



OFFICE OF THE
AUDITOR GENERAL
MANITOBA

Web Version

Audit of the Public Accounts for the
year ended March 31, 2010

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That the Office of the Auditor General is an accessible, transparent and independent audit office, serving the Manitoba Legislature with the highest standard of professional excellence.

Our Mission

To contribute to effective governance by the Manitoba Legislature, we provide the Members of the Legislative Assembly with independent assurance and advice on:

- government accountability information;
- compliance with legislative authorities; and
- the operational performance of government.

Our Values

In Interpersonal Relationships

Respect	Honesty
Integrity	Openness

In Achieving Our Vision

Teamwork	Balanced Perspectives
Independence	Professional Excellence

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December 2010

The Honourable George Hickes
Speaker of the House
Room 244, Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Sir:

I have the honour to transmit herewith my report titled, *Audit of the Public Accounts for the year ended March 31, 2010*, to be laid before Members of the Legislative Assembly in accordance with the provisions of Sections 10(1) and 28 of The Auditor General Act.

Respectfully submitted,

Original document signed by:
Carol Bellringer

Carol Bellringer, FCA, MBA
Auditor General

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Highlights of the Audit of the Public Accounts for the 2009/10 Fiscal Year

The Auditor General Act (the Act) requires us to report to the Assembly by December 31st each year about our examinations and audits under Section 9 of the Act. Section 9 relates to audits of the Public Accounts and other financial statements in the Province's Public Accounts. Section 10(2) requires our report to indicate anything resulting from this work that we consider should be brought to the Assembly's attention.

We are pleased to report that for 2009/10 the Province received an unqualified audit opinion on its Summary Financial Statements. This means that the summary statements present fairly, in all material respects, the financial position and results of operations in accordance with Canadian public sector accounting principles. We are also pleased to report that most organizations consolidated in the Summary Financial Statements received unqualified audit opinions. Reliable financial statements are an important starting point in understanding the current financial situation and in making policy decisions in the areas of budgeting and long-term fiscal planning.

To help Legislators understand certain complexities of the Summary Financial Statements, we have described the financial reporting model for them, and defined net debt, total borrowings, the accumulated and annual surplus or deficit, the change in net debt, and the cash position and cash flow. We have also highlighted changes in the accounting treatment for advances to Manitoba Lotteries Corporation, the reclassification from cash to temporary and portfolio investments, the recognition of capital grant revenue from non-governmental sources and changes in accounting policies by government business enterprises adopting revised standards.

We are also required to audit the *Statement of Calculation of Balance Under the Balanced Budget, Fiscal Management and Taxpayer Accountability Act*. We issued an unqualified audit opinion on the calculation of a positive balance for the year ended March 31, 2010. Our unqualified opinion provides assurance that the Government has complied with the legislation—not that we agree or disagree with the policy decisions based on the legislation. After the year-end, the Government passed legislation removing the requirement for a positive balance for the next four years. Our observation is that the introduction of balanced budget legislation altered spending behaviour and contributed to strong financial management. While we do not comment on the policy decision to remove the requirement, we urge the Government to continue to ensure spending is within voted budgets.

At the end of each of our financial statement audits, we communicate possible improvements to senior management of the Province or to senior management

and the board of directors of the organization we audited. If action has not been taken after a reasonable time or if the Legislature should know about the matter immediately, we include that information in this report. This year, we have included such information about:

- areas for improvement in the Government's Information Technology (IT) environment;
- quarterly reporting and comparing year-end results to 3rd quarter forecasts;
- public accounts release dates;
- the capacity for financial reporting at the Manitoba Housing Renewal Corporation;
- allocation of income by The Public Trustee;
- the need for an audit of the Co-operative Loans and Loans Guarantee Board;
- suspected fraud in the Winnipeg Regional Health Authority;
- requirements for supplementary audit reports.

The final section of this report summarizes the status of previous recommendations. Two of the three recommendations have been implemented: the introduction of quarterly reporting on a summary basis and improved management of risks in the IT area involving users with incompatible duties. And progress continues on developing a government-wide disaster recovery plan for IT.

Officials in the Department of Finance and the various audited organizations continued to give us their full cooperation during our audits. I would like to express our sincere appreciation to them and to acknowledge the particularly long hours worked by staff in the Department of Finance and staff in my Office over the summer to meet the reporting deadlines.

1.0 Auditor's Report on the Summary Financial Statements

Our auditor's report on the Province's summary financial statements as at March 31, 2010 represents an unqualified "clean" opinion. We issue an unqualified opinion when we find that the statements are prepared in accordance with Canadian accounting standards. That was the case for the Province of Manitoba's Public Accounts for the year ended March 31, 2010.

Accounting standards are referred to as "GAAP"—generally accepted accounting principles. In the case of senior levels of government (Canada, the provinces and municipalities), GAAP is established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) after broad consultations with stakeholders.

The preparation of financial statements in accordance with GAAP requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Management is responsible for preparing and fairly presenting the summary financial statements, including related notes and schedules. The Provincial Comptroller confirms this by signing the "statement of responsibility" preceding our audit report. Our responsibility is to audit the financial statements to form an opinion.

We conduct our audits following Canadian auditing standards, known as "GAAS"—generally accepted auditing standards (GAAS) prescribed by the CICA. The standard setting process for GAAS also involves extensive consultation with stakeholders.

Our report, reproduced below in **Exhibit 1**, is on page 71, in the *Province of Manitoba Annual Report for the year ended March 31, 2010*. Some key points about our audit report follow.

Exhibit 1

AUDITOR'S REPORT
Summary Financial Statements for the Government Reporting Entity
Province of Manitoba

To the Legislative Assembly of the Province of Manitoba

We have audited the Consolidated Statement of Financial Position of the Province of Manitoba as at March 31, 2010 and the Consolidated Statements of Revenue and Expense, Accumulated Deficit, Change in Net Debt and Cash Flow for the year then ended. These financial statements are the responsibility of the Government of Manitoba. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these Summary Financial Statements for the Government Reporting Entity present fairly, in all material respects, the financial position of the Province of Manitoba as at March 31, 2010 and the results of its operations and its cash flow for the year then ended, in accordance with Canadian generally accepted accounting principles.

Level of assurance: Our audit is designed to obtain reasonable—but not absolute—assurance that the summary financial statements are free of material misstatement. It is not practical to provide absolute assurance in a financial statement audit because it is not practical to test 100% of transactions (due to volume), internal control systems have inherent limitations (due to control override potential), and much audit evidence is persuasive rather than conclusive. Reasonable assurance means we have obtained sufficient and appropriate audit evidence to minimize audit risk to an acceptable level to support our conclusion that the statements are free of material misstatement. This is consistent with GAAS requirements.

Materiality: Materiality measures whether a financial statement omission or misstatement is significant enough to influence or change the decision of a person relying on those financial statements. We refer to guidance provided by GAAS and exercise our professional judgement in order to set an overall materiality level for our audit. We accumulate all errors or misstatements we noted during our audit and make an assessment of whether they would individually or in aggregate cause financial statement balances to be materially misstated, based on the materiality level for the audit or because of other qualitative considerations associated with the information regardless of the size of the error.

Opinion paragraph: We issued an unqualified audit opinion on the summary statements, concluding that they were fairly presented in accordance with GAAP, and free of material misstatement. We are not providing an opinion on the

effectiveness of internal controls or whether management exercised its fiduciary responsibilities—these are not the focus of a financial statement audit. If we find any ways to improve controls or management practices during our audit, we discuss them with management and put them in a management letter. This is consistent with GAAS.

2.0 Understanding the Summary Financial Statements

2.1 What is in the Summary Financial Statements?

The summary financial statements reflect the financial position and annual results of all organizations in the government reporting entity (GRE). The GRE consists of Core Government (government departments and special funds) and all organizations the Province controls. Public sector GAAP defines control as the power to govern the financial and operating policies of an organization. The list of organizations in the GRE is in Schedule 8, pages 108-111, in the *Province of Manitoba Annual Report for the year ended March 31, 2010*. The list is reproduced in **Appendix A** of this report. Organizations in the GRE include Government Business Enterprises (GBEs), public schools, government not-for-profit organizations, and other government organizations.

GBEs generate their revenues by selling goods or services. Their operations are self-sustaining—they do not rely on government funding. The GBEs are Manitoba Hydro-Electric Board, Manitoba Public Insurance Corporation, Workers Compensation Board, Manitoba Liquor Control Commission, and Manitoba Lotteries Corporation.

2.2 Financial Reporting Model for Summary Financial Statements

The reporting model for the summary financial statements prescribed by the Public Sector Accounting Standards Board includes five key elements: net debt, accumulated surplus or deficit, annual surplus or deficit, change in net debt for the year, and cash position and cash flow for the year. Each element helps users understand how the government managed its financial resources for the year, plus its year-end financial position. **Exhibits 2-5** have excerpts from the 2009/10 summary financial statements showing these five key elements. The following discussion refers to page numbers in the Province's Annual Report on its website at www.gov.mb.ca/finance/financialreports.html.

Exhibit 2

PROVINCE OF MANITOBA
PUBLIC ACCOUNTS 2009/10

SUMMARY FINANCIAL STATEMENTS
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at March 31, 2010

		(\$ millions)	
SCHEDULE		2010	2009
	FINANCIAL ASSETS		
	Cash and cash equivalents.....	1,386	1,372
	Temporary investments (Note 2).....	553	734
1	Amounts receivable.....	1,263	1,143
	Inventories for resale.....	10	11
	Portfolio investments (Note 3).....	2,564	2,788
2	Loans and advances.....	786	767
3	Equity in government business enterprises (Note 4).....	3,068	2,127
	Total Financial Assets	<u>9,630</u>	<u>8,942</u>
	LIABILITIES		
4	Borrowings.....	16,111	14,891
5	Accounts payable, accrued charges, provisions and unearned revenue.....	3,513	3,528
6	Pension liability (Note 5).....	1,800	1,991
	Total Liabilities	<u>21,424</u>	<u>20,410</u>
	NET DEBT	<u>(11,794)</u>	<u>(11,468)</u>
	NON-FINANCIAL ASSETS		
	Inventories held for use.....	65	36
	Prepaid expenses.....	46	38
7	Tangible capital assets.....	7,315	6,518
	Total Non-Financial Assets	<u>7,426</u>	<u>6,592</u>
	ACCUMULATED DEFICIT	<u>(4,368)</u>	<u>(4,876)</u>
	Contingencies (Note 6)		
	Contractual Obligations (Note 7)		

The accompanying notes and schedules are an integral part of these financial statements.

Exhibit 3

PROVINCE OF MANITOBA
PUBLIC ACCOUNTS 2009/10

SUMMARY FINANCIAL STATEMENTS
CONSOLIDATED STATEMENT OF REVENUE AND EXPENSE
For the Year Ended March 31, 2010

	(\$ millions)		
	2010 Budget	2010 Actual	2009 Actual
REVENUE			
Income taxes:			
Corporation income tax.....	347	257	386
Individual income tax.....	2,343	2,402	2,455
Other taxes:			
Retail sales tax.....	1,595	1,570	1,569
Fuel taxes.....	220	255	253
Levy for health and education.....	263	264	261
Mining tax.....	10	10	46
Education property tax.....	655	668	657
Other taxes.....	454	514	490
Fees and other revenue.....	1,593	1,791	1,720
Federal transfers:			
Equalization.....	2,063	2,063	2,063
Canada Health and Canada Social Transfers.....	1,310	1,302	1,263
Shared cost and other.....	730	559	540
Net income from government business enterprises (Schedule 3).....	815	772	764
Sinking funds and other investment earnings.....	246	220	296
Total Revenue (Schedules 9 and 10).....	12,644	12,647	12,763
EXPENSES			
Health and Healthy Living.....	4,731	4,830	4,588
Education	3,228	3,227	3,091
Family Services and Consumer Affairs.....	1,235	1,295	1,192
Community, Economic and Resource Development.....	1,765	1,814	1,729
Justice and Other Expenditures.....	871	926	882
Debt Servicing (Note 8).....	766	756	830
Total Expenses (Schedules 9 and 10).....	12,596	12,848	12,312
NET INCOME (LOSS) FOR THE YEAR	48	(201)	451

2010 Budget numbers, originally presented in Budget 2009, have been restated to reflect the 2010 reorganization and presentation changes as presented in the revised 2009/10 Budget presented in Budget 2010.

The accompanying notes and schedules are an integral part of these financial statements.

Exhibit 4

PROVINCE OF MANITOBA
PUBLIC ACCOUNTS 2009/10

SUMMARY FINANCIAL STATEMENTS
CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT
For the Year Ended March 31, 2010

	(\$ millions)		
	Budget	2010 Actual	2009 Actual
Net Income (Loss) for the year.....	48	(201)	451
Tangible Capital Assets			
Acquisition and reclassification of tangible capital assets.....	(1,140)	(1,227)	(978)
Amortization of tangible capital assets.....	383	404	375
Disposal of tangible capital assets.....	-	26	17
Net Acquisition of Tangible Capital Assets.....	(757)	(797)	(586)
Other Non-Financial Assets			
Increase in inventories.....	-	(29)	-
Increase in prepaid expenses.....	-	(8)	(2)
Net Acquisition of Other Non-Financial Assets	-	(37)	(2)
Other Comprehensive Income (Loss) (Schedule 3).....	-	709	(781)
(Increase) in Net Debt.....	(709)	(326)	(918)
Net Debt, beginning of year, as restated (Note 9).....	(11,100)	(11,468)	(10,550)
Net Debt, end of year.....	(11,809)	(11,794)	(11,468)

The accompanying notes and schedules are an integral part of these financial statements.

Exhibit 5

PROVINCE OF MANITOBA
PUBLIC ACCOUNTS 2009/10

SUMMARY FINANCIAL STATEMENTS
CONSOLIDATED STATEMENT OF CASH FLOW
For the Year Ended March 31, 2010

	(\$ millions)	
	2010	2009
Cash and cash equivalents provided by (used in)		
Operating Activities		
Net income (loss) for the year.....	(201)	451
Changes in non-cash items:		
Temporary investments.....	181	(30)
Amounts receivable.....	(130)	57
Valuation allowance.....	12	(22)
Inventories.....	(28)	(1)
Prepays.....	(8)	(2)
Accounts payable, accrued charges, provisions and deferrals.....	(15)	243
Pension liability.....	(191)	(225)
Amortization of foreign currency fluctuation.....	5	6
Amortization of debt discount.....	(8)	(7)
Unamortized losses on derivative contracts.....	(4)	(22)
Loss on disposal of tangible capital assets.....	26	17
Amortization of tangible capital assets.....	404	375
	43	840
Other Comprehensive Income (Loss)(Schedule 3).....	709	(781)
Changes in equity in government business enterprises.....	(941)	552
Cash provided by (used in) operating activities	(189)	611
Capital Activities		
Acquisition of tangible capital assets.....	(1,227)	(978)
Cash used in capital activities	(1,227)	(978)
Investing Activities		
Investments purchased.....	(2,049)	(1,723)
Investments sold or matured.....	1,772	1,452
Cash used in investing activities	(277)	(271)
Financing Activities		
Debt issued.....	4,684	4,031
Debt redeemed.....	(2,977)	(3,847)
Cash provided by financing activities	1,707	184
Increase (Decrease) in cash and cash equivalents	14	(454)
Cash and cash equivalents, beginning of year.....	1,372	1,826
Cash and cash equivalents, end of year.....	1,386	1,372

The accompanying notes and schedules are an integral part of these financial statements.

Net debt (Exhibit 2) is the difference between total financial assets and total liabilities of a government. Net debt is an important indicator of the government's financial condition. It represents the future revenues that the government will need, to pay for past transactions and events. Net debt is reported in the Consolidated Statement of Financial Position on page 73 (2010 Annual Report).

It is important to distinguish net debt from total borrowings (issued debt) and borrowings (which exclude debt issued on behalf of GBEs). Total borrowings of a government are the total issued debt by the Government (past and present) and include short- and long-term debt. Borrowings, as shown on the consolidated statement of financial position (**Exhibit 2**) represent total borrowings excluding debt issued on behalf of GBEs. Schedule 4 on page 103 (2010 Annual Report), reproduced in **Appendix B**, has details of the Province's total borrowings.

Exhibit 6 summarizes the reconciliation of total borrowings to borrowings as reported on the Statement of Financial Position.

Exhibit 6

Public Accounts of the Province of Manitoba Borrowings			
	2008 ¹	2009	2010
Total Borrowings (includes Debt Issued on behalf of GBEs)	\$22,462	\$23,324	\$25,101
Less: Debt Issued on behalf of GBEs included in Total Borrowings	\$7,322	\$7,836	\$8,289
Debt Adjustments ²	\$(585)	\$(597)	\$(701)
Borrowings as reported on the Statement of Financial Position	\$14,555	\$14,891	\$16,111

- (1) As originally reported, advances to Manitoba Lotteries Corporation were netted against total borrowings in 2008. For more information on this presentation change, see section 2.6.
- (2) Debt adjustments include: unamortized debt issue costs; unamortized foreign currency fluctuations; unamortized gains/losses on derivative contracts; and, debentures issued by the Province that are subsequently purchased (held) by the Province as investments.

Total borrowings represent all debt the Province has issued, including debt for GBEs and any debt the Province has bought back to hold as sinking fund investments. As indicated in Schedule 4 to the summary financial statements, sinking fund investments are deducted from total borrowings in determining borrowings for the Consolidated Statement of Financial Position. Debt issued for GBEs is also reflected in Schedule 3 to the summary financial statements (**Appendix C**).

The **accumulated surplus or deficit (Exhibit 2)** represents the difference between the government's total assets and total liabilities. It indicates the extent to which a government has resources to pay for future services. The accumulated deficit of the Province is shown on the Consolidated Statement of Financial Position on page 73 (2010 Annual Report).

The **annual surplus or deficit (Exhibit 3)** represents the difference between total revenues from operations during the year and total expenses (costs) incurred during the year. The annual deficit for 2009/10 is shown as net income (loss) for the year on the Consolidated Statement of Revenue and Expense on page 74 (2010 Annual Report).

The **change in net debt (Exhibit 4)** for the year represents the extent to which sufficient revenues were raised during the year to support government spending for both operating and capital purposes. The Consolidated Statement of Change in Net Debt is on page 76 (2010 Annual Report).

The **cash position and cash flow (Exhibit 5)** provides information on how the government has managed its cash during the year and its sources of cash flow and use of cash resources. The Consolidated Statement of Cash Flow is on page 77 (2010 Annual Report).

2.3 Framework of Financial Reporting for Organization and Summary Financial Statements

The summary financial statements are prepared in accordance with GAAP for senior governments, which are codified in the *Public Sector Accounting Handbook*.

As required by public sector accounting standards, the revenues, expenses, assets and liabilities of all organizations in the GRE (except GBEs) are fully consolidated into the government's summary financial statements.

GBE financial results are reflected in the summary financial statements on the modified equity basis of accounting. This requires only GBE net income to be reflected in the Consolidated Statement of Revenue and Expense, as indicated in **Exhibit 3** and only GBE equity (assets minus liabilities) to be reflected in the Consolidated Statement of Financial Position (**Exhibit 2**). Under the modified equity method (unlike the full consolidation method) transactions between GBEs and the rest of the GRE are not eliminated on consolidation. And GBE equity and net income are not restated to conform to the government's basis of accounting for inclusion in the summary financial statements.

The net income and financial position for each GBE is reflected in Schedule 3 to the summary financial statements (**Appendix C**).

The majority of organizations in the GRE prepare their financial statements in accordance with the *Canadian Institute of Chartered Accountants (CICA) Accounting Handbook* which includes accounting standards for both profit-oriented enterprises and not-for-profit organizations. But school divisions prepare their financial statements in accordance with public sector accounting standards from the *Public Sector Accounting Handbook*. Each set of standards reflects the

user needs at the organization level for this wide variety of organizations under the government's control.

When the summary financial statements are prepared, the information from each organization, except for GBEs, is converted to public sector accounting standards to show the overall results for the Government of Manitoba consistently. Meeting all of the user's needs with more than one set of standards in the public sector adds a great deal of complexity to preparing both the organization financial statements and summary financial statements.

A significant change in accounting standards now underway is the move from Canadian to International Financial Reporting Standards (IFRS) for publicly accountable enterprises in Canada, which will include GBEs. This change and its future impact on the summary financial statements are discussed in the next section of this report.

2.4 Financial reporting by GBEs

GBEs must adopt IFRS

As we have noted in our report for the past two years, Canadian accounting standards for publicly accountable enterprises are converging to meet International Financial Reporting Standards (IFRS). Publicly accountable enterprises are those that file financial statements with a securities commission or other regulator for trading in a public market. PSAB has decided that all GBEs are publicly accountable and must therefore adopt IFRS for their financial reporting for fiscal years beginning on or after January 1, 2011.

In Manitoba, all five GBEs have been preparing for the transition to IFRS. That includes assessing the main differences between IFRS and Canadian GAAP (which they currently follow), and identifying and analysing the specific accounting policies, financial disclosures, and underlying financial information to decide what changes will be required to meet the IFRS financial-reporting requirements. As indicated in the notes to their financial statements for the 2009/10 fiscal year, the GBEs are quantifying the impact of all significant accounting changes that will result from adopting IFRS. All GBEs, except Manitoba Hydro-Electric Board (Manitoba Hydro), will convert to IFRS by April 1, 2011. Manitoba Hydro will adopt IFRS on April 1, 2012 because it follows rate-regulated accounting policies. The CICA has given organizations that use rate-regulated accounting an extra year to move to IFRS because international standards are still evolving in this area.

Some main areas where IFRS is likely to impact financial reporting by GBEs are as follows:

Financial Statement Presentations - There will be changes in the format and appearance of financial statements presented under IFRS. For example, a statement of comprehensive income will be required which shows both net income from operations and other comprehensive income. Also a separate statement of changes in equity will be required.

Expanded financial statement note disclosures - IFRS requires more note disclosure around financial statement items. It also requires more disclosure of areas where significant professional judgement has been exercised by management and significant assumptions used to prepare the financial statements. For example accounting for lease arrangements, provisions and contingencies, asset impairment and pension obligations are areas where expanded note disclosure will be required about management assumptions and professional judgement.

Depreciation of Property Plant and Equipment (capital assets) - IFRS requires component accounting while Canadian GAAP used to permit accounting and depreciation of the asset as a whole. For example, if an asset is a building, under Canadian GAAP an organization could determine the useful life of the building and depreciate its capital cost over that useful life. But under IFRS, each of the major components of the building has to be determined, such as the roof, the building envelope, frame, electrical systems. And the useful life of each component needs to be estimated and depreciated separately to recognize that the components have different service lives. This could significantly change the amount of depreciation recorded annually. For some assets, depreciation could be recorded at an accelerated rate, while for other assets, the converse could occur. In addition, IFRS requires overhead and administration costs to be expensed rather than capitalized as part of property, plant and equipment, which was permitted under Canadian GAAP.

Broader recognition criteria for liabilities - under IFRS, in addition to recognizing legal liabilities, organizations have to assess if they have constructive liabilities—which should be recorded in the financial statements. A constructive liability exists when an organization may not have a legal liability, but may have created a valid expectation by third parties that it will pay to settle a past transaction or claim, so that it has lost its discretion to avoid settlement. Items that only needed to be disclosed in a note under Canadian GAAP might have to be recorded as an expense and a liability under IFRS.

Rate-regulated accounting - Canadian GAAP currently permits organizations whose rates to customers are regulated to account for transactions and events differently than organizations who are not subject to rate regulation. Rate regulated organizations can record regulatory assets and liabilities which otherwise do not meet the GAAP definition of assets and liabilities. The intent is to recognize that an organization's costs of delivering a regulated service product will be recovered not only through current, but also future, rate increases.

Manitoba Hydro currently uses rate-regulated accounting. The prices charged for the sale of electricity and natural gas within Manitoba is subject to review and approval by the Public Utilities Board of Manitoba (PUB). The rate-setting process is designed such that rates charged to electricity and natural gas customers recover costs incurred by Manitoba Hydro in providing electricity and gas service. Accordingly, Manitoba Hydro applies various accounting policies that differ from enterprises that do not operate in a rate-regulated environment. These accounting policies allow deferral of certain costs and credits that will be recovered or refunded in future rates. Otherwise, these costs and credits would have been included in calculating net income in the year that the cost or credit was incurred. Manitoba Hydro calls these deferred costs and credits *regulatory assets* or *regulatory liabilities*. At March 31, 2010, Manitoba Hydro had \$299 million of regulatory assets.

IFRS does not permit the use of regulatory accounting, but the International Accounting Standards Board is now reconsidering this position. So the CICA has given rate-regulated enterprises a one-year extension to adopt IFRS. As a result, Manitoba Hydro will adopt IFRS for the fiscal year starting April 1, 2012.

Impact of IFRS on summary financial statements

As previously noted in section 2.3, GBEs' financial results and financial position are not conformed to the government's accounting policies but the summary financial statements pick up their net equity and annual net income. Any changes which result from GBEs conversion to IFRS will flow through and be reflected in the Province's annual results and financial position.

2.5 Financial reporting by government not-for-profit organizations and other government organizations

For the most part, PSAB has decided that all government organizations besides GBEs will converge to public sector accounting standards for their external financial reporting.

A government not-for-profit organization is an organization that operates primarily for social, educational or other not-for-profit purposes, and that has counterparts outside the public sector.

PSAB has approved including existing not-for-profit accounting standards from the CICA Handbook in the public sector accounting handbook. These accounting standards cover transactions and events most common to not-for-profit organizations such as accounting for revenue from contributions for capital and operating purposes. For all other business transactions, government not-for-

profit organizations will use the rest of the public sector accounting handbook for guidance.

Government not-for-profit organizations may thus account for things differently than other not-for-profit organizations that do not use public sector accounting standards for financial reporting. For example post retirement benefits and pension costs will be accounted for differently.

In Manitoba, government not-for-profits have to adopt public sector accounting standards for the fiscal year beginning April 1, 2012.

All government organizations, other than GBEs and not-for-profit organizations are called “other government organizations”. For the most part, they will follow public sector accounting standards, unless IFRS better meets an organization’s financial reporting needs. Other government organizations have to adopt public sector accounting standards for fiscal years beginning April 1, 2011.

The Department of Finance has been working with government organizations to help them validate their current classification as government not-for-profits or other government organizations and to assist them with the transition.

