



Auditor General

MANITOBA

Report to the Legislative Assembly

Public Accounts and Other Financial Statement Audits

WEBSITE VERSION



December 2024

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December 2024

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

Dear Mr. Speaker:

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

Respectfully submitted,

Original Signed by: Tyson Shtykalo

Tyson Shtykalo, FCPA, FCA
Auditor General

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Auditor General's comments

Each year, we audit the Province of Manitoba's Summary Financial Statements. We also audit the financial statements of various government-controlled and related entities. This report offers an overview of our financial statement audit work for 2023/24, including our observations on key issues.

For the last 6 years, we have issued a qualified audit opinion on the Summary Financial Statements. This is the seventh year in a row we are issuing a qualified opinion. This year, the audit opinion is qualified because the Province was unable to provide sufficient support for the amounts disclosed for both contractual obligations and contractual rights.

During the 2024 audit, we identified significant weaknesses in financial statement preparation and the control environment. We found an unprecedented number of errors that required correction by the Province during the audit. Many of the issues related to processes the Province used to consolidate financial information from departments and other entities in the public sector into the Summary Financial Statements.

The Province can address the issues by building its capacity to produce reliable financial information and strengthening its internal controls.

I would like to thank the Department of Finance, the Treasury Board Secretariat—including the Office of the Provincial Comptroller—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, FCPA, FCA
Auditor General



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Introduction

The Auditor General Act establishes the Auditor General as an independent officer of the Legislative Assembly. This 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.

Government Reporting Entity (GRE)

The GRE includes all funds, organizations, and business enterprises controlled by the government. These entities include school divisions, universities, regional health authorities, business government enterprises (such as Manitoba Hydro), and other provincially-funded entities under the government's control. There are over 120 entities within the GRE.

Public Accounts of the Province of Manitoba

The Province of Manitoba's Public Accounts are prepared annually in accordance with *The Financial Administration Act*, and in 2024 contain:

- **Financial Statement Discussion and Analysis and other management commentary**

The Financial Discussion and Analysis (FSD&A) is prepared by management (the Province of Manitoba) to help users better understand the financial information included in the Summary Financial Statements. The FSD&A includes discussion and analysis of the amounts, relationships, and variances underlying the statements as presented. The FSD&A and other management commentary are unaudited; however, auditing standards require us to review them to ensure they are not materially inconsistent with the accompanying audited statements.

- **The Summary Financial Statements**

The Summary Financial Statements are the consolidated financial statements of the Province of Manitoba (the Province), sometimes referred to as the Public Accounts. These statements 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 auditor of these statements under both

The Financial Administration Act and *The Auditor General Act*. We perform the audit of the Summary Financial Statements and issue an auditor's opinion under Canadian Auditing Standards. The objective of our audit is to obtain reasonable assurance to provide an opinion as to whether the Summary Financial Statements are free of material misstatements.

- **Information provided under statutory requirement**

Several acts, including *The Financial Administration Act*, require certain information or reports to be included in the Public Accounts. There is no requirement for auditing most of these reports; however, we do perform the audit for these 2 supplementary reports, as required by legislation:

- Rainy Day Fund Statement of Transfers.
- 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 2024, we audited the financial statements of 12 other entities. Of these entities, 6 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, in addition to the Public Service Group Insurance Fund, and the Northern Affairs Fund.

Public sector compensation reporting

Public sector compensation reporting is an example of other financial information that we audit. *The Public Sector Compensation Disclosure Act* (the PSCD Act) requires the Province of Manitoba and all government agencies and public sector bodies to prepare an audited annual disclosure of employees and directors with compensation above a compensation reporting threshold. The compensation reporting threshold for the year ended March 31, 2024 was \$85,000.

