Ms. Lindsey Park: That's helpful. In the first example, when you were speaking about the controller division, their response was, "Well, I'm not going to give it to you." When you asked why, they said, "Because we don't agree with your accounting," or "I don't agree," I think is what you said. Who said that to you? Who would have said that back to you?

Ms. Bonnie Lysyk: I don't have a problem saying it. That was the controller's division.

Ms. Lindsey Park: Okay. Some representative of the controller's division?

Ms. Bonnie Lysyk: Yes.

Ms. Lindsey Park: How did that interaction take place? Would that be by phone—

Ms. Bonnie Lysyk: No, we were in a group meeting.

Ms. Lindsey Park: A group meeting? Okay.

Ms. Bonnie Lysyk: Yes. There would have been probably 10 people in that one particular situation. I'm just giving you a couple of examples. That kind of continued behaviour—and that happened on different things throughout the time.

Another time, we showed up at a meeting. I can't remember if we expected a bunch of people, or just one person from one of the firms. Anyway, we walked into a meeting, and there were probably six senior people from one of the big firms in Toronto. We walked in and I thought, "What is this?" We thought it was a meeting just to discuss issues. They had a bunch of people to try and debate with us, but they couldn't. At the next meeting,

there were only one or two, and then it narrowed down to one.

In that case, we started getting requests for information. I'm going, "Why are they asking us for information?" They were asking us because they had contracted with one of the firms to do—I can't remember the number. Do you remember the number, Susan? It's a 7500, 8500 review, where it's like a second opinion, like a second legal opinion. So it was going to be an accounting opinion. There's a protocol for that where you share facts between each other.

Anyway, I'm supposed to be notified if that process is happening, and I wasn't. So I walked in a meeting and in the meeting, they said to me, "We're doing a 7500." I didn't even know what it was. I said, "What is a 7500?" You don't encounter those nowadays in accounting. It's very rare. The standard is not used that much.

But anyway, my point here is, things happen that are obstructionist to the audit, because that exercise with that firm probably consumed—I don't know—a few hundred hours, maybe more, of work—my work, my staff's work.

These types of situations are just for no purpose, really. When you look at the costs of all of that—in that case, we didn't look at the billings, but I'm sure there were billings for that as well.

Ms. Lindsey Park: Did you ever get the calculations you were requesting?

Ms. Bonnie Lysyk: What happened there is, we didn't in the previous years, but we were in a meeting and we asked for them and were told no. Then I had a conversation with a deputy minister and I said, "Why can't you ask that person to give it to us?" I don't know why they couldn't, but they couldn't.

I imagine eventually there was a discussion because then we got a letter, and that's where we confirmed that we were able to see exactly the difference in the calculation between the EY actuary and our actuaries and our work. So that actually came in June; we just got it in June.

1710

Ms. Lindsey Park: The June letter. And who would that letter have been from and to?

Interruption.

Ms. Bonnie Lysyk: June or July.

Ms. Lindsey Park: Do you know if it was after June 7?

Ms. Bonnie Lysyk: Yes, it would have been.

Ms. Lindsey Park: It was? Okay. And that's of this year, just to clarify.

Ms. Bonnie Lysyk: Yes.

Ms. Lindsey Park: Yes. And that letter would have been from who? It was to your office and it was from who?

Ms. Bonnie Lysyk: One of the firms, EY.

Ms. Lindsey Park: From EY?

Ms. Bonnie Lysyk: Yes.

Mr. Ross Romano: That's Ernst and Young?

Ms. Bonnie Lysyk: Ernst and Young, yes. It was from the actuary who works for EY who was on the pension panel.

Ms. Lindsey Park: I'm not asking you to be a lawyer; I don't hold you out to be a lawyer. What would you hope that this section of the act—or what are you trying to capture? What tools are missing that you needed in these situations?

Ms. Bonnie Lysyk: I guess just, when we face that situation, that we can point to the act and say, "This is how serious this is."

Ms. Lindsey Park: You're required to do this, yes.

Ms. Bonnie Lysyk: "Please co-operate. Please listen to us." And then maybe the next thing is, we have our own lawyer, and the lawyer could send a letter saying, "This section of the act: We're just drawing it to your attention. Please provide this section."

I mean, you don't often incur this type of situation. It doesn't happen. I don't recall seeing this in my career. This was a first.

