



Auditor General
MANITOBA

Report to the Legislative Assembly

Public Accounts and Other Financial Statement Audits

Website Version



December 2022

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December 2022

Honourable Myrna Driedger
Speaker of the Legislative Assembly
Room 244, Legislative Building
450 Broadway
Winnipeg, Manitoba R3C 0V8

Dear Madam Speaker:

It is an honour to submit my Special Report to the Assembly titled, *Public Accounts and other Financial Statement Audits*, to be laid before the Legislative Assembly in accordance with the provisions of Sections 10(1) and 28 of *The Auditor General Act*.

Respectfully submitted,

Original Signed by:

Tyson Shtykalo

Tyson Shtykalo, CPA, CA
Auditor General

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Auditor General's comments

Each year, my Office audits the Province of Manitoba's Summary Financial Statements as part of the Public Accounts audit. We also audit the financial statements of a number of other government-controlled and related entities. The objective of financial statement audits is to express an opinion on the financial statements, in accordance with Canadian Auditing Standards. This report provides an overview of our 2021-22 financial statement audit work and observations on matters of concern.

I am concerned that during the 2022 audit of the Public Accounts, we continued to encounter many of the same issues as prior years—and found an increasing amount of control deficiencies. We found significant control and accounting deficiencies throughout the government departments we audit, including poor compliance with controls over purchases and expenses, inadequate accounting processes, and other control environment weaknesses.

Without the proper accounting controls in place, there is a greater risk of errors in financial reporting. To mitigate this risk of an undetected error, we had to expand our audit work which increased the time it took to complete the audit this year. Next year, there will be new accounting standards which will require significant work on the part of the Province to implement. Given the additional work required in 2023, I am concerned that without improvements to the Province's control and accounting deficiencies, there will be unacceptable delays in the finalization of the Public Accounts.

I am also concerned the Province does not have effective controls in place to identify and address deficiencies. This report notes concerns from officials regarding job vacancies and turnover, as well as a lack of adequate accounting knowledge in departments. Despite the vacancies and lack of accounting knowledge, it remains the responsibility of the Province to ensure appropriate controls are in place.

I would like to thank the Department of Finance, the Treasury Board Secretariat, and all others involved in the preparation of financial information in government-controlled and related entities. Your cooperation and assistance are greatly appreciated. I would also like to thank my staff for their professionalism and excellent work on the financial statement audits and this report.

Original Signed by:
Tyson Shtykalo

Tyson Shtykalo, CPA, CA
Auditor General



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Introduction

The Auditor General Act (the Act) establishes the Auditor General as an independent officer of the Legislative Assembly. The Act outlines the responsibilities of the Auditor General, which include:

- Expressing an opinion to the Legislative Assembly as to whether the Summary Financial Statements included in the Public Accounts fairly present the financial position of the government in accordance with the accounting policies stated in the Summary Financial Statements.
- Auditing financial statements and other financial information of certain other entities within the Government Reporting Entity (GRE), and any other statements the Minister of Finance presents for audit.
- Providing the Legislative Assembly with independent information, advice, and assurance.
- Reporting to the Legislative Assembly annually on the results of our financial statement audit work.

The Government Reporting Entity (GRE) represents all of the financial affairs and resources under the Province of Manitoba's control, including those of the entities it controls. These entities include school divisions, universities, regional health authorities, government business enterprises (for example, Manitoba Hydro), and other provincially-funded entities under the government's control. There are over 180 entities within the GRE.

Public Accounts of the Province of Manitoba

The Public Accounts are prepared annually in accordance with *The Financial Administration Act* and in 2022 contain:

- **Financial Statement Discussion and Analysis (FSD&A) and other management commentary**

The FSD&A is prepared by management to help users better understand the financial information included in the Summary Financial Statements. The FSD&A includes discussion and analysis of the measures, relationships and variances underlying the statements as presented. The FSD&A and other management commentary is unaudited.

- **The Summary Financial Statements**

The Summary Financial Statements (SFS) are the consolidated statements of the Province of Manitoba. The SFS are prepared by the Provincial Comptroller and included in the Public Accounts Annual Report, as required under the *Financial Administration Act*, Section 65(1)(a). These statements are prepared using Public Sector Accounting Standards (PSAS), which are the Canadian accounting standards used by governments and government organizations. The Auditor General is named as the auditor of these statements under both *The Financial Administration Act* and *The Auditor General Act*. We perform the audit of the SFS and issue an auditor's opinion under Canadian Auditing Standards. The objective of our audit is to obtain reasonable assurance the SFS are prepared in accordance with PSAS and are not materially misstated.

- **Information provided under statutory requirement**

Several acts including *The Financial Administration Act* include requirements to table certain information or provide information or reports in the Public Accounts. This information is also included in the Public Accounts Annual Report. For the majority of these reports there is no audit requirement and we are not involved. However, we do perform the audit for 2 supplementary reports, as required by legislation. We performed audits on the Rainy Day Fund Statement of Transfers and Account Balance, and the Statement of Expenditures for Hospital, Medical, and Other Health Services under the Manitoba Health Services Insurance Plan.

Other financial statements and financial information we audited

Legislation requires the Auditor General to audit the financial statements and other financial information for certain organizations in the GRE. Management of other entities also engage us to audit their financial statements and other financial information.

In 2022, we audited the financial statements of 14 entities. Of these entities, 8 were within the GRE. All other public sector entities within the GRE are audited by external audit firms. Although not part of the GRE, we also audited 4 public sector pension plans, 1 Public Service Group Insurance Fund, and the Northern Affairs Fund. The Acts for 3 of these pension plans appoint the Auditor General as the auditor.

Results of our financial statement audits this year

In this report we discuss the results of our 2021-22 financial statement audits and look ahead to the year to come. This includes discussion of:

- Issues impacting this year's Public Accounts audit (**SECTION 1**).
- Control deficiencies found during our audit of the 2021/22 Public Accounts (**SECTION 2**).
- Concerns for the 2022/23 audit cycle (**SECTION 3**).
- Follow up on the status of our past year recommendations (**SECTION 4**).
- Each of the other entities we perform financial statement audits for and the results of these audits (**SECTION 5**).

1 Issues impacting this year's Public Accounts audit

Our audit of the Summary Financial Statements (SFS) is based on Canadian Auditing Standards (CAS). A key element of CAS is to use a risk-based audit approach. Therefore, our planning work for the audit of the SFS includes a risk assessment process. We spend more of our audit time on the areas we identify as having higher risks of material misstatement.

Things we consider when doing our risk assessment include:

- Dollar value (magnitude).
- Complexity of calculations.
- Complexity in applying Public Sector Accounting Standards (PSAS).
- Degree of uncertainty.
- Degree of estimation required.
- Degree of subjectivity.
- Changes from prior year.
- Susceptibility to misstatement due to management bias or other fraud risk factors.

We also spend more time on new transactions, balances, and disclosures, as they have never been audited. For these new items, we obtain an understanding of the underlying business processes to identify risks of misstatement. We also evaluate the accounting treatment for new or newly material items to ensure the accounting is in accordance with PSAS.

During our planning and throughout our audit we use information from a number of sources to help identify risks, including our:

- Discussions with senior management.
- Review of Provincial news releases.
- Review of enacted legislation.
- Review of Treasury Board minutes.
- **Walkthroughs** of the significant business processes.

Walkthroughs

As part of our audit planning procedures, we gain an understanding of relevant business processes and the controls within them. We follow a transaction from its initiation, through the control system, to how it gets recorded in the accounting system. The goal is to test the design and the implementation of controls.

Significant risks

When we talk about significant risks in our audit, we are using a term defined in Canadian Auditing Standards.

Risks are considered significant depending on the following factors:

- Nature of the risk, for example, an accounting estimate.
- Likely magnitude of the potential misstatements.
- Likelihood of the risk occurring.

Significant risks require special audit consideration in terms of the nature, timing, or extent of testing.

We identified a number of **significant risks** when planning our audit of the SFS. Some of these significant risks are discussed further in this report. These are:

- Changes to Accounting treatment of MASC trusts (**SECTION 1.1**).
- Manual processes being used for consolidating controlled entities (**SECTION 1.2**).

During the course of the audit we identified additional risks related to changes and new transactions. A new Education Property Tax Rebate was one of these new items, which we discuss in **SECTION 1.3**.

1.1 Changes to accounting treatment of MASC trusts

Our audit opinions on the Manitoba Agricultural Services Corporation (MASC) and the Summary Financial Statements (SFS) had been qualified since March 31, 2018. The qualifications related to trusts set up in September 2018 for MASC's Production and Hail Insurance programs, which were excluded from the financial statements.

Under Public Sector Accounting Standards (PSAS), trusts that meet the definition of a "trust under administration" are not considered controlled by a government and are not required to be consolidated. While the MASC trusts were legal trusts they did not meet the criteria for a trust under administration. They did meet the criteria for an asset under PSAS, since the funds from the trusts are to be used to meet future obligations of MASC's insurance liabilities. For our original analysis of these trusts, see our 2019 report, *Understanding my Audit Opinion on Manitoba's March 31, 2019 Summary Financial Statements*.

In 2021/22, the Province of Manitoba (the Province) approved a regulation that amended the insurance agreements with the policy holders to restrict the use of the trusts for specific purposes. This change did not impact the status of the trusts as assets of MASC (and therefore the Province). It did create an external restriction on the **Production Insurance Fund**—both the portion within the trust and the portion of the production insurance reserve outside of the trust.

MASC and the Province both made changes in their accounting for the insurance trusts and reserve this year because of the new external restrictions created by the regulation change. As a result of the financial statement changes summarized below, we removed our qualifications related to the trusts.

- The Production Insurance and Hail Insurance trusts are now both consolidated as assets of MASC and the Province, reflecting the control over these assets.

Production Insurance Fund Restriction

Per the AgriInsurance contract and corresponding AgriInsurance Regulation, MASC agrees not to pay any amounts out of the Production Insurance Fund except as follows:

- (i) to pay indemnities payable under this contract or any other contracts of production insurance;
- (ii) to pay premiums or other amounts payable for reinsurance under an agreement referred to in clause 28(b) or section 67 of the Act;
- (iii) interest on money borrowed by the Corporation for the purposes of the Production Insurance Fund (other than interest on advances repaid out of the Reinsurance Fund of Manitoba referred to in the Act);
- (iv) to contribute amounts to be contributed to the Production Insurance Trust Fund, namely the Corporation's annual revenue from the production insurance program as shown in the Corporation's audited financial statements, less the amounts paid under paragraphs (i) to (iii) of this Section;
- (v) to contribute such additional amounts from the accumulated surplus in Production Insurance Fund to the Production Insurance Trust Fund as the Corporation may contribute under the Trust Agreement.

- The Production Insurance Fund (which includes the trust and other funds outside the trust) is now recorded as a deferred revenue liability. The deferred revenue is externally restricted to only be used for specific purposes outlined in the Production Insurance Regulations (see sidebar above). It will be recognized into income as needed to fund deficits in annual Production Insurance operations. Any surplus from annual operations going forward will be deferred until used.
- The Hail Insurance program does not have similar external restrictions. The annual surplus or deficit resulting from its operations is now included in the annual surplus or deficit of MASC and the Province.

The impact of these changes on the SFS is summarized in the table below.

Restatements for the year ended March 31, 2021					
Cash, cash equivalents and investments	Unearned revenue	Revenue	Expenses	Accumulated deficit at March 31, 2020	Accumulated deficit at March 31, 2021
Increased by \$594 million	Increased by \$792 million	Decreased by \$75 million	Decreased by \$88 million	Increased by \$211 million	Increased by \$198 million

As of March 31, 2022, the Production Insurance Fund—included in unearned revenue in the SFS—was \$408 million, down from \$792 million in 2021. The difference was recorded as revenue in 2022. The reserve was drawn down this year because of increased insurance indemnities due to drought.

1.2 Manual processes used to consolidate controlled entities

Manitoba's Public Accounts contains the consolidated Summary Financial Statements (SFS), reflecting the entire Government Reporting Entity (GRE). The GRE is comprised of all the entities controlled by the Province, including:

- Those which are not separate legal entities with separately audited financial statements (such as the departments and funds of government).
- Those which are separate legal entities and also prepare their own audited financial statements.

In 2022, there were 136 components listed in Schedule 8 to the SFS. The schedule discloses the departments and entities comprising the GRE as of March 31, 2022. To prepare the SFS, the Office of the Provincial Comptroller compiles the unaudited and audited information from all of these separate components, and then prepares consolidation adjustments as required to eliminate inter-entity balances. It then presents the Province's consolidated information in accordance with PSAS.

RISK OF CONSOLIDATION PROCESS

We consider consolidation an elevated risk area in the SFS for the following reasons:

- Data from each of the 136 components is manually entered each year into a spreadsheet, which creates data entry risk.
- Consolidation entries and adjustments are made manually. As a result, there is an increased risk for error and related information being omitted, as the required entries may not get made.
- The spreadsheets for all components are linked, so when a change is made to a sub-spreadsheet all the corresponding summaries and schedules, as well as the SFS, are updated. As a result, there is no way for a reviewer to ensure they have reviewed all changes impacting the SFS.
- Analytics can be used to gain assurance over the consolidated figures. However, analytics comparing the current year to prior year balances must be set up manually, increasing the risk of errors in the analytic calculations.

OTHER AREAS FOR IMPROVEMENT

There are other areas where the consolidation process could be improved. These include:

- Timely reconciliations of inter-entity balances. During the audit we found several errors related to incorrect elimination adjustments because complete reconciliations were not prepared.
- Timely variance analysis and review by senior accounting staff to identify unexpected balances and entries that require further follow-up.
- More time spent on consolidation for entities with significant changes during the year, such as dissolved entities, transfers of significant assets, or significant changes in operations. Areas with changes during the year are at the highest risk for errors. During the audit, we identified several errors that stemmed from not considering changes in entity structure during the consolidation process.

The manual consolidation process is not efficient for the preparers in the Office of the Provincial Comptroller or for our audit team. The consolidation takes a significant amount of time in the Public Accounts preparation and audit process—the inefficiencies could impact a timely completion of the audit.

1.3 Accounting for the new Education Property Tax Rebate

When the Province presented Budget 2021 (for the 2021-22 fiscal year) on April 7, 2021, an Education Property Tax Rebate was included. This rebate was based on school taxes paid in a calendar year. The first rebate, for the 2021 calendar year, was to be 25% of taxes paid by home and farm owners and 10% for all other property owners, with rebates planned to increase in the 2022 calendar year. The Province projected the estimated cost of the rebate at \$311 million for Budget 2021 and \$402 million for Budget 2022.

ACCOUNTING FOR THE TAX REBATE IN THE SUMMARY FINANCIAL STATEMENTS

While taxes and tax credits are not new to the Summary Financial Statements (SFS), the Education Property Tax Rebate is a new tax measure, and with each new tax measure there are several accounting considerations. The relevant accounting guidance under Public Sector Accounting Standards (PSAS) is PS 3510 Tax Revenue.

The first accounting question was to determine the appropriate time to recognize the new tax measure in the SFS. The rebate was introduced for the January 1 – December 31, 2021 calendar year. Taxes are recognized as revenue as the taxable event occurs, and in the case of property-based taxes, this is the passage of the period being taxed. This question first came up during the audit of the March 31, 2021 SFS, as the first 3 months (January 1 – March 31, 2021) of the property tax year impacted was during the Province's March 31, 2021 fiscal year. However, since the budget was not announced until April 2021, the authorization criteria for recognition under PS 3510 was not met as of March 31, 2021, so the rebate was not included in the March 31, 2021 SFS.

The March 31, 2022 financial statements recognized both:

- The rebate for the full 2021 (January 1 – December 31, 2021) property taxation year.
- An accrual for the 3 months, (January 1 – March 31, 2022) for the property taxation year.

As a result, the first-year impact of this new rebate is equal to 100% of the rebate for 2021 and 25% of the rebate for 2022.

The other significant accounting question was whether this new rebate was a tax concession or a transfer made through the tax system. The accounting treatment for each is different. See the table on the next page for an analysis of the 2 options and the accounting treatment for each.

Analysis – Tax concession vs. transfer through the tax system

	Tax concession	Transfer through the tax system
Definition (from PS 3510):	Tax concessions affect the amount of a taxpayer's current tax liability or taxes previously paid.	Transfers made through a tax system do not change the amount of the tax liability of the taxpayer (i.e., they do not provide relief against taxes paid previously or currently owing)
Accounting restatement	Reduce tax revenue	Do not impact the tax revenue amount and are recorded as an expense.
Examples	Education Property Tax Rebate Personal Tax Credit	Refundable tax credits such as the Video Production Tax Credit

Whether a tax rebate or tax credit is a concession or a transfer through the tax system does not impact the annual surplus or deficit. But it does impact how the rebate or credit is reported in the Summary Financial Statements. A concession reduces the amount of revenue recognized, while a transfer does not impact revenue (gross revenue is reported) and instead is recorded as an expense.

We determined the Education Property Tax Rebate to be a tax concession. It is directly related to the amount of education property tax paid, is only available to taxpayers, and the purpose is to reduce education property taxes. As a result, the Education Property Tax Rebate was netted against the total education property tax revenue in the SFS.

IMPACT ON THE SUMMARY FINANCIAL STATEMENTS

The total of the new Education Property Tax Rebate included in the SFS was \$310 million—but the net impact of the new measure was less than that. This is because pre-existing education property tax credits were also reduced by the same percentage as the rebate, offsetting some of the impact of the new rebate. Pre-existing education property tax credits include the Education Property Tax Credit and Advance, the Seniors Education Property Tax Credit, and the Farmland School Tax Rebate.

The Education Property Tax Credit is also a tax concession that reduces the amount of education property tax revenue recorded. The approximate reduction in the Education Property Tax Credit was \$120 million. Therefore, the net decrease in Education Property Tax revenue related to this new measure was \$190 million.

2 Control deficiencies found during the Public Accounts audit

The objective of our financial statement audits is to express opinions on the financial statements in accordance with the Canadian Auditing Standards. Financial statement audits are not designed to identify all matters of interest to management in discharging its responsibilities. Our audits include consideration of internal controls relevant to the preparation of the financial statements. This is in order to design appropriate audit procedures, but not to the extent needed to provide an opinion on the effectiveness of internal controls. The standards require the auditor to communicate significant matters or issues identified during the audit to management and those charged with governance.

As part of our financial statement audits, we prepare a management letter, where we make recommendations which may assist management in strengthening internal controls and improving accounting processes. We perform follow-up procedures to determine the status of our recommendations from prior years.

In our December 2020 report to the Legislature, *Public Accounts and Other Financial Statements*, we discussed some of the control deficiencies identified in past management letters for the audit of the Public Accounts. In that report we made recommendations to address these outstanding issues. See the **SECTION 4**, Status of Prior Year Recommendations, for further details on the status of these recommendations.

During our 2022 audit of the Public Accounts, we found an increasing amount of control deficiencies. Specifically, we found issues related to:

- Controls over purchases and expenses (**SECTION 2.1**).
- Accounting processes—estimates, accruals and reconciliations (**SECTION 2.2**).
- Control environment weaknesses (**SECTION 2.3**).

2.1 Deficiencies in controls over purchases and expenses

We noted the following deficiencies in controls over purchases and expenses:

- A lack of controls over non-purchase order spending.
- Lack of segregation of duties.
- Outdated delegation of financial signing authority.

LACK OF CONTROLS OVER NON-PURCHASE ORDER SPENDING

Non-purchase order (non-PO) spending is spending that is external to the central financing and accounting systems. Non-PO spending does not use the system-programmed approval requirements and access levels. Instead manual approvals are used, creating a higher-risk area of spending.

Non-purchase order (non-PO) spending

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During the 2021-22 audit of the Public Accounts, we also found an increasing number of departments were not following controls over **non-purchase order spending**.

The main risk related to these purchases is that unauthorized expenses go undetected. To address this risk, the control in place is a daily log report of non-PO purchases, along with supporting documentation which must be reviewed and approved within one day of the entry. The review must be done by someone other than the person who entered the expenses into the system.

We test controls around purchases. In our samples, we found 6 departments where the daily review control

was either not performed at all, or not in a timely manner. In 2022, these 6 non-compliant departments incurred \$264 million of non-purchase order expenditures.

We are concerned with the increased non-compliance around this control. Without the daily review control taking place, there is an increased risk of fraud or error within these departments. For the purposes of the audit, when these controls are not being performed we cannot rely on them for audit assurance and we must increase our detailed sampling of invoices. This impacts the timing of our audit work and increases the total audit hours required.



In our **2022 management letter**, we identified the departments not performing the control and we recommended that they complete the non-purchase order review process, including ensuring that an independent review was done, in accordance with the policies.

LACK OF SEGREGATION OF DUTIES

We also found an issue related to segregation of duties of non-purchase order payments. In our samples we found an instance where the same person approved the purchase and also approved the payment.

It is important that approvals are done by separate individuals to avoid the risk of inappropriate spending or misappropriation of assets. In the case of staff shortages, back-up plans need to be developed to maintain proper segregation of duties.



In our **2022 management letter**, we identified the departments and recommended that they ensure payment and spending authority always are performed by separate individuals and that in case of staff shortages there is backup plan to ensure that these functions remain separate.

OUTDATED DELEGATION OF FINANCIAL SIGNING AUTHORITY

In our December 2020 report, we raised the issue of Delegation of Financial Signing Authority (DFSA) charts not being updated and approved in a timely manner. We recommended that the Office of the Provincial Controller (OPC) implement a process to ensure DFSA charts at the departmental level are reviewed and updated in accordance with the Financial Administration Manual (FAM).

The FAM requires DFSA charts to be updated and approved in a timely manner after a departmental reorganization or a new minister is appointed. During the 2021-22 audit, we requested the charts for a sample of departments 4 months after a government reorganization. We found that from our sample of 6 departments, 5 had not been updated and approved within 4 months of the reorganization.

The DFSA charts aid in the timely and orderly functioning of government by delegating the responsibility, control, and spending of public money to departmental officials. It is crucial that there are controls over delegation of this authority to reduce the risk of inappropriate or unauthorized spending.



In our **2022 management letter**, we recommended that the OPC:

- Amend the Financial Administration Manual to include specific timelines to update the DFSA chart.
- Implement a process to review compliance with the Financial Administration Manual to ensure the most up to date DFSA chart is on file.

2.2 Deficiencies in accounting processes—estimates, accruals, and reconciliations

We noted the following deficiencies with respect to accounting processes:

- Unsupported accounting estimates.
- Poor processes for reconciliations.
- Inconsistent application of accrual accounting.
- Unclear electronic approval policies.

UNSUPPORTED ACCOUNTING ESTIMATES

In our December 2020 report to the Legislature, *Public Accounts and Other Financial Statements*, we discussed our concerns with accounting estimates. We provided a recommendation for the Office of the Provincial Comptroller to implement a policy for recording accounting estimates. A policy was put in place, but in our 2021 audit we found the policy was not being followed consistently. In our December 2021 report to the Legislature, we recommended the Province provide training and oversight on supporting accounting estimates.

We found that the Office of the Provincial Comptroller provided some training sessions this past year. There were no significant new estimates in 2022; however, during our audit work we found instances where estimates were not supported. The lack of consistent support for estimates raises concerns over the adoption of a new accounting standard in 2023. Departments and entities in the Government Reporting Entity (GRE) will need to account for asset retirement obligations (AROs), which is a complex accounting estimate. Without sufficient appropriate support for the estimates there is a risk of a qualified audit opinion related to the AROs.



In our **2022 management letter**, we recommended the OPC:

- Provide departments with clear guidance, including training on what is acceptable supporting documentation for accounting estimates.
- Review all significant estimates to ensure there is sufficient documentation to support the model, methodology, and assumptions used for accounting estimates. This should be completed as part of the summary financial statement year-end process and prior to the recording of the journal entry.

POOR PROCESSES FOR RECONCILIATIONS

A reconciliation is an accounting process that compares 2 sets of records to check that figures are correct and in agreement.

Reconciliations are an important control—for both safeguarding assets and ensuring accounting records are accurate. A reconciliation should be completed in a timely manner, so that if any errors or inconsistencies are detected they can be corrected and resolved promptly.

Typically, reconciliations should be performed on an ongoing basis with the frequency depending on the number of transactions, amounts, and risk of errors. During the 2022 audit, we found several instances where reconciliations were not being performed in a reasonable time frame. For example, we found one revenue reconciliation that was supposed to be performed monthly, but was still not performed 7 months later, and was not completed until after our audit inquiry.

To be an effective control, reconciliations should also have an element of segregation of duties. A reconciliation should be reviewed by someone other than the preparer. During our audit, we found that in one department, reconciliations of general ledger transfers were performed monthly, but there was no evidence of review by anyone other than the preparer.

For the purposes of our audit, we review these reconciliations in our control risk assessments, as well as rely on them as part of the support for ending account balances included in the financial statements. When reconciliations are not prepared appropriately and on time, this increases the amount of audit work needed for the related accounts.



In our **2022 management letter**, we recommended that departments complete and review monthly reconciliation packages no later than the end of the subsequent month.

INCONSISTENT APPLICATION OF ACCRUAL ACCOUNTING

Public Sector Accounting Standards require the Province to follow accrual accounting, where revenues and expenses are accounted for as they are incurred, rather than on a cash basis. Accrual accounting requires accounts receivable and accounts payable be adjusted at year-end to reflect amounts owing to and from the Province.

During our audit we found several errors in multiple departments where certain revenue and expenses were not properly accounted for on an accrual basis. None of the errors resulted in a material error to the Summary Financial Statements (SFS), however these errors indicated that current processes are insufficient to ensure revenues and expenses are recorded in the appropriate period.



In our **2022 management letter**, we recommended that clear guidance and processes be put in place to ensure revenues and expenses are recorded in the appropriate period.

UNCLEAR ELECTRONIC APPROVALS POLICIES

In March 2020, much of the Province's workforce began working remotely due to the COVID-19 pandemic. This created a sudden need to update processes, recognizing the remote-work environment many employees found themselves in. Due to the sudden change, the Province did not have policy in place for appropriate methods of digital or electronic approvals. In March 2020, as the workforce was sent home, the Provincial Comptroller issued a Financial Administration Information Circular which clarified that existing policies around financial approvals still applied. It noted there are multiple types of electronic approvals which vary in their security level. The document stated that the approval type should match the risk of the process with a more secure method being required for riskier processes. No specific guidance beyond that was provided.

The Information Circular was an appropriate measure to take given the sudden need for remote work; however, as remote work and electronic approvals are a continuing part of operations today, there is a need for a clearer policy on electronic approvals.

During this year's audit, we found the electronic approval methods used within departments were inconsistent. The lack of consistency makes it difficult to evaluate whether departments are complying and using appropriate approval methods.

Without guidance, departments may end up with processes where no positive approval is actually provided. We found one instance where an invoice was uploaded to Microsoft Teams (an online file

sharing and communication platform). Then various individuals with spending authorities within the division were sent a message with a request to advise the uploader if they had any issues with the invoice. A non-response to the request was taken as approval.

We found this issue is not isolated to the core government departments. As part of our audit we review the audit results and management letters for all of the components in the GRE. We noted several other entities in the GRE where the auditors identified issues with lack of a clearly documented approval due to remote working arrangements.

Improved policies for electronic approvals will help ensure that purchases and spending are appropriately approved.



In our **2022 management letter**, we recommended that OPC provide the departments with clearer guidelines for using electronic financial approvals.

2.3 Control environment weaknesses

CONTROL DEFICIENCIES FOUND IN DEPARTMENTS

The Province uses a decentralized comptrollership model. Departmental officials, including executive financial officers, are accountable for the performance of their divisions, and for ensuring compliance with the comptrollership framework.

The volume of control deficiencies found in departments has been increasing over the past several years.

We have found evidence of:

- Poor accountability and control by departments and weak oversight of GRE entities under departmental responsibility.
- Significant control deficiencies throughout the departments (**SEE SECTIONS 2.1, 2.2**).
- Insufficient support for account balances and related disclosures signed off by departments.

Through numerous discussions with officials we noted some themes as to why these deficiencies continue to be problematic and escalating. Explanations provided include:

- Lack of resources due to increasing number of vacancies and unfilled positions due to turnover.
- Deficiency of accounting knowledge and related competencies in departments, including a poor understanding of certain accounting principles.

OVERSIGHT OF THE CONTROL ENVIRONMENT IS INADEQUATE

The Office of the Provincial Comptroller has responsibility for oversight of compliance with the comptrollership framework. Oversight includes ensuring that systems and practices in place are adequate to oversee the accounting, financial reporting, and internal controls. Some of the internal control deficiencies noted above were systemic across government. Many of these items would not have been found or corrected without our audit procedures. Thereby, we know that deficiencies are not being detected or acted upon. We are concerned that the level of oversight being provided is not adequate.

3 Concerns for the 2022/23 audit cycle

Looking ahead to the 2022/23 audit cycle, there are 2 main challenges:

- New accounting standards that come into effect for the fiscal year ended March 31, 2023.
- Completing the audit on time, given these new accounting standards.

NEW ACCOUNTING STANDARDS

There are 2 new significant accounting standards the Province of Manitoba (the Province) must adopt for the April 1 – March 31, 2023 fiscal year: Asset Retirement Obligations and Financial Instruments. These standards will result in new information and estimates, and significant new disclosures.

We discussed the changes related to these 2 standards in our December 2021 report to the Legislature. A significant amount of additional work will be required to prepare the financial statements in 2023 to initially adopt these standards. Once the Province has prepared its new accounting policies, disclosures and estimates, significant work will be required by our office to audit these next year. The Office of the Provincial Comptroller should prepare the initial opening balances and disclosures early to avoid delays in the completion of the 2023 Public Accounts audit.

CHALLENGES IN COMPLETING AUDIT ON TIME

Our auditors' report for the March 31, 2022 Summary Financial Statements (SFS) was dated September 27, 2022. The SFS was tabled in the Legislature on September 29, 2022. The statutory deadline for the tabling of the SFS is September 30. Any further delay in the completion of the preparation and audit of the financial statements would have resulted in not meeting the legislated deadline.

Given the additional work required in 2023 to adopt the new accounting standards we are concerned that without improvements and efficiencies the legislated deadline will not be met.

We discussed in **SECTION 1.2** some areas for improvement related to the process for consolidation. Improved controls over financial transactions and reporting will result in audits being completed on a more timely basis. See **SECTION 2** for control deficiencies found.

4 Follow up on the status of past recommendations

The table below shows the status of prior year recommendations.

Report to Legislature Date	Implemented/ resolved	Action no longer required	Do not intend to implement	Work in progress	Total
December 2020	3 (considered resolved in prior year)	–	–	6	9
December 2021	–	–	–	1	1

Below we list the status of all recommendations that remain in progress and the recommendations that are considered cleared. For certain recommendations we have added an OAG comment to clarify implementation status and to highlight select actions or planned actions.

2021 Recommendation – Work in progress

We recommended that:

1. The Office of the Provincial Comptroller provide training and oversight to ensure departments comply with documentation requirements to support accounting estimates.

OAG comment: During the 2022 Public Accounts audit, the Office of the Provincial Comptroller provided training sessions to the departments. Although there were no new significant estimates we did find instances where changes to existing estimates were lacking support.

We recommended that:

3. The Office of the Provincial Comptroller implement a process to ensure delegation of financial signing authority charts at the departmental level are reviewed and updated in accordance with the Province's Financial Administration Manual.

OAG comment: *The January 2022 cabinet shuffle resulted in new departments being created and ministers moved around. As a result, delegation of financial authority charts needed to be updated in each department. In the 2022 Public Accounts audit, we found 5 departments, out of 6 tested, hadn't updated their charts in a timely manner.*

4. The Civil Service Commission develop and implement a process to ensure that all HR Master Data is supported by documents in the employees' personnel file.

OAG comment: *During the 2022 Public Accounts audit we had not identified any new issues. The Civil Service Commission implemented a plan to address this issue; however, we are still working on confirming the actions taken to resolve the issue. We did not identify any new issues during the 2022 Public Accounts Audit.*

5. The Province develop a central process to assess risk and prioritize remediation work on contaminated sites.

OAG comment: *The Office of the Provincial Comptroller (OPC) advised us that it will develop a central process to confirm the liabilities and rank them by risk. The departments are responsible for establishing a work plan for priority remediation of the sites and manage the remediation. For department-specific work, OPC and the departments have retained consultants to assess risk and validate the estimates, which will inform departments work plans.*

6. The Office of the Provincial Comptroller use a risk-based approach to ensure that contaminated sites liability estimates provided by departments for inclusion in the Summary Financial Statements are complete and adequately supported.

OAG comment: *We were told that the Office of the Provincial Comptroller (OPC) and the departments are in the process of obtaining independent validation of the liabilities through third-party consultants, where detailed estimates by engineers are not available. OPC is engaging a third-party consultant to work with the departments to evaluate the assumptions and methodology used to assess the current level of liability.*

2020 Recommendation – Work in progress

7. The departments use a risk-based approach and obtain up-to-date engineering and other site-related information for contaminated sites liabilities. Further, we recommend that these engineering reports be updated every 5 years, or earlier, if conditions related to these sites change.

OAG comment: *The Office of the Provincial Comptroller (OPC) determined that for some contaminated sites' liabilities, engineering and other site-related information was not up to date. OPC is working with departments to confirm the internal methodologies used for assessing contaminated sites' liabilities and to obtain up-to-date verification of the estimates. OPC will seek confirmation that departments update the engineering reports every 5 years or earlier for high-risk sites.*

8. The Office of the Provincial Comptroller include information on the rate of inflation to be used on contaminated sites in its annual year-end Financial Administration Information Circular and ensure it has been appropriately applied to each department's liabilities.

OAG comment: *Based on inquiry, the Office of the Provincial Comptroller (OPC) will determine the rate of inflation, and include it in the Financial Administration Information Circular forwarded to the departments to be applied to year-end liabilities every year. OPC will check to ensure inflationary factor has been appropriately applied to each department's liabilities.*

5 Results of our other financial statement audits for 2021/22

Our Office is the auditor of financial statements issued by certain entities within the Government Reporting Entity (GRE) of the Province of Manitoba (the Province), and certain other entities relevant to the public sector. We may also audit other financial information issued by these entities.

This section provides a summary of the financial statement audits we have conducted during the past year.

Audit entity	Recent audit completed for the year ended	Auditors reports provided:	Management letter information:	Other items
Public Accounts – Province of Manitoba Summary Financial Statements	March 31, 2022	1) Qualified opinion on Summary Financial Statements 2) Unmodified opinion on Public Sector Compensation Disclosure 3) Unmodified opinion on Fiscal Stabilization Account	Issued a management letter to the Provincial Comptroller with 19 new recommendations. We followed up on the status of 16 prior year recommendations; 2 prior year recommendations have been implemented.	Items related to the Public Accounts audit have been discussed in SECTIONS 1, 2 and 3 above.
Department of Health	March 31, 2022	1) Unmodified opinion on the Statement of Expenditures under the Manitoba Health Services Insurance Plan 2) Unmodified opinion on the Manitoba Health Services Insurance Plan Public Sector Compensation Act Disclosure of Payments	No separate management letter issued; recommendations to the Department were included in the management letter for the Public Accounts audit.	A transition year from Plan being a separate “Fund” with full financial statements to the fund being part of the Department audited with Public Accounts and a smaller separate audit on a statement of health expenditures as per Act.

Audit entity	Recent audit completed for the year ended	Auditors reports provided:	Management letter information:	Other items
Manitoba Agricultural Services Corporation (MASC)	March 31, 2022	1) Unmodified opinion on the Consolidated Financial Statements 2) Unmodified opinion on the Production Insurance Trust Financial Statements 3) Unmodified opinion on the Hail Insurance Trust Financial Statements 4) Unmodified opinion on the Employee Compensation Disclosure Report	Issued a Management letter to the President and Chief Executive Officer with 5 new recommendations	The 2021-22 MASC financial statement information has been consolidated with the Production Insurance Trust and Hail Insurance Trust financial statement information using Public Sector Accounting (PSA) standards. The 2020-21 comparative financial statement information has been restated accordingly. Based on this change we did not qualify our audit opinion on MASC for the March 31, 2022 year.
University of Manitoba	March 31, 2022	1) Unmodified opinion on Financial Statements 2) Unmodified opinion on Public Sector Compensation Disclosure	Issued a Management letter to the Vice President (Administration) with no new recommendations. We followed up on two past recommendations which are now implemented.	None noted
Funeral Board of Manitoba	December 31, 2021	1) Unmodified Opinion on Financial Statements	None issued	The Funeral Board has been dissolved, this was the final audit of the entity.
Civil Service Superannuation Fund	December 31, 2021	1) Unmodified Opinion on Financial Statements	None issued	None noted

Audit entity	Recent audit completed for the year ended	Auditors reports provided:	Management letter information:	Other items
Legislative Assembly Pension Fund Audit	December 31, 2021	1) Unmodified Opinion on Financial Statements	None issued	None noted
Public Service Group Insurance Fund Audit	April 30, 2022	1) Unmodified Opinion on Financial Statements	None issued	None noted
Winnipeg Child and Family Services Employee Benefits Retirement Fund Audit	December 31, 2021	1) Unmodified Opinion on Financial Statements	None issued	None noted
Teachers' Retirement Allowances Fund Audit	December 31, 2021	1) Unmodified Opinion on Financial Statements	None issued	None noted
Northern Affairs Fund	March 31, 2019 near completion	No opinions issued	Issued a Management letter in 2021 to the Executive Financial Officer of MB Indigenous Reconciliation and Northern Relations with 3 new recommendations.	The preparation of financial statements and audits for this fund are several years behind and have been for a number of years. The last time the financial statement was completed and audited within one year of the period end was for the March 31, 2011 statement.

Audit entity	Recent audit completed for the year ended	Auditors reports provided:	Management letter information:	Other items
Legal Aid Manitoba	March 31, 2022	1) Unmodified Opinion on Financial Statements 2) Unmodified opinion on the Statement of Private Bar Fees and Disbursements in Excess of \$75,000 3) Unmodified Opinion on the Statement of Final Claim of the Agreement Respecting Criminal Legal Aid and Immigration and Refugee Legal Aid in the Province of Manitoba	None issued	Audit performed by OAG with assistance of an agent auditor.
Manitoba Housing and Renewal Corporation Audit	March 31, 2022	1) Unmodified Opinion on Financial Statements	None issued	Audit performed by OAG with assistance of an agent auditor. In previous years a separate statement for Manitoba Housing and Renewal Corporation's employee compensation was prepared and audited. This was not required in 2022 as the employees were moved to the Department of Families and included in the Public Accounts Public Sector Compensation Disclosure.

Audit entity	Recent audit completed for the year ended	Auditors reports provided:	Management letter information:	Other items
Public Guardian and Trustee of Manitoba	March 31, 2022	1) Unmodified Opinion on Financial Statements	None issued	Audit performed by OAG with assistance of an agent auditor.

We requested a response to our report from the Treasury Board Secretariat. The response we received is provided below.

Thank you for the opportunity to respond to the Public Accounts and Other Financial Statement Audits. We provide the following feedback to the Report to the Legislature:

Section 1.2 Manual processes to consolidate controlled entities:

Government Reporting Entity (GRE) is comprised of 136 legal entities. The current consolidation process is manual which constitutes an elevated risk. An IT capital project is in progress to select a vendor and implement software that will drastically streamline the consolidation process.

It is not possible to fully automate the process as the 136 legal entities use different financial systems that do not interface with the Government. The ERP modernization project, which is in its early stages, targets implementing SAP S/4 HANA in all legal entities with a phased approach that will result in transparency of the financial status of the GRE and achieve automation in budgeting, forecasting and public accounts.

Section 2.1 Deficiencies in controls over purchases and expenses:

We have noted your findings of departmental control deficiencies in controls over purchases and expenses in non-purchase order spending, lack of segregation of duties and outdated delegation of financial signing authority.

Office of the Provincial Comptroller (OPC) will follow up with the Executive Financial Officers (EFOs) of the departments that have compliance weaknesses in your 2022 Management Report and will ensure control weaknesses are addressed.

Section 2.2 Deficiencies in accounting processes – estimates, accruals and reconciliation:

We have noted your findings of deficiencies with respect to accounting processes in the areas of unsupported accounting estimates, poor processes for reconciliations, inconsistent application of accrual accounting and unclear electronic approval policies.

In 2021, accounting estimates for orphaned and abandoned mines and contaminated sites

were validated through the work of external engineering consulting firms. Over the past year, OPC has provided training sessions to departments that have material accounting estimates. OPC will work with departments that have unsupported accounting estimates and will put resources in place for the annual review the estimates.

OPC will follow up with the EFOs of the departments that have weaknesses in accounting processes, issue clear guidance and processes to departments and will temporarily increase resources for oversight to ensure control weaknesses are addressed.

The OPC and Digital Technology Services (DTS) are exploring a special electronic approval software solution that would be secure and meet the levels of control and signatures required. Once this software is identified, OPC will update its policy.

2.3 Control environment weaknesses:

We note your findings of poor accountability and control by departments over their GRE entities, significant control deficiencies throughout the departments and insufficient support for accounts and related disclosures signed off by departments. This is a concern that not only impacts the public accounts audit but creates an enterprise risk for the budget process and quarterly forecasts as well.

The controllership model is decentralized in the Government. While OPC has the responsibility for oversight of compliance to the comptrollership framework, Deputy Ministers are responsible for their departments and their GRE entities and the EFOs are accountable for the performance of their divisions and for ensuring compliance to the comptrollership framework. A strong staffing complement within each EFO office is necessary to support the objectives and the thorough delivery of a decentralized finance function. Recruitment of staff and leadership with the right education, experience and professional qualifications is essential for the decentralized controllership model to work.

OPC provides risk based high level oversight to departments but does not have the staffing levels that will address the pervasive issue of noncompliance in routine matters. There are over 700 financial positions in the core government while OPC has less than 25 staff. A review for the ERP modernization project identified over 2,400 staff in the core government that has some level of financial role.

Your report identifies that the current decentralized controllership framework is not successful during a period of weakened staffing in departments. OPC will undertake an enhanced communication, risk based external assurance, evaluation and improved internal oversight during the period departmental resources are inadequate. Some of the proposed initiatives include:

- Increased written communication and direction to departments on responsibilities and deadlines;
- Controllershship reviews of high risk departments through the retention of an external audit firm to support the OPC's oversight responsibility;
- Increased opportunities for training the new financial staff including programs on principles of accounting, internal controls, Public Sector Accounting Standards;
- Changes to the leaders-in-training program's financial stream to adjust classifications for CPA recruits and sponsor non-CPA candidates to obtain a CPA while working for the government;
- Working with PSC, review of pay comparisons between government and the market and a review of financial job profiles and pay rates to address vacancies and staff turnover;
- Completing an inventory of staff qualifications and a policy to set a minimum threshold of at least one CPA per department in financial leadership roles (EFO, Executive Director or Director level) to provide professional advice to peers and oversight to the departmental financial staff.

The report to LEG does not disclose the departments which demonstrated control weaknesses. Given the limited scope of testing in an annual audit, there may be other departments that have deficiencies that are not identified. The Management letter to OPC includes this information and OPC will start its work with the departments that have been identified but will extend its risk assessment to those departments that have no identified weaknesses.

3. Concerns for the 2022/23 audit cycle

There are two new accounting standards the Province of Manitoba has adopted for the fiscal year ending March 31 2023: Asset Retirement Obligations and Financial Instruments. Significant amount of additional work has been completed for the successful implementation of these standards. However, the impact of these new standards on the province's liabilities will be well over \$1 billion and even small estimation errors will result in material impacts. Therefore additional independent estimates are required to support the accounting estimates.

For Asset Retirement Obligations, a seasoned Manager in OPC has been in the CPA Canada workgroup while developing the standard. OPC staff have worked closely with the OAG and the CPA Public Sector Accounting Board to receive implementation guidance for certain areas. Comprehensive training has been provided to departments, and an external engineering firm has been retained to provide a professional accounting estimate for the province's Quarry rehabilitation liability. Additional assurance is required for substantiating the estimates, specifically to asbestos liabilities. OPC will assess the need for an independent verification for the estimates.

The Financial Instruments standard is implemented by the Treasury Division of Finance Department, in consultation with an external accounting firm. We will work with the OAG on the need for any additional assurance on this standard.

ERP Modernization: As a part of the management response, I would like to provide an update on the ERP modernization project. This project will implement SAP's cloud version S4/HANA, not only in the core government but in the OREs over a number of years. It will be a greenfield, out-of-the-box implementation of SAP's model company approach which will have built in controls. However, it will require change management for over 2400 staff in the core government that has some level of financial role as a part of their jobs. The implementation will require some finance staff to work exclusively on implementation, requiring a backfill for their positions. Treasury Board Secretariat and LCPGS will provide a presentation to OAG on the project in the New Year.

Thank you once again for providing our team the opportunity to review and provide feedback on the report. I look forward to meeting with you to discuss the response in detail.

» Vision

Government accountability and public administration excellence for Manitobans.

» Mission

To provide independent information, advice and assurance on government operations and the management of public funds.

» Values

Independence – We are independent from government and our work is objective and unbiased.

Integrity – We act with honesty and uphold high ethical standards.

Innovation – We promote innovation and creativity in what we do and how we do it.

Teamwork – We work as a team by sharing each other's knowledge and skills to reach our goals.

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