2.6 Changes in Accounting Policies and Presentation

The summary financial statements have the following changes for 2009/10 compared to the prior year:

- The financial statement presentation of advances (loans) to Manitoba Lotteries Corporation (MLC) changed. Previously, these advances of about \$160 million were netted against the associated borrowings of the Province. Under GAAP, when a government borrows money specifically for a Government Business Enterprise (GBE) such as MLC, and loans the money to the GBE, for financial statement purposes, the borrowings and the loan to the GBE are netted against each other—as long as the terms of the debt match the terms of the advance. In this case, the terms of the debt no longer match the terms of the advances to MLC, so this presentation is not appropriate. So the Province changed the presentation to reflect the \$160 million both as an advance in schedule 2 (loans and advances) and as borrowings in schedule 4.
- The Province performed a detailed analysis of the terms of items in cash and cash equivalents, temporary investments, and portfolio investments. Several items previously classified as cash had terms greater than 90 days. Such items are better reflected as either temporary investments or portfolio investments. The Province reclassified \$380 million from cash to temporary and portfolio investments. It also restated the comparative amounts in the Statement of Financial Position.

- The Province changed its accounting policy for recognizing capital grant revenue from non-governmental sources. It did this to treat capital grant revenue from both government and non-government sources consistently. All capital grants, regardless of source, are now recognized as income when the associated capital asset is acquired or built. Previously, a capital grant from a non-governmental source, such as a foundation or a private sector donor, was recognized as income on the same basis that the capital asset was amortized or used. This accounting treatment was allowed under GAAP, which allows either the deferral or immediate recognition of the capital grant revenue from non-governmental sources. This change in accounting policy ensures consistent accounting treatment of all capital grants from third parties. The Province applied this change retroactively, which decreased the opening accumulated deficit by \$18 million.

The 2009/10 summary financial statements also reflect the impact of the following changes in accounting policies by the GBEs:

- Manitoba Hydro and Manitoba Public Insurance Corporation, along with other GBEs, adopted CICA Handbook Section 3064, which revised standards for recognizing, measuring, presenting, and disclosing goodwill and intangible assets. The new accounting standard is more rigorous on when intangible assets can be capitalized as an asset (rather than expensed when incurred), and the period over which they can be amortized. In addition, Manitoba Hydro adopted a change in accounting policy for dual currency bonds with principal repayments in Canadian currency and interest payments in U.S. currency. More information on this change is provided in section 2.7.
- As disclosed in Note 9 to the summary financial statements, the retroactive adoption of these standards resulted in a \$62 million decrease in the Province's equity in GBEs on April 1, 2009 and a reduction in 2009/10 net income from GBEs of \$44 million.

In 2009/10, the Province registered the Reporting Organizations Regulation 171/2009, under *The Financial Administration Act* (FAA). Section 65.1 of the FAA requires the Province to prepare the summary financial statements to reflect the operating results and financial positions of all organizations in the government reporting entity (GRE). For the FAA, the GRE means the government of Manitoba plus all "reporting organizations". Reporting organizations are defined as all government agencies (organizations whose boards are appointed by an Act of the Legislature or by Lieutenant Governor in Council) plus any other organizations prescribed by regulation. With the regulation in place, the summary financial statements are now prepared in compliance with the FAA.

2.7 Hydro Accounting for Dual Currency Bonds

As noted previously, Manitoba Hydro changed its accounting policy for dual currency bonds with principal repayments in Canadian currency and interest payments in US currency. These bonds were previously reported on the balance sheet at the Canadian principal amount repayable at maturity, with foreign exchange gains and losses on U.S. interest payments recognized when the interest payments were accrued or paid.

Starting in fiscal year 2010, Manitoba Hydro started accounting for these bonds by taking the present value of all future principal and interest payments discounted at the effective rates implicit in the borrowing. The present value of the interest payments is translated into Canadian currency at the exchange rate on the balance sheet date, with any exchange gains and losses immediately recognized in net income. This change was adopted to provide more relevant information on foreign currency exchange-rate changes. The change was adopted retrospectively. The impact of the change on prior years was a cumulative decrease to retained earnings of \$7 million. The impact for the current year was an increase in net income of \$31 million.

3.0 Matters Arising from our Audits

3.1 Balanced Budget Legislation

We are required to audit *The Statement of Calculation of Balance Under the Balanced Budget, Fiscal Management and Taxpayer Accountability Act*. We issued an unqualified audit opinion on the calculation of a positive balance for the year ended March 31, 2010. Our unqualified opinion provides assurance that the Government has complied with the legislation, not that we agree or disagree with the policy decisions imbedded in the legislation. After the year end, the Government passed legislation which removes the requirement for a positive balance for the next four years. Our observation is that the introduction of balanced budget legislation altered spending behaviour and contributed to strong financial management. While we do not comment on the policy decision to remove the requirement, we urge the Government to maintain the focus on spending control within voted budgets.

3.2 Information Technology audit recommendations

To support our annual financial statement audit opinion for the summary financial statements, we gain an understanding of controls significant to financial reporting. Computer programs and applications operate in a computer environment. The controls over the computer environment are called Information Technology General Computer Controls (ITGCs). A well-controlled computer environment provides assurance that the programs and applications are functioning properly.

Here are some significant observations from our IT audit work.

Province needs a formal IT risk assessment process

Many risks faced by organizations relate to information held in or processed by IT systems. The objective of an IT risk assessment is to understand risks associated with IT. Knowing these risks, an organization can use safeguards to reduce them to an acceptable level. Ultimately, responsibility for IT risk management lies with the system, business process, and data owners. Such owners and relevant stakeholders should agree on levels of IT risks, mitigation strategies, and accepted residual risks.

Generally, IT risk assessments cover the following:

- Technology (hardware and software);
- Security of assets (physical and logical);
- Policies, standards, guidelines and procedures;
- Legal and regulatory requirements (data retention, privacy requirements); and
- Loss of key personnel.

IT related risks often include security, confidentiality, data and system processing integrity and availability. IT risk management should be fully integrated with overall, organization-level, risk management processes. Without a formal IT risk assessment process, an organization may be unaware of existing risks and may not have effective mitigating strategies.

Business Transformation and Technology (under the Department of Innovation, Energy and Mines), has contracted a third party to facilitate the development and implementation of an IT risk assessment process. Although Business Transformation and Technology has a significant amount of knowledge of risks within the IT environment, the Province lacks a formal IT risk assessment process.

Recommendation

1. **We recommend that the Province implement a comprehensive IT risk assessment process.**

Province needs a long-range IT strategic plan

Effective IT strategic planning improves stakeholders' knowledge and understanding of IT opportunities and limitations, performance measurements, capacity requirements (both staffing levels and hardware/software), risks within the environment, and levels of investment required to meet defined objectives.

An IT strategic plan defines, through collaboration with stakeholders, how IT contributes to the organization's strategic objectives. The plan defines how IT will support programs, services and assets.

Long-range IT strategic plans should be continuously updated based on changing environments, objectives, and risk. Such plans incorporate developing technologies that support innovative programs, services and processes.

IT strategic planning helps ensure that IT services achieve optimal value. If IT strategy is not properly aligned with overall objectives, organizations will have trouble ensuring that objectives are met cost-effectively.

Business Transformation & Technology has developed the *ICT Services Manitoba – Priorities and Strategies* document that includes:

- Vision, mission and guiding principles;
- Goals, objectives and priorities;
- Major enterprise initiatives; and
- IT organizational structure and governance.

This document aligns IT strategy with the objectives of the Department of Innovation, Energy and Mines. But it is not aligned with overall government objectives and provides IT objectives only for the upcoming fiscal year.

Recommendation

- 2. We recommend that the Province implement a long-range IT strategic plan.**

Province needs a formal IT security policy

An IT security policy is an essential part of a successful IT security program. The single greatest threat to information security is the lack of awareness and understanding of the risks in the IT environment. Senior management approval, end-user education, and a general awareness of IT security policies and standards are essential to the success of IT security practices. IT security should be a joint responsibility between IT service providers and business stakeholders.

An IT security policy should support efficient and effective security practices in order to maintain the integrity of systems and data. The policy should include a statement of direction from an appropriate authority, supporting the goals

and principles of IT security. This policy should outline the minimum security requirements for protecting the confidentiality, integrity, and availability of IT systems and the data they hold. It should clearly define roles and responsibilities for IT security. Business Transformation and Technology provides supporting IT security policies, standards, guidelines and procedures, but many of these documents are outdated or in draft form. Also, the Province has not yet implemented a formal, comprehensive IT security policy.

Recommendation

3. **We recommend that Business Transformation and Technology, in collaboration with relevant business stakeholders, implement a comprehensive IT security policy.**

3.3 Quarterly reporting

The Province now uses full-accrual accounting for quarterly reports

Over the past several years, the Province has taken steps to improve the financial information in its quarterly reports. In 2008/09, it began preparing the quarterly reports based on the operating results of the full GRE. However, the 3rd quarter results were not based on full-accrual accounting. In 2009/10, that changed and the 3rd quarter report reflected the operating results of the GRE on a full-accrual basis, reflecting all the accounting policies used to prepare the summary financial statements.

As part of its summary financial-reporting project in 2006, the Province committed to preparing quarterly reports that reflected the financial results of the full GRE, prepared on a PSAB GAAP basis. The financial results in the quarterly report are calculated using the same accounting policies as used for the summary financial statements. So this recommendation is implemented (see section 4.0, Follow-up of Prior Year's Recommendations).

Public sector accounting standards do not provide any guidance on interim reporting. The Province includes only a statement of operations in its quarterly report, but this practice is consistent with other provinces that provide information on both forecast and actual results as part of their quarterly reports.

Canadian private sector accounting standards do provide guidance on interim reporting. The standards require interim financial statements prepared in accordance with GAAP to include at least a balance sheet, an income statement, and related notes to the financial statements. The Province could consider this or guidance from other standard setting bodies if it chooses to expand its current quarterly reporting format.

Contents of Province's quarterly reports compared with those of other provinces

The Province's 2009/10 3rd quarter report had a statement of operations (income statement) for the GRE to December 31, 2009. But no other statements, such as a statement of financial position, were included for the GRE. Additional schedules had more detailed information on core government revenue, expense and capital investment, but nothing on the GRE. Also, no notes to the financial information were in the quarterly report. The Statement of Operations is reproduced in **Appendix D**.

All 10 provincial governments use some form of interim financial reporting. Like Manitoba, none of them present full financial statements in their interim reporting. The format of the interim financial reporting varies greatly among provinces. Some give only budget (forecast) updates without year-to-date results, while others include actual year-to-date interim results with projections to year-end. British Columbia, Alberta and Ontario include year-to-date results in their quarterly reports, in addition to budget updates, similar to Manitoba. Saskatchewan also has information on both forecast and actual results in its quarterly reports, but its quarterly reports are based on core government operations only. Quebec releases monthly reports on transactions and the Maritime Provinces focus their interim reporting on budget updates released on a mid-year basis. No standard format is followed by all provinces. Manitoba's quarterly reports include most of the common elements reported by other provinces.

Quarterly reporting requirements inconsistent

All organizations in the GRE provide financial information to the Department of Finance on a quarterly basis for the summary quarterly results. Some organizations also have to produce quarterly reports at the organization level.

The Crown Corporations Public Review and Accountability Act requires the following organizations to table quarterly financial statements: Manitoba Hydro, Manitoba Liquor Control Commission, Manitoba Public Insurance Corporation, Manitoba Lotteries Corporation, and Manitoba Centennial Centre Corporation (MCCC). Other organizations, such as the Manitoba Housing and Renewal Corporation (MHRC) and the Manitoba Agricultural Services Corporation (MASC) do not have to report quarterly because they are not named under that Act.

For 2009/10, MASC had revenues of \$273 million and expenses of \$260 million; MHRC had revenues of \$253 million and expenses of \$240 million while MCCC had revenues and expenses of \$6 million.

While it is reasonable for large government business enterprises to provide regular public quarterly reports similar to their private-sector counterparts (publically traded companies), it's not clear why small organizations like MCCC have to

provide public quarterly reports when larger, more complex organizations like MHRC and MASC do not.

Recommendation

4. **We recommend that the Department of Finance review public quarterly reporting requirements for organizations in the GRE and prepare a plan to resolve any inconsistencies.**

Certain organizations in the GRE must prepare 4th Quarter reports, unlike the Province

All organizations required to prepare quarterly financial statements under *The Crown Corporations Public Review and Accountability Act* must prepare a 4th Quarter report, except for Manitoba Lotteries Corporation.

Because 4th quarter reports are unaudited and do not always have all the required disclosures and accounting adjustments that are in the final audited year-end financial statements, the information in the reports and statements can differ significantly. Using 4th quarter reports to evaluate an organization's performance or to guide decision-making is risky. In our view, efforts to prepare and analyse 4th quarter reports would be better allocated to speeding up the release of audited year-end financial statements. The Province stopped producing a fourth-quarter report in 2005/06. Consequently, we do not think organizations should release fourth-quarter reports.

Recommendation

5. **We recommend that the Department of Finance review the requirement for the release of 4th quarter reports under *The Crown Corporations Public Review and Accountability Act* to determine if it is still appropriate.**

Comparing 2009/10 actual year-end results to the Budget and 3rd Quarter Forecast

The 3rd quarter financial report, released by the Province on March 4, 2010, included a forecast of the 2009/10 results compared to the original 2009/10 budget. This forecast estimated a \$555 million net loss for the year, significantly lower than the original budgeted net income of \$48 million.

In the exhibit below, we compare both the original budget and 3rd quarter forecast to the actual results from the audited summary financial statements (in \$ millions):

Exhibit 7

	Budget	3rd Qtr. Forecast	Year end Actual	Actual to Budget Variance	Actual to Forecast Variance
Revenue	12,644	12,596	12,647	(3)	51
Expense	12,596	13,151	12,848	252	(303)
Net Income (Loss)	48	(555)	(201)	(249)	354

The actual year-end result was a net loss of \$201 million. We reviewed the variances with the Department of Finance to understand what had contributed to the differences.

The \$249 million difference between the original budget and actual results was primarily due to increased spending in health (\$99 million), family services and consumer affairs (\$60 million), community economic development (\$49 million), and justice and other expenses (\$55 million). In aggregate, revenues were not significantly different than the budget.

3rd quarter forecast based on results to date plus projections for rest of year

The 3rd quarter forecast reflected the year to date actual results and the projected revenues and expenses for the rest of the fiscal year. The \$354 million positive variance in actual results as compared to the forecast was due to a \$101 million improvement in core government's results, and year-end adjustments and improvement in results of organizations outside of core government. The main causes of the differences outside of core government were:

- **Year-end adjustments:** This primarily relates to Manitoba Hydro and MPI. Manitoba Hydro changed one of its accounting policies (discussed in section 2.7), which increased summary net income by \$31 million as compared to the 3rd quarter forecast. Also, a year-end adjustment to the claims provisions for MPI resulting from an actuarial valuation of its claims liability resulted in an increase to summary net income of \$50 million. In total the impact of these items was \$81 million.
- **Actual results better than forecast:** Universities and colleges' actual results were \$19 million better than the forecast. School divisions' results were \$26 million better than forecast because the 3rd quarter forecast assumed a break-even result. Health organizations' results were \$37 million better than forecast. Other organizations' results were \$11 million better than forecast. The impact of these items was \$93 million.
- **Forecasts used accounting policies not adjusted to PSA standards:** As Section 2.0 notes, certain organizations included in the Summary Financial Statements use different accounting policies at the organization level.

Their results are converted to PSA standards when they are consolidated into the Summary Financial Statements. Of the difference between the forecast and actual results, \$59 million related to items recorded by the Regional Health Authorities which were not converted to PSA standards for the forecast. Another \$20 million related to one organization that prepared its 3rd quarter forecast on a cash basis, rather than reflecting necessary accruals.

In our view, several of the variances described above could have been prevented during the preparation of the 3rd quarter forecast, if there had been closer scrutiny of the information received from the organizations outside the core government.

3.4 Public accounts release dates

The FAA requires the Public Accounts to be tabled in the Legislative Assembly by September 30 of the following fiscal year. The 2009/10 Public Accounts were tabled on September 27, 2010, so the Province complied with the legislative requirement for their release, as in previous years.

We compared the release dates in Manitoba to those in other jurisdictions; the table below shows their release dates. Six jurisdictions released their public accounts earlier than Manitoba: British Columbia, Alberta, Saskatchewan, Ontario, Nova Scotia and New Brunswick. Canada issued their public accounts in October, 2010; however, they also released audited condensed financial statements on August 26, 2010. Three jurisdictions have not yet released their public accounts for 2009/10: Quebec, Prince Edward Island, and Newfoundland.

Timeliness is a key attribute of financial reporting. Public companies must normally release their audited financial statements within 90 days of their year-end. In our view, it would be possible for the Province to have an earlier release date; however, it would need to significantly change the systems used to produce the summary financial statements. For example, all organizations in the GRE would have to provide audited financial statements earlier, and the Province may have to rely more on draft financial information and estimates if the time period between year-end and the completion of the statements is reduced.

Recommendation

6. **We recommend that the Province determine what steps are necessary for an earlier release date of the Public Accounts.**

Table 1

Jurisdiction	Release Date	Legislation
Canada	October 28, 2010	<i>The Financial Administration Act</i> – on or before December 31st
British Columbia	July 8, 2010	<i>The Budget Transparency and Accountability Act</i> – on or before August 31st
Alberta	June 24, 2010	<i>The Government Accountability Act</i> – on or before June 30th
Saskatchewan	June 24, 2010	<i>The Financial Administration Act</i> – on or before October 31st
Manitoba	September 27, 2010	<i>The Financial Administration Act</i> – on or before September 30th
Ontario	August 23, 2010	<i>The Financial Administration Act</i> – on or before September 27th
Quebec	December 2, 2010	<i>The Financial Administration Act</i> – on or before December 31st
Newfoundland*	Not yet released	<i>The Financial Administration Act</i> - before February 1 of the following year
Nova Scotia	July 29, 2010	<i>The Provincial Finance Act</i> – on or before September 30th
New Brunswick	August 13, 2010	<i>The Financial Administration Act</i> - On or before September 30th
Prince Edward Island	November 19, 2010	<i>The Financial Administration Act</i> – on or before January 31st

* As of the date of this report, the 2009/10 Public Accounts has not been released.

3.5 Manitoba Housing Renewal Corporation (MHRC)

We perform the annual financial statement audit of MHRC. It is a crown corporation created by statute (*The Housing and Renewal Corporation Act*) with a primary mandate to enhance the affordability of, and accessibility to adequate housing for Manitobans, in particular, those with low to moderate income and those with specialized needs. It has several activities and programs to achieve these objectives. For the 2009/10 fiscal year, MHRC had revenues of \$253 million, expenses of \$240 million and assets of almost \$514 million.

During our audit we observed the need for MHRC to improve its financial statement preparation process by ensuring accounting staff are properly trained and by strengthening management's review of journal entries, year-end working papers and significant transactions to ensure completeness and accuracy. We have discussed these observations with MHRC's Board and management. As part of its efforts to improve its financial reporting capacity, MHRC has recently recruited two professional accountants for key accounting positions and is currently in the process of recruiting a Chief Financial Officer to oversee the finance function.

3.6 Public Trustee—Estates and Trusts under Administration

The Public Trustee administers clients' assets under trust arrangements. The trust activities of the Public Trustee are reported in the separate Estates and Trusts under Administration financial statements. We noted the following issue during our audit of these financial statements.

The Public Trustee allocates income to each account that forms the common fund, based on the **ending daily balances**. Before an amendment to *The Public Trustee Act*, the Public Trustee was required to allocate income to each account in the common fund based on **minimum daily balances**. The Public Trustee was not complying with the Act before October 2008. In October 2008, the Act was amended to require income to be allocated based on the ending daily balances, so the compliance problem was resolved.

The Public Trustee has not retroactively adjusted its income allocations before October 2008 to reflect the method of allocation that would have been required before the amendment to the Act. The Public Trustee advises that doing so would not be practical. The dollar amount of adjustments to individual accounts, if any, is unknown. There was no impact on the total income the common fund earned.

3.7 Co-operative Loans and Loans Guarantee Board

The Board's primary purpose is to make loans and guarantee loans to cooperative organizations in Manitoba. All Board activities are administered through the Department of Housing and Community Development.

The Board currently prepares audited financial statements, consisting of a schedule of loan guarantee transactions and notes to the schedule. Given the limited activities of the Board, we question the need for an audit of Board activities. The time needed to produce separate financial statements and to do the audit is disproportionate to the Board's activities. As at March 31, 2010, there were only two loan guarantees totalling \$122,000. We suggested moving Board operations into the Department or another organization, but that would require a change in legislation, as Section 8(2) of *The Co-operative Associations Loans and Loans Guarantee Act* requires the accounts of the Board to be audited each fiscal year.

3.8 Winnipeg Regional Health Authority—ATM fraud

During 2010, the Misericordia Health Centre identified a fraud associated with an ATM machine that it was operating. A police investigation into the fraud is ongoing. For financial reporting purposes, the operations of the Health Centre are consolidated in the audited financial statements of the WRHA, which is

consolidated in the summary financial statements. The fraud was not significant from a financial reporting perspective for either the WRHA or the summary financial statements. But the estimated amount is large enough to be a cause for concern.

WRHA's management advised us that they have reviewed internal controls at all its sites to ensure cash is properly safeguarded. We will be reviewing details around the cause of the fraud and WRHA's follow-up once the police investigation is complete.

3.9 Supplementary Audit Reports

The Province sometimes requires auditors of grant recipients to provide additional assurances, beyond the financial statement audit opinion through supplementary audit reports. The nature of some of these reports is what is referred to under auditing standards as 'derivative reporting responsibilities'. A derivative report is designed to communicate matters that came to an auditor's attention as a result of auditing the organization's financial statements.

Generally Accepted Auditing Standards (GAAS) have evolved so that derivative reporting is not an acceptable form of external assurance, except for regulated financial institutions. Derivative reports can be misleading because a financial statement audit will not always allow an auditor to perform the type of audit procedures needed to provide the additional assurance(s) required. Instead, an additional audit, through a supplementary report, can provide that assurance.

For example, section 190(2) of *The Municipal Act* requires the municipality's financial statement auditor to provide the following assurances in addition to the financial statement audit opinion:

- a statement of opinion as to whether the accounting procedures and systems of control employed by the municipality are adequate to preserve and protect its assets.
- a statement of opinion as to whether the funds of the municipality have been spent only under an authority granted by an Act or by the resolution or by-law passed by the authority granted under an Act.

These are derivative reports under GAAS.

As part of the financial statement audit, the auditor would review and test the design and implementation of internal controls in deciding whether to rely on them to reduce the level of testing of transactions and financial statement balances (referred to as substantive audit procedures). But the auditor would have to do much more testing and review of internal controls to provide an opinion on whether the internal controls were operating effectively for a reporting period.

Similarly, to provide assurance on whether a municipality had spent funds in compliance with the Act, an auditor would have to check the related guidance under GAAS for auditing compliance with agreements, statutes and regulations. The scope of this engagement would differ from the scope of a financial statement audit.

As a result, the requirements for supplementary audit reports under *The Municipal Act* are inconsistent with the requirements of GAAS.

We previously raised the issue of supplementary audit reports for municipalities in our Special Audit of the Rural Municipality of La Broquerie (March 2008 - section 11). We recommended the supplementary audit reporting requirements for municipalities be reviewed to ensure that appropriate assurances about the operations and administration of municipalities were being provided.

In a second example, before 2009, the auditors of public school divisions were required, under *The Public Schools Act*, to provide similar supplements to their financial statement audit report. Auditors had to provide a supplementary audit report, stating whether internal controls over reporting of school division enrolment and use of school funds were appropriate, and whether such funds had been spent in compliance with the Act. Because the auditing profession raised concerns about the legislative reporting requirements being inconsistent with GAAS, the Province changed the supporting regulation under *The Public Schools Act* in 2009 to change these supplementary reporting requirements. Instead, the Act now requires the auditor to provide a separate audit opinion on whether the school division's enrolment information has been prepared in accordance with the Act and is fairly presented. Under GAAS, the auditor can perform an audit of this financial information (separately from the financial statement audit) and provide an audit opinion based on the results.

Beyond these two examples of supplementary audit reports, other legislation may have similar requirements, which leads to the following recommendation.

Recommendation

- 7. We recommend that the Department of Finance do a cross-government review to assess the extent to which the Province currently requires supplementary audit reports and work with departments to revise the requirements to be consistent with GAAS while meeting departmental needs.**

4.0 Follow up of Prior Year's Recommendations

Each year, in our report to the Legislative Assembly on the Audit of Public Accounts, we provide recommendations to the Government where we identify opportunities for improvement in financial management and reporting processes.

The status of implementation of our prior years' recommendations is as follows:

Table 2

Recommendation	Status
That the quarterly reports of the Province be prepared in accordance within the framework of generally accepted accounting principles.	Implemented/Resolved
That the Provincial Comptroller's Office in collaboration with the CIO's Office ensure that a government wide disaster recovery plan is developed and tested to ensure that critical business functions can be continued by recovering computer processing capabilities in the case of an event which disrupts computer servicing services or facilities.	Work in progress
That the Provincial Comptroller's Office in collaboration with the CIO's Office review the use of security software tools to better manage the risks involving users with incompatible duties.	Implemented/Resolved The Province has acquired the Global Risk Compliance (GRC tool) and is in the process of implementing the tool to manage these risks.

5.0 Summary of New Recommendations and Management Responses

1. We recommend that the Province implement a comprehensive IT risk assessment process.

Departmental Response

The Province agrees that a comprehensive risk assessment process is required to ensure strong ICT Governance in Manitoba. The Province also recognizes that an effective IT risk assessment that is aligned to overall business objectives is a long term undertaking and will be completed over several years.

However, the Province has begun to take steps to complete this process. Business Transformation and Technology (BTT) has engaged a consultant to assist in the completion of an ICT Risk management policy and the framework and methodology, as well as piloting of these processes.

The ICT Risk management policy and the framework and methodology is currently in draft form and is currently being piloted within three areas of BTT. Once the pilots have been completed, any adjustments necessary to the policy, framework and methodology will be made, and will then be rolled out to the balance of BTT.

2. We recommend that the Province implement a long-range IT strategic plan.

Departmental Response

The Province agrees that IT is a major component in the efficient and effective operation of Government and it is taking steps to ensure IT objectives are aligned with overall government business objectives. These steps include the formation of a governance body, the Business Transformation Executive Committee (BTEC). BTEC is responsible for the review of all information and communications technologies activities, business transformation, information management and single

window for business initiatives. This includes such areas as IT policy, online services, capital planning prioritization, SAP prioritization and planning, and many more.

Business Transformation and Technology (BTT) has also embarked on several key initiatives over the past 10 months, including some short term tactical planning, an amalgamation with the Service Transformation Manitoba division, and the beginning of a long range strategic plan to align overall government business priorities and IT to mitigate risks and modernize government.

BTT has also conducted a series of planning sessions with all of BTT management, and will be consulting with all departments as part of their development of a five (5) year Strategic Plan. The results of these planning sessions, the IT Risk Assessments, 5 year capital plan, Application Portfolio Management and the Server Consolidation initiatives will provide the elements necessary for an overall 5 year strategic plan.

3. We recommend that Business Transformation and Technology, in collaboration with relevant business stakeholders, implement a comprehensive IT security policy.

Departmental Response

BTT, in collaboration with Labour Relations and the Civil Service Commission has already completely revamped its electronic Network Usage Policy (ENUP) and updated it to encompass new technologies and Web 2.0 Social Media realities. BTT will be further reviewing its security policies and/or directives and providing updates or re-writes of these policies on a Risk Management basis.

4. We recommend that the Department of Finance review public quarterly reporting requirements for organizations in the GRE and prepare a plan to resolve any inconsistencies.

Departmental Response

The Department of Finance agrees that the requirement for publicly issuing quarterly reports could be more consistent

within the Government Reporting Entity. The Department of Finance will review the current reporting requirements to determine what changes, if any, are required to achieve greater consistency.

5. We recommend that the Department of Finance review the requirement for the release of 4th quarter reports under *The Crown Corporations Public Review and Accountability Act* to determine if it is still appropriate.

The Province agrees to take this recommendation under advisement and will initiate discussions with impacted organizations and review the practices of other Canadian Provinces to determine if any changes to the Act are required.

6. We recommend that the Province determine what steps are necessary for an earlier release date of the Public Accounts.

Departmental Response

The Province is aware that some provinces release their public accounts earlier than Manitoba. However, it is our understanding that they do this by using preliminary results from their reporting entities, as opposed to actual audited results.

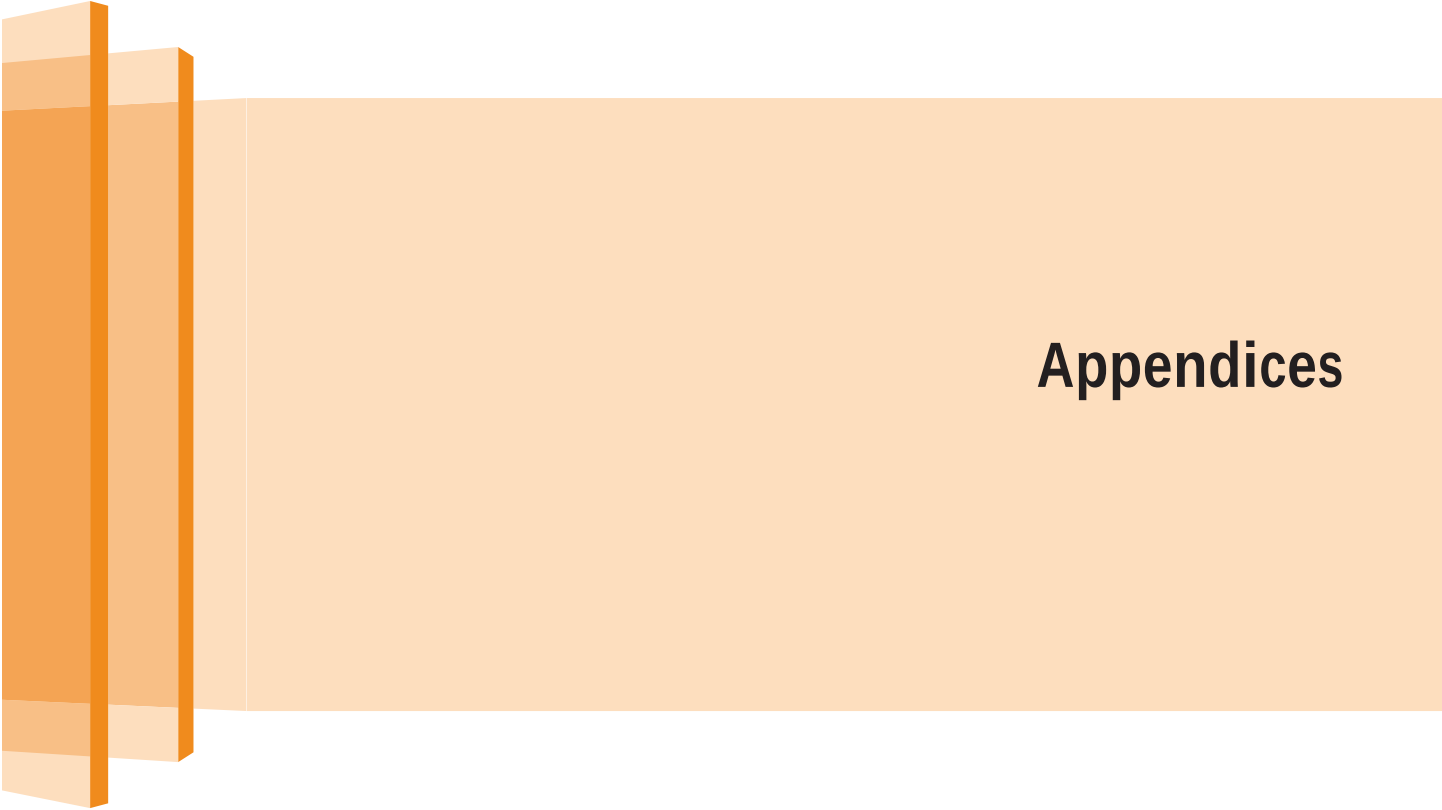
Any decision regarding a change in our release date must consider a balance between timely information versus more accurate information. The Province agrees to review their year-end timing; however, changes will only be considered if they do not hamper the reliability and accountability of the Provinces financial reporting.

7. We recommend that the Department of Finance do a cross-government review to assess the extent to which the Province currently requires supplementary audit reports and work with departments to revise the requirements to be consistent with GAAS while meeting departmental needs.

Departmental Response

Supplemental audit opinions provide government and entity level management assurance that there is strong stewardship in place on such diverse areas as controls, spending, governance, and program management.

The Province appreciates the Auditor General's comments and agrees they will review the current requirement for supplemental reports, including the nature and timing of the audit engagements to provide these audited reports.



Schedule 8 - Funds, Organizations and Business Enterprises Comprising the Government Reporting Entity

Appendix A

PROVINCE OF MANITOBA
PUBLIC ACCOUNTS 2009/10

SCHEDULE 8

FUNDS, ORGANIZATIONS AND BUSINESS ENTERPRISES COMPRISING THE GOVERNMENT REPORTING ENTITY

HEALTH AND HEALTHY LIVING

Manitoba Health
Manitoba Healthy Living, Youth and Seniors
Addictions Foundation of Manitoba
CancerCare Manitoba
Diagnostic Services of Manitoba Inc.
Manitoba Health Research Council
Manitoba Health Services Insurance Plan
Manitoba Hospital Capital Financing Authority
Not-for-Profit Personal Care Homes
Regional Health Authorities (including controlled organizations)
 Assiniboine Regional Health Authority Inc.
 Brandon Regional Health Authority Inc.
 Burntwood Regional Health Authority Inc.
 Churchill Regional Health Authority Inc.
 Interlake Regional Health Authority
 NOR-MAN Regional Health Authority Inc.
 North Eastman Health Association Inc.
 Parkland Regional Health Authority Inc.
 Regional Health Authority - Central Manitoba Inc.
 South Eastman Health/Santé Sud-Est Inc.
 Winnipeg Regional Health Authority
Rehabilitation Centre for Children Inc.
St. Amant Centre

EDUCATION

Manitoba Advanced Education and Literacy
Manitoba Education
Assiniboine Community College
Brandon University
Collège universitaire de Saint-Boniface
Council on Post-Secondary Education
Manitoba Text Book Bureau
Public School Divisions
Public Schools Finance Board
Red River College
University College of The North
University of Manitoba
University of Winnipeg

Appendix A (cont'd.)

Schedule 8 - Funds, Organizations and Business Enterprises Comprising the Government Reporting Entity

PROVINCE OF MANITOBA
PUBLIC ACCOUNTS 2009/10

**SCHEDULE 8
(cont'd)**

FAMILY SERVICES AND CONSUMER AFFAIRS

Manitoba Family Services and Consumer Affairs
Board of Administration under the Embalmers and Funeral Directors Act
Companies Office
First Nations of Northern Manitoba Child & Family Services Authority
First Nations of Southern Manitoba Child & Family Services Authority
General Child and Family Services Authority
Insurance Council of Manitoba
Land Titles Assurance Fund
Métis Child and Family Services Authority
The Property Registry
Vital Statistics Agency

COMMUNITY, ECONOMIC AND RESOURCE DEVELOPMENT

Manitoba Aboriginal and Northern Affairs
Manitoba Agriculture, Food and Rural Initiatives
Manitoba Conservation
Manitoba Entrepreneurship, Training and Trade
Manitoba Housing and Community Development
Manitoba Infrastructure and Transportation
Manitoba Innovation, Energy and Mines
Manitoba Local Government
Manitoba Water Stewardship
Abandonment Reserve Fund
Communities Economic Development Fund
Community Revitalization Fund
Cooperative Loans and Loans Guarantee Board
Cooperative Promotion Board
Crown Lands and Property Agency
Economic Innovation and Technology Council
Ethanol Fund
Farm Machinery and Equipment Act Fund
Food Development Centre
Green Manitoba Eco Solutions
Horse Racing Commission
Industrial Technology Centre
Leaf Rapids Town Properties Ltd.
Manitoba Agricultural Services Corporation
Manitoba Community Services Council Inc.
Manitoba Development Corporation
Manitoba Education, Research and Learning
Information Networks (Merlin)
Manitoba Floodway and East Side Road Authority

Schedule 8 - Funds, Organizations and Business Enterprises Comprising the Government Reporting Entity

Appendix A (cont'd.)

PROVINCE OF MANITOBA
PUBLIC ACCOUNTS 2009/10

SCHEDULE 8 (cont'd)

COMMUNITY, ECONOMIC AND RESOURCE DEVELOPMENT, cont'd

Manitoba Gaming Control Commission
Manitoba Habitat Heritage Corporation
Manitoba Hazardous Waste Management Corporation
Manitoba Housing and Renewal Corporation
Manitoba Opportunities Fund Ltd.
Manitoba Product Stewardship Corporation
Manitoba Trade and Investment Corporation
Manitoba Trucking Productivity Improvement Fund
Manitoba Water Services Board
Materials Distribution Agency
Mining Community Reserve
Mining Rehabilitation Reserve
Pineland Forest Nursery
Quarry Rehabilitation Reserve
Vehicle and Equipment Management Agency
Veterinary Science Scholarship Fund
Waste Reduction and Recycling Support Fund

JUSTICE AND OTHER EXPENDITURES

Legislative Assembly
Executive Council
Civil Service Commission
Manitoba Culture, Heritage and Tourism
Manitoba Finance
Manitoba Justice
Manitoba Labour and Immigration
Manitoba Sport
Civil Legal Services
Crown Corporations Council
Helen Betty Osborne Foundation
Le Centre culturel franco-manitobain
Legal Aid Services Society of Manitoba
Manitoba Arts Council
Manitoba Boxing Commission
Manitoba Centennial Centre Corporation
Manitoba Film and Sound Recording Development Corporation
Manitoba Law Reform Commission
Manitoba Securities Commission
Office of the Fire Commissioner
Organization and Staff Development
Pension Assets Fund

Appendix A (cont'd.)

**Schedule 8 - Funds, Organizations and Business
Enterprises Comprising the Government Reporting Entity**

PROVINCE OF MANITOBA
PUBLIC ACCOUNTS 2009/10

**SCHEDULE 8
(cont'd)**

JUSTICE AND OTHER EXPENDITURES, cont'd

Special Operating Agencies Financing Authority
Sport Manitoba Inc.
The Public Trustee
Travel Manitoba
Venture Manitoba Tours Ltd.
Victims Assistance Fund
Workplace Safety Public Education Fund

GOVERNMENT BUSINESS ENTERPRISES: (Schedule 3) (Note 4)

Utility:

Manitoba Hydro-Electric Board

Insurance:

Manitoba Public Insurance Corporation
Workers Compensation Board

Finance:

Manitoba Liquor Control Commission
Manitoba Lotteries Corporation

SPECIAL ACCOUNTS, not attached to a Sector or Department

Debt Retirement Account
Fiscal Stabilization Account

SUMMARY FINANCIAL STATEMENTS
CONSOLIDATED STATEMENT OF BORROWINGS
As at March 31, 2010

SCHEDULE 4

(\$ millions)

Fiscal Year of Maturity	Bonds and Debentures	Canada Pension Plan	Loans and Mortgages	Treasury Bills	Totals
	Cdn	US	Cdn	Cdn	2010
2010.....	-	-	-	-	3,364
2011.....	1,356	457	103	1,500	3,464
2012.....	1,858	-	105	37	2,000
2013.....	1,959	-	73	72	2,104
2014.....	1,631	750	-	72	2,453
2015.....	1,776	-	-	66	1,842
2010-2015.....	8,580	1,207	281	1,500	11,863
2016-2020.....	4,399	914	15	5	5,333
2021-2030.....	1,571	305	-	215	2,091
2031-2063.....	4,917	-	184	-	5,101
2011-2043 Crown Organizations.....	443	-	-	-	713
2011-2063.....	11,330	1,219	199	-	13,239
Total borrowings.....	19,910	2,426	480	1,500	25,101
Reduced by:					
Debt incurred for and repayable by The Manitoba Hydro-Electric Board.....					(7,836)
Unamortized debt issue costs.....					(8)
Unamortized foreign currency fluctuation.....					(56)
Unamortized gains and losses on derivative contracts.....					46
Province of Manitoba debt issues held as investments in sinking funds and cash and cash equivalents.....					(578)
					16,111
Borrowings payable in:					
Canadian dollars			18,907	March 31/09 Cdn \$ Valuation (See Notes)	17,146
Foreign issues hedged to Canadian dollars			3,768		3,173
U.S. dollars			2,035		2,397
Foreign issues hedged to U.S. dollars			391		608
Total borrowings			25,101		23,324

Note a: The hedges are derivative contracts which include swaps and forward foreign exchange contracts.

Note b: The Canadian dollar valuation is calculated using the foreign currency exchange rates in effect at each March 31 adjusted for any forward foreign exchange contracts entered into for settlement after year-end.

Note c: Interest rates on these borrowings fall into one of three categories:

ii) Fixed With rates ranging from 1.57% to 11.33%.

Appendix C Schedule 3 - Schedule of Consolidated Operating Results and Financial Position

PROVINCE OF MANITOBA
PUBLIC ACCOUNTS 2009/10

SUMMARY FINANCIAL STATEMENTS					
GOVERNMENT BUSINESS ENTERPRISES					
SCHEDULE OF CONSOLIDATED OPERATING RESULTS AND FINANCIAL POSITION					
For the Year Ended March 31, 2010					
(\$ millions)					
	UTILITY	INSURANCE	FINANCE	TOTAL 2010	TOTAL 2009
CHANGES IN EQUITY					
Results from Operations	2,053	1,272	1,383	4,708	4,932
Revenues from operations	1,480	1,203	832	3,515	3,718
Expenses: From operations	410	-	11	421	450
Debt servicing	1,890	1,203	843	3,936	4,168
Total expenses	163	69	540	772	764
Net income	-	-	(540)	(540)	(534)
Transfers to the Government	163	69	-	232	230
Other Comprehensive Income (Loss)	454	255	-	709	(781)
Net increase (decrease) in equity in government business enterprises	617	324	-	941	(551)
FINANCIAL POSITION					
Assets:					
Cash and temporary investments	174	93	37	304	465
Amounts receivable	371	326	30	727	788
Portfolio investments - Due from Government organizations	822	-	46	868	712
Due from others	-	3,086	-	3,086	2,636
Capital assets	9,833	147	186	10,166	9,331
Other assets	942	230	47	1,219	1,106
Total assets	12,142	3,882	346	16,370	15,038
Liabilities:					
Accounts payable, accrued liabilities and deferred revenue	960	575	123	1,658	1,587
Long-term debt: Owing to Government organizations	8,288	-	160	8,448	8,008
Other borrowings, discounts and deferred transaction costs	250	-	-	250	451
Provision for future benefits: Pension obligations	120	189	54	363	396
Future cost of existing claims	-	2,579	4	2,583	2,469
Total liabilities	9,618	3,343	341	13,302	12,911
Equity in government business enterprises	2,524	539	5	3,068	2,127

For government business enterprises whose fiscal year end is prior to March 31, the amounts reflected are as at their fiscal year end.

Government Reporting Entity Operating Statement

Appendix D

Government Reporting Entity Operating Statement UNAUDITED

(\$000s)	Year-to-Date to December 31		
	2009/10		
	Actual	Estimated	Variance
Revenue			
Income Taxes	1,941,451	1,940,177	1,274
Other Taxes	2,672,796	2,661,677	11,119
Fees and Other Revenue	1,244,466	1,261,215	(16,749)
Federal Transfers	2,937,992	2,958,095	(20,103)
Net Income of Government			
Business Enterprises	428,164	439,887	(11,723)
Sinking Funds and Other Earnings	157,608	204,809	(47,201)
Total Revenue	9,382,477	9,465,860	(83,383)
Expenditure			
Health and Healthy Living	3,579,238	3,520,391	58,847
Education	2,231,108	2,311,640	(80,532)
Family Services and Consumer Affairs	953,650	967,953	(14,303)
Community, Economic and			
Resource Development	1,188,172	1,259,577	(71,405)
Justice and Other Expenditures	659,517	666,570	(7,053)
Debt Servicing Costs	551,214	614,907	(63,693)
Total Expenditure	9,162,899	9,341,038	(178,139)
Net Result	219,578	124,822	94,756

Core government revenue and expenditure details are provided in Appendix I and II on pages 10 and 11.

Web Version