Results of our financial statement audits this year

In this annual report to the Legislative Assembly on our financial statement audit work we discuss the results of our 2023/24 financial statement audits and look ahead to the year to come. This report includes the following sections:

- Issues impacting this year's Public Accounts audit (**SECTION 1**).
- Challenges implementing new accounting standards (**SECTION 2**).
- Understanding significant note disclosures (**SECTION 3**).
- Existing consolidation process increases the risk of errors in financial information, impacts timeliness (**SECTION 4**).
- Actions needed to enable the Province to prepare timely and accurate financial information (**SECTION 5**).
- Follow up on the status of our past year recommendations (**SECTION 6**).
- Results of our other financial statement audits for 2023/24 (**SECTION 7**).

1 Issues impacting this year's Public Accounts audit

The Province of Manitoba (the Province) continues to face challenges in preparing the Summary Financial Statements to meet its September 30 legislative deadline. In our last 2 reports to the Legislative Assembly on our financial statement audit work, we expressed concerns that improvements are needed in the following areas:

- The processes for financial statement preparation including the consolidation of financial information.
- Controls over financial transactions.

We continue to see issues in these areas. In our December 2023 report, *Public Accounts and Other Financial Statement Audits*, we raised concerns about the Province's pervasive lack of audit readiness which resulted in delays to the finalization of our audit of the Summary Financial Statements. The Province committed to improving its audit readiness, but considerable turnover in the Office of the Provincial Comptroller, including the departure of the Comptroller mid-audit, resulted in another year where we saw a lack of audit readiness.

For the second year in a row, we qualified our audit opinion related to a scope limitation, where the Province could not provide us with sufficient support for amounts recorded in its financial statements. Last year, we qualified related to the asset retirement obligation (see **SECTION 2.1**), and this year we qualified due to the Province's inability to provide us with sufficient audit support for its required disclosures of its contractual obligations and contractual rights (discussed in **SECTION 1.2**). **SECTION 2** of this report includes issues the Province has had in implementing new accounting standards. **SECTION 4** addresses concerns with the consolidation process.

1.1 Improvement required in fulfilling management's responsibilities for financial statement preparation and controls

The *Financial Administration Act* requires the Provincial Comptroller to prepare the financial statements in accordance with the directions of the Minister of Finance. The Auditor General is responsible for auditing the Province's financial statements. The roles of the auditor and preparer are clearly defined responsibilities under Canadian Auditing Standards (CAS). Under CAS, management is responsible for preparing the financial information and ensuring appropriate controls are in place. As the auditor our role is to obtain reasonable assurance that management's financial statements are prepared in accordance with Public Sector Accounting Standards (PSAS) and are free of material errors. Auditors review the internal controls, accounting policy, and financial information prepared by management to help us form our opinion.

We found that the Province was not fulfilling all management responsibilities as defined by CAS to prepare the financial statements and ensure appropriate controls are in place.

As noted in various sections in this report, management did not:

- Obtain all relevant information needed to prepare the consolidated Summary Financial Statements. The Province was unable to provide sufficient support for the contractual obligations and contractual rights disclosures resulting in our qualification (see **SECTION 1.2**).
- Have adequate processes in place to ensure information used in the financial statements was accurate. We found numerous errors in the financial statements presented to us for audit, as discussed in **SECTION 1.3**. We noted issues in the consolidation process also led to errors in the financial statements in **SECTION 4.2**.
- Review control processes to ensure they are properly designed and implemented to reduce risk of material misstatement due to fraud and error. We continued to find a number of control deficiencies and the majority of our past recommendations related to control deficiencies had not been implemented, as discussed in **SECTION 1.3**.
- Prepare information in accordance with PSAS requirements. We found many of the errors we identified in the financial statements presented to us related to application of PSAS (**SECTION 1.3**). We found the Province continued to experience challenges in implementing new PSAS, as discussed in **SECTION 2**.
- Have review processes in place to ensure financial information was accurate and prepared in accordance with standards before providing this information to the auditor. The errors noted in **SECTION 1.3** and lack of supporting documentation we noted in **SECTION 1.2** indicate lack of sufficient review prior to providing us the information.

1.2 Qualification due to insufficient support for note disclosures

This year, we found that the Province was unable to provide sufficient support for the amounts disclosed for both contractual obligations and contractual rights (see **SECTION 3.1**).