Ms. Lindsey Park: That's helpful.

Ms. Bonnie Lysyk: So it's good as a tool for whenever, but not to be used routinely.

Ms. Lindsey Park: Right. I appreciate that you don't set out to encounter these kinds of circumstances.

Perhaps I'll now kind of go back to the questions we left off on before the questions switched over to the opposition side. This is probably half an hour, 45 minutes ago now. We were talking a little bit about the process of your requesting documents from different ministries, and you had said that by the time the special report was written, only one ministry had held out in not responding to a document request.

I just want to make sure I get this right, but the date that the Fair Hydro Plan passed third reading was May 31, 2017, and in your report you indicate that that's the day that you had requested documents from the Ministry of Energy. I can just—

Ms. Bonnie Lysyk: It's in the report.

Ms. Lindsey Park: It's page 6 of the report. I don't want to put anything to you that's not top of mind.

You indicated that you kept checking in with the ministry between that date and when you issued the special report in October 2017, and then at some point later, after the report was already published, you finally received the productions from the Ministry of Energy.

It's okay if you can't remember exactly. Can you give me your best estimate of when after the report you did finally receive the documents?

Ms. Bonnie Lysyk: The majority of it came probably within three weeks of issuing the report.

Interruption.

Ms. Bonnie Lysyk: Within a month; within that month following the report. There might have been a couple of straggler, you know, USBs that we received on emails, but nothing major from the others, just a couple of stragglers. But yes, the majority was received and then this one probably within a month.

Ms. Lindsey Park: When you were talking about that process, you talked about how you came to find out that a third party had been hired by the ministry to go through the documents and help them respond to that production

request. In your words, you kind of said that you knew what was going on.

We left off there. What do you think was going on?

Ms. Bonnie Lysyk: I guess the Ministry of Energy, because of the gas plant hearings that they'd had before—I think they ran sort of amok in terms of the provision of emails then, so they seemed more sensitive to making sure that they didn't run amok and, I guess,, be comprehensive. But for everybody else, when we asked for them, we had them on USBs and we had them fairly quickly. So it was just a little disappointing that the process took so long, because they could have just given it to us and then gone back and double-checked. That's what we were sort of hoping for. But they did take a little longer.

As it is, a lot of those emails and material—because people were working closely together, there are strings of emails where they're talking to each other. So you don't necessarily need a Ministry of Energy to figure out what the Ministry of Energy was discussing because it would be on somebody's email in another entity. That's why we weren't concerned about issuing a report before we had all of the emails.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Romano.

Mr. Ross Romano: You used the words, referring to the Ministry of Energy, that they were afraid not to “run amok,” and then you said that they didn't want to be comprehensive in their response—

Ms. Bonnie Lysyk: No, that they would say they wanted to be comprehensive, because of the situation that happened with the gas plants.

Mr. Ross Romano: Okay. Is it fair to say that you or your office felt that you were being stonewalled from production of these remaining documents and emails?

Ms. Bonnie Lysyk: I would say we thought that we could have received them faster.

Mr. Ross Romano: When you referred to that section of the Auditor General Act on obstruction, the section—and I'm going to paraphrase. A very specific section refers to “obstruction” being an act to conceal or destroy material that the Auditor General has requested and that would be considered relevant to the audit procedure. Do you feel that they were concealing these documents or at least attempting to conceal these documents and/or emails or materials you were requesting?

Ms. Bonnie Lysyk: No. I wouldn't want to suggest anything here because I don't know what they were thinking. I know that they were telling me, “We want to get somebody to go through them to make sure that they're the appropriate emails, that they're not related to other subjects,” so I took it for what it's worth.

When we approached doing this report, it was really to get the information out on the finance side and the accounting side. We weren't approaching it in a forensic manner, where we would go in and we would make sure that we're getting all the emails and we're getting them ourselves; it was more “please provide us the information.”

Mr. Ross Romano: Certainly, the ministries—every single one, from what I understood you to say, with the exception of energy—immediately and promptly responded and provided what you asked for—

Interjection.

Mr. Ross Romano: You're saying that was correct. But the Ministry of Energy delayed substantially.

Ms. Bonnie Lysyk: Correct.

Mr. Ross Romano: All right.

The Chair (Mr. Prabmeet Singh Sarkaria): Ms. Park?

Ms. Lindsey Park: Just to close off that topic, when you finally did receive the productions, did your office review them? Did you find anything of interest in them?

Ms. Bonnie Lysyk: I would have to say that when we received them, we were pretty tied up in other files as well. This exercise on the special was in addition to our normal workload, so we didn't focus on reading a lot of those emails. I would say we received them and we put them aside until such time that we thought we one day might need to look at them again. We had all the answers we needed for the purposes of that report.

Ms. Lindsey Park: This is a bit of a housekeeping matter—I think you referenced this earlier. As you might be aware, our committee has requested a whole bunch of documents to do our own analysis and carry out this process. Have you had a chance to review that document list?

Ms. Bonnie Lysyk: I did have a copy of it and I did look at it just mainly from the point of my concern on the wording. I consulted with our counsel about whether that could be interpreted in the same way that we've worked with the FOI requests, and he said yes. So that's how I've looked at that list.

Now, if you're asking me if I've looked at it for completeness, which I think is where you're going, I can't say I've looked at it for completeness. I can comment that there are names listed there that we wouldn't have known who they were. Our focus was very much so on finance.

1720

Ms. Lindsey Park: Okay. So perhaps in some ways this document request list is maybe broader than anything you might have reviewed.

Ms. Bonnie Lysyk: Yes. In terms of from whom you're asking for information, we did not request any of the ministers' emails, the chief of staff—ministries' emails, I guess.

Ms. Lindsey Park: In the interest of time, I'm not going to make you read through the document list while you're sitting here. I think everyone in the room has already—hopefully everyone is still awake, but we don't want anyone to fall asleep while we're carrying out this process.

Ms. Bonnie Lysyk: I've got it. I do have it.

Ms. Lindsey Park: Perhaps I can just ask this: I know you'll be writing to the committee with the recommendations on how we can maybe strengthen the Auditor General Act and the process around the Auditor General's role. Would you be able to just review that document list

and, if there is anything that you requested and reviewed that we're missing here, would you be able to advise us of that?

Ms. Bonnie Lysyk: If I can take that under consideration, I just want to make sure I frame any response we do give so that I don't breach the act on other aspects.

Ms. Lindsey Park: Yes, for sure. I'm not asking you to do anything outside the law.

Ms. Bonnie Lysyk: For sure. I understand.

The Chair (Mr. Prabmeet Singh Sarkaria): One minute more.

Ms. Lindsey Park: Just finally, if there is anything else you recommend we request—so two separate questions.

Ms. Bonnie Lysyk: Okay.

The Chair (Mr. Prabmeet Singh Sarkaria): Forty seconds.

Mrs. Robin Martin: Okay, I have a question.

The Chair (Mr. Prabmeet Singh Sarkaria): Ms. Martin, yes?

Mrs. Robin Martin: I just wanted to follow up and close a loop that Ms. Park was asking about. When you talked to the controller and they refused to provide a calculation, has that ever happened in your experience before, where you've asked for a calculation or some other information from the controller and they haven't provided it to you?

Ms. Bonnie Lysyk: No, not so—there may be delays, and you understand that, but not a blatant no.

Mrs. Robin Martin: Thank you.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you very much, Ms. Lysyk. If I could just ask you to move closer to the mike, I believe there is a bit of an issue in hearing. Thank you so much.

We'll pass it over for 20 minutes to the opposition for questioning. We'll start with Ms. Shaw.

Ms. Sandy Shaw: Thank you. On behalf of our committee, I think we feel that we've asked complete questions and we want to thank you for your testimony here. Particularly, we want to thank you for some of the recommendations that you've made around improving the act—those are very concrete, specific recommendations—and especially around the kinds of transparency of reporting around the alternative financing and procurement, the P3s. Those are some of the ways that we can continue to improve.

As we've stated before and will continue to state, our goal for sitting on this committee is not simply to look backwards, to look at the past practices, if you will call them practices; it is to make sure that this doesn't happen again and that we continue to deliver better for all of the people of Ontario. So we're satisfied with these answers and we want to thank you once again.

Ms. Bonnie Lysyk: Thank you very much. I appreciate it.

Ms. Sandy Shaw: We're good.

The Chair (Mr. Prabmeet Singh Sarkaria): No further questions?

We'll go back to the government for 10 minutes of questioning. Ms. Martin?

Mrs. Robin Martin: Thank you very much, Chair. I would like to echo the comments from the opposition. We really appreciate your testimony and the extra help you've brought with Mr. Beauchamp, which was very enlightening, all of it. We're all learning more about accounting than we ever thought we'd want to know. But good for us. It's all good for us.

I just had a few questions around the significance of all of this. There is a series of statements by the former government, the Liberal government, about how this was just simply an accounting dispute. It came up many times. I have some examples, if you want me to specifically direct you to them, but they said it was an accounting dispute, a disagreement between accountants. Another time it was said that the auditor had confirmed that the plan was prudent, cautious and appropriate, which I don't think I ever saw you confirm.

Why is this not just, in your view, an accounting dispute? Why is that not giving it the significance that you feel it deserves?

Ms. Bonnie Lysyk: We're an independent office of the assembly. Our job is to audit the financial statements for the province of Ontario. So we're the primary auditors.

In terms of accountants, advice from firms is getting some advice, but it's not opinion, and they're not the auditors for the province.

I think that putting that out in the public forum and confusing everybody about what the role of the Auditor General's office is, and what private sector firms do, is a challenge to an independent institution. That is where it becomes serious.

I think you work through these things. We work through them, as Auditor General offices in Canada. But if you start questioning this type of institution—I mean, we put a lot of rigour to make sure that we are accurate and complete. If you start challenging this kind of institution, then I don't know where you go, believing that things are right or wrong.

That would be the same with other similar types of functions in the democratic process.

Mrs. Robin Martin: In a sense, they were suggesting, by saying that your opinion was just one opinion amongst other accountants, and there were other professional accountants who disagreed with you—you don't feel that that is an accurate portrayal of the office that you hold.

Ms. Bonnie Lysyk: Each province has an Auditor General, and the feds have an Auditor General. We have the Auditor General office, and we have our community. The best people to opine on government consolidated financial statements are the Auditor General offices in Canada, because there's no one else. The private sector firms do not opine on the government's finances.

It just seemed odd that—I think the concern that we had is that the record wasn't set straight. I think somebody should have come forward and said, "That's not what we're doing."

To Deloitte's credit, Deloitte did come forward and say, "This is what we are doing." I think by them doing that, it did take the discussion away from their role in it. But I

think others should have sat back and said, “We should correct the public record.”

Private sector auditors can quit. We can’t quit. I think that’s an important difference too, between us and the private sector firms. Plus, I don’t think we’re paid the same way.

As much as people say “independent,” we are, and people in our office are upheld to confidentiality or upheld to non-partisan involvement. That’s what distinguishes us as well from the private sector firms, because they’re profit-oriented and they can associate politically with the different parties.

Mrs. Robin Martin: You expressed some frustration earlier that you weren’t being listened to. I think you mentioned that at the justice committee, you expected that your comments would be taken to heart and reflected on. What do you think was at stake, really, for Ontario, for the province, by not having the accounting represented in a fair and proper way?

Ms. Bonnie Lysyk: I think I view that experience more as making people aware of the situation, of the way we had studied it and analyzed it, and putting it forward and letting people be the judge themselves of that information.

We did, and I did, the job—with my team—of putting that forward. How people use the information from our office, we can’t control. So we work by influence.

I think once that information was put forward, we got some satisfaction, although at the end of day, we would have liked it, obviously, to turn in our favour and have the legislation not go through. I think we just thought, “We did our job.” Each time, if you work in a legislative office and you encounter difficulty, you just keep going down that path: “We think this is the right thing to do, and we’ll communicate it, and it will be what it will be.”

It’s up to all members here. We work through you, and we give you the information. It’s up to everybody here to hold the government of the day to account.

Mrs. Robin Martin: But you did opine in your pre-election report that it wasn’t a fair representation of the finances of the province of Ontario. Can you just elaborate on what your conclusions were there?

1730

Ms. Bonnie Lysyk: We concluded that the bottom line was not a fair representation of what the bottom lines should have been presented to be, because they did not include unrecorded expenses, so additional pension expenses, and the bottom lines on the figures did not include the impact of the correct accounting treatment for the rate reduction in Ontario.

Mrs. Robin Martin: Okay. And then the former government appointed a pension expert advisory panel, as well as having that group of accountants meet you for what you called a 7500 accounting review. Are either of those things that you’ve ever experienced before in your practice, in working for governments?

Ms. Bonnie Lysyk: No, I haven’t.

Mrs. Robin Martin: So they’ve never appointed a panel to review your work or the work of another Auditor General?

Ms. Bonnie Lysyk: In my career, I haven’t seen that or experienced that.

Mrs. Robin Martin: Okay.

The Chair (Mr. Prabmeet Singh Sarkaria): Mr. Romano.

Mr. Ross Romano: I promise we’re almost there. We’re landing the plane in the very near future. I know everyone is tired here.

This is in no way meant to be insulting, so please know that I just want to make sure there’s a clear record: When my friend just asked the question about this pension, the 7500, I noticed that Mr. Beauchamp, if I’m saying your name correctly—there was some giggling. Of course, we can’t capture that for the record.

That is how bizarre, though, right? The giggling is really—it was that bizarre and intense, to say, “What the hay are they thinking? What are they doing?” I see nodding in the affirmative. Is that not a characterization that you probably thought at the time?

Ms. Bonnie Lysyk: We encountered, I would say, over the last couple of years, situations that I’ve never seen before and I don’t think my staff has experienced before. We just kept—“What’s the next thing?” And we kept dealing with issues. I mean, we wrote lots of letters and we had lots of meetings. Yes, it was unusual.

Mr. Ross Romano: So I get the sense here—I know I seem to be always summarizing in a really lackadaisical way; it’s not my intention. But I really am trying to express that there are a lot of lay people out there, and I consider myself one of them, who don’t get the specific metrics, if you will, of all of it.

To try to really understand it in a lay sort of way—I get this feeling, the way you’ve been talking about even just this answer you gave now and the answer earlier about how you were having all these countless meetings, going into the meetings with these people before you issued the special report, saying, “They’re not getting it.” It’s almost as if you’re saying, “I was beating my head against the wall. They’re not understanding, and quite frankly they’re being obstructive.” Would that be a fair characterization?

The Chair (Mr. Prabmeet Singh Sarkaria): It’s just the last minute. Thank you.

Ms. Bonnie Lysyk: I guess I was saying that the whole time we were trying to figure out, to make sure: “Are they missing something, or are we missing something?” That was part of the conversation, the thought process. I mean, we were solid in both of those accounting issues. It’s just that the behaviours were so odd and the situations were so odd that you always want to second-guess and double-check.

In terms of “obstructionist,” let me put it this way: There are accounting issues that you can write up in three pages because there is a simple way to look at it from an accounting perspective. We had 80-page documents, and we would receive 80-page documents to walk through and figure out, “What is this saying about these issues?”

One of them—I forget; there was a deadline for something for us, and we ended up receiving a report two days before, and it was 80 pages, and it meant nothing.

Those were the types of things we thought were odd. Why would somebody write an 80-page report to twist around the handbook sections, to try to justify accounting, when we could read it from a technical perspective and go, “This doesn’t make sense”? But you see, if you give somebody who doesn’t understand the technical side an 80-page document, that looks pretty credible.

Mr. Ross Romano: So perhaps the way I characterized it, saying, “Why aren’t they getting it?”—perhaps, then, they did get it and they just were being obstructive.

Ms. Bonnie Lysyk: I can’t interpret that behaviour. I just know we experienced some odd situations.

Mr. Ross Romano: Well, they certainly called it an accounting dispute, and you obviously dispute that, right?

Ms. Bonnie Lysyk: There we go.

The Chair (Mr. Prabmeet Singh Sarkaria): Thank you. The time is up over here, so I’ll pass it over to the opposition for their last 10 minutes—

Interjections.

The Chair (Mr. Prabmeet Singh Sarkaria): No further questions? Okay. Thank you.

That concludes the questions for the day. Thank you very much, Auditor General, for attending today’s hearing and for your co-operation—and the team. We do really appreciate that, so thank you very much.

Ms. Bonnie Lysyk: Thank you very much. I appreciate the questions.

The Chair (Mr. Prabmeet Singh Sarkaria): The committee is now adjourned until 3 p.m. tomorrow. Thank you.

The committee adjourned at 1735.

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