

Transparency in the City's financial information

Date: October 9, 2019
To: Audit Committee
From: Chief Financial Officer and Treasurer, and Controller
Wards: All

SUMMARY

At its July 16, 2019 meeting, City Council requested the Chief Financial Officer and Treasurer, and the Controller, to review the presentation of the City's budget documents and consolidated financial statements for transparency and understandability, following the Audit Committee June 28, 2019 submission of the City of Toronto's (City) Audited, Consolidated Financial Statements (Statements). This report provides information about the presentation standards used for the City's Statements, including best practices among Canadian municipalities, and provides support for the presentation currently used by the City.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer, and the Controller, recommend that:

1. City Council receive this report for information.

FINANCIAL IMPACT

There are no financial implications contained in this report.

DECISION HISTORY

Section 231 of the City of Toronto Act, 2006 (Act), requires that the City's financial statements be prepared in accordance with generally accepted accounting principles (GAAP) as set by the Chartered Professional Accountants of Canada's Public Sector Accounting Board (PSAB).

The presentation used for the City's Statements follows PSAB standards and all statements and notes, which form an integral part of the Statements, are audited by the City's external auditors, PriceWaterhouseCoopers (PwC).

ISSUE BACKGROUND

The City's annual Statements are prepared in accordance with PSAB standards and are audited by PwC, the City's external auditor, whose role is to express an independent opinion on the fair presentation of the City's financial position and operating results, and that the statements are free from material misstatement. The Statements are presented to Audit Committee and City Council for approval. The City's 2018 Statements were presented to Audit Committee at its meeting of June 28, 2019.

Audit Committee discussed the City's financial statement presentation and the opportunity to make the Statements an open data item, focusing on increased transparency and the ability of all readers to easily understand the City's financial situation.

COMMENTS

In order to respond to Council's request, City staff reviewed the current financial statement presentation guidance provided by PSAB, along with international standards, where applicable. In addition, best practice followed by Canadian municipalities was also reviewed. Management's review was focused on ensuring that transparency, fairness, best practice and consistency are applied in preparing the City's Statements.

In preparing the 2018 Statements, management performed a detailed review of the presentation used in prior years against PSAB requirements and made significant changes to the Statement presentation, streamlining statement and note disclosures to more closely reflect PSAB standards and best practice used by other municipalities in Canada. The 2018 Statements were audited by PwC, who provided an independent opinion on the fair presentation. In addition, given planned changes to both the budget process and presentation, the City has an opportunity to align to PSAB, further reducing confusion between budgets and accounting numbers, and increasing both transparency and consistency between budget and accounting presentations.

PSAB and International Public Sector Standards (IPSAS)

In preparing the City's Statements, PSAB is used as the primary source of guidance; PSAB standards for financial statement presentation are used by all Canadian municipalities. PSAB sets out the objectives for financial statements and provides guidance on presentation that enhances fairness, understandability, and consistency in public sector reporting. The intent of PSAB's guidance ensures that the information provided is useful in evaluating the government's ability to finance its activities, meet its liabilities and provide services into the future.

Financial statements should demonstrate accountability for all users. For this reason, all financial measures including non-cash measures, like amortization, and long term items, such as debt, need to be given appropriate treatment. PSAB does not require statements to differentiate revenues and expenses between operating and capital activities; emphasis on these measurements as sub-sets would be unwarranted and would distort reporting by emphasizing one type of expense over another. The details provided in the City's Statements allow users to identify sources and types of revenue, the cost of goods and services, the extent to which revenues allow for the City to meet expenditure requirements, how the City uses its own or other cash raised, and the City's ability to meet short and long term obligations. The statements and notes together form an integral part of the City's Statements, allowing users to evaluate the financial results of budgets and resources approved by Council.

Although PSAB is the primary guidance used by Canadian public sector organizations, where PSAB is silent, IPSAS guidance is used. Management's review of IPSAS standards revealed that objectives, characteristics and presentation concepts are similar to PSAB. The alignment of these standards recognizes the importance of representational fairness, enhances understandability and removes bias from all government financial reporting.

Best Practice Review

PSAB standards were originally established to improve and harmonize public sector accounting in Canada, enhancing consistency and comparability both across organizations and from year to year. As part of management's analysis, the financial statements of 100 municipalities across Canada and six regions within Ontario, including Vancouver, Montreal and Peel Region, were reviewed. The results showed that 80% of these upper and lower tier government organizations presented their financial statements in a manner that is consistent with the City's presentation.

Budget Modernization

At the present time, the City's budget and its actual financial reporting are prepared using a different set of assumptions which requires an extensive reconciliation process to ensure comparability. As described earlier, the City's financial statements are prepared in accordance with the rules set out by PSAB. The budget is used to plan the cash requirements of the City and to set the levy requirement and the tax rate increases. The City has begun a multi-year budget modernization process that will make the budget document a more efficient and effective tool in helping support strategic, multi-year decision-making. This process has begun with the 2020 budget process whereby the budget process has been simplified to increase the understandability of the information that informs decision making. The budget modernization process in the next couple of years will create the foundations for a multi-year outlook. As part of this multi-year outlook, the City will continue to monitor the municipal sector budgeting practices to enhance comparability and understanding.

Open Data

At this time, the ability to enable the Statements to be an open data item is limited. However, as management moves towards an integrated and modernized financial system, and the consolidated information of the City's 122 controlled entities is digitized on the City's platform at a detailed level, management, operational and financial reporting will adopt open data principles.

Given the transformative work that management is currently doing to modernize the budget process which will lead to a transparent and simplified budget document that aligns budget and the audited financial statement comparability, along with the City's adopted PSAB standards which are best practice both nationally and internationally, management has confidence that the City's statements are understandable and comparable to those of other government entities, and present the City's financial position and results of annual operations in a fair and transparent manner.

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SIGNATURE

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