

Intelligence MEMOS



From: William B.P. Robson
To: Canada's legislators and financial watchdogs
Date: September 21, 2018
Re: **ONTARIO'S CLEAN FINANCIAL STATEMENTS – A STEP FORWARD FOR ACCOUNTABILITY**

Ontario's release today of financial statements with a clean opinion from the provincial Auditor General is good news. For Ontarians – and for everyone who values high quality financial reporting from Canadian governments.

Ontario once produced reliable financial statements. But for two years running, its auditor had refused to certify them. Ontario's rank in the C.D. Howe Institute's fiscal accountability report card for the feds, provinces and territories dropped from A-minus – among the best – in 2016, to C this year. First, the province used an artificially high discount rate to make government-employee pensions look healthier than they are. Then it invented a questionable asset to offset its electricity subsidies, understating provincial borrowing and debt. These distortions supported a claim that the province had balanced its budget.

A change in government likely made the decision to issue financial statements without these distortions easier, but not necessarily easy. The province now shows a deficit of \$3.7 billion for the fiscal year that ended last March 31, instead of the \$600-million surplus projected in the spring budget. It now shows an accumulated deficit of \$209.0 billion – \$16.6 billion worse than projected last spring. A government that wants to deliver tax cuts without running in the red would undoubtedly prefer to start from more flattering figures.

Ontario cleaning up its act matters to all Canadians. Modern governments have huge powers to appropriate their citizens' resources. Elected representatives and voters – and the watchdogs charged with acting on their behalf – struggle to keep up. Modern governments have also honed the craft of “flooding the zone” with alternative facts – in Ontario's case, trumping up supportive views and dismissing the charges about bad numbers as “disputes among accountants”. So modern elected representatives must relentlessly demand reports that follow the rules – that tell us how much tax we pay, what happens to the money, and how sustainable our fiscal positions are over time.

Much remains to be done. Many governments, especially in Canada's cities, do not follow public sector accounting standards in their budgets. Some, including the federal government, bury key numbers deep in documents full of fluff. Budgets voted after the fiscal year has begun – making a mockery of legislators' control of public funds – are too common. So are financial results published problematically late. Members of federal, provincial and territorial governments regularly vote on spending with no clue how it reconciles with budgets they themselves previously approved. And the quest to ensure that public sector accounting standards themselves provide useful information in such murky areas as deferred compensation and contingent liabilities will continue to provoke arguments – and create opportunities for governments that want to mislead the public.

But as we contemplate those tasks, today's announcement from Ontario should lift our spirits. A government that was producing good numbers suddenly failed to do so. People noticed and complained. Their criticisms bore fruit. Ontario's financial statements are again reliable. We can move forward from here.

William Robson, CEO of the C.D. Howe Institute, is also a member of the Panel of Senior Advisors to the Auditor General of Ontario, and a member of the Public Sector Accounting Board's Employment Benefits Advisory Group.

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