This resulted in a qualification based on scope limitation for both notes. See **APPENDIX A** for a reproduction of our basis for qualified opinion paragraph.

This is the second year we qualified our opinion based on insufficient support for an amount included. We are seeing a number of common reasons why the Province could not support amounts in its financial statements including:

- Information must be compiled from many sources. Unclear instructions have been provided by the Office of the Provincial Comptroller as to what information is needed for the Summary Financial Statements.
- There is a lack of review by those preparing the summary information to ensure the correct and relevant information has been provided.
- There is a lack of review to ensure information being provided matches the supporting documents (for example, a contract for \$10 million being recorded as a \$5 million commitment).

What is a qualified opinion?

An audit opinion is the single most important communication an auditor can have with the users of financial statements. A qualified opinion is a signal to users where they need to be cautious when relying on the financial statements that the opinion is attached to. A qualified audit report is not meant to be a regular occurrence and is a warning to the users of the financial statements that there is information that may not be reliable.

There are 2 types of qualified opinions:

Scope limitation: This occurs when an auditor is unable to obtain sufficient appropriate audit evidence for a material area of the financial statements. The auditor's report will explain the reasons for the limitation. Our qualifications for the note disclosures this year and for asset retirement obligations at March 31, 2023 were scope limitations.

Material misstatements: This occurs when an auditor concludes the financial statements contain misstatements that either individually or in aggregate are material but not pervasive. The auditor's report will describe the error. We issued qualified opinions related to material misstatements related to departures from generally accepted accounting principles on the Summary Financial Statements for the years March 31, 2018 to March 31, 2022.

1.3 Weaknesses in financial statement preparation and control environment

Financial statement preparation

We continue to see evidence of a lack of sufficient planning, time, and personnel allocated by the Province to the preparation of the Summary Financial Statements.

During the 2024 audit, we identified an unprecedented number of errors in the financial information and statements presented for audit. Hundreds of millions of dollars in accounting adjustments were required to correct the amounts presented in the Summary Financial Statements. Additionally, we found numerous issues related to the consolidation process, which are discussed further in **SECTION 4**.

We found that in many cases the amounts recorded in the accounting records were not adequately supported or did not match the supporting documentation. This indicates:

- A lack of understanding of what is required to support amounts in financial records.
- A lack of review of information prepared to support amounts in financial records.
- Poor controls over financial reporting.

The volume and number of errors and lack of supporting documentation contributed to delays in receiving final financial statements. For the second year in a row, the Province released the financial statements on the last business day before the legislated deadline.

We are concerned that the issues related to the preparation of the financial statements are not improving. Without improvement, the issues may escalate further. This could result in the Province not releasing its Public Accounts by the legislated deadline. In addition, appropriate support for the financial statements may become so inadequate that we would not be able to provide an opinion on the financial statements as a whole.

Control environment

Control environment is the set of standards, processes, and structures along with attitudes and competencies that provide the basis for carrying out internal financial controls across the organization. The control environment plays an important role in setting the appropriate foundation for the effective implementation and execution of internal controls.

The number of issues we have raised in management letters in prior years indicates there are significant weaknesses in the control environment. During this year's audit, we identified 36 new issues and followed up on 54 previously made recommendations to the Office of the Provincial Comptroller (OPC) and various departments. Of the 54, only 20 (37%) were implemented. We continue to see a considerable number of errors, as noted above.

Effective controls should prevent and detect errors in financial information, safeguard assets, and prevent unauthorized spending. A deficient control environment can lead to errors not being detected until we begin our audit. While management may correct errors that we find, not identifying them earlier has several negative impacts including:

- The risk that inaccurate, unaudited financial information (including quarterly reporting) is used for decision making (see example in **SECTION 4.2**).
- The completion of the year-end audit of the Summary Financial Statements is delayed because once auditors identify errors we must discuss them with management and then review management's correction of the errors.
- An increase in audit procedures and testing, as our audit risk is greater when controls cannot be relied on and when we find significant errors. This delays the completion of the audit and ties up our resources that could be used for other audits.

2 Challenges implementing new accounting standards

Implementing new accounting standards increases risk of error in the financial statements in most governments and organizations because:

- There is a lack of familiarity with the requirements.
- Changes in processes and systems may be required.
- New decisions and judgements need to be made.

Combined with the weak control environment noted in **SECTION 1**, the risk of errors is further increased when implementing new standards. We found significant issues with the adoption of 2 new standards in 2023: asset retirement obligations and financial instruments. Our follow up on these areas is included in **SECTION 2.1** and **SECTION 2.2**. A new revenue standard was adopted by the Province of Manitoba (the Province) in 2024 and is discussed in **SECTION 2.3**.

2.1 Asset retirement obligations: no scope limitation in 2024, but issues persist

The Province adopted the new Public Sector Accounting Standard (PSAS) related to asset retirement obligations (AROs) for the year ended March 31, 2023. During our 2023 audit, we issued a qualified opinion in our auditor's report related to the Province not providing sufficient evidence to support the valuation and completeness of its AROs. We also issued a letter to management with 2 recommendations to assist them in preparing for the 2024 audit.

During this year's audit, we were provided additional support for the ARO estimates for March 31, 2023 and support for March 31, 2024 estimates. As a result of preparing the support for the 2023 ARO balances, the ARO comparative amounts (unaudited) included in last year's Summary Financial Statements were restated.

2.1.1 Delays and errors in the preparation of ARO estimates

Complete ARO information was not prepared on a timely basis for the 2024 year-end and we found several errors. While we were able to provide an unqualified opinion related to the ARO, we still found several significant issues:

- A change in pricing due to an error was treated as a change in assumption and was not correctly applied to the adoption year. This was subsequently corrected.
- The incorrect discount rate was used for the initial valuation of AROs. This was subsequently corrected (see definition of **discounted cash flows** in **SECTION 3.2**).
- Last year, we found that some departments were relying on other departments' pricing models. We found no process had been developed centrally to share updates to pricing between the departments resulting in an error we detected during 2024.
- Note disclosures were provided to us too very late in the audit process and included errors.

2.2 Financial instruments presentation and disclosures improved in second year

The Province also adopted the new PSAS financial instruments standard in 2023. We identified some areas for improvement regarding the presentation and disclosure of the financial instruments section of the financial statements in our December 2023 report, *Public Accounts and other Financial Statement Audits*.

In 2023, the Province only presented net remeasurement gains and losses on the Consolidated Statement of Remeasurement Gains and Losses. PSAS require these gains and losses to be presented separately, showing subtotals for realized and unrealized gains or losses. This way, users can see the amount of remeasurement gains and losses that have been realized during the year, impacting the annual operating deficit or surplus. The presentation now shows these realized and unrealized gains and losses separately in the March 31, 2024 financial statements. **APPENDIX B** illustrates the changes in 2024 over the 2023 statement.

In our 2023 report, we also identified areas where the financial statement notes related to the Province's risk management and use of derivative financial instruments were not fully compliant with the PSAS requirements. In 2024, the Province expanded its financial instrument risk disclosures to provide better information for users, more in-line with the requirements of PSAS. These disclosures now provide users with a better understanding of the financial risks the Province faces and how it manages them. See Note 12 to the Summary Financial Statements for the enhanced risk disclosures.

Although most of the issues we raised in 2023 have been addressed, there are other areas that need further improvement. For example, the inclusion of sensitivity analyses outside the interest rate risk and a discussion on price risk would provide more information to the user on these risks.

2.3 Implementation of new accounting standards require clear communication with departments

For the year-ended March 31, 2024, the Province was required to adopt a new PSAS – PS 3400 Revenue. This standard provides governments with guidance on how to account for revenues related to many general revenue streams. For the Province, most of the government's general revenues are included in the Statement of Operations under the heading of *Fees and Other Revenues*, totaling \$2,690 million in 2024.

Figure 1

Fees and other revenue impacted by PS 3400		
Fees & Other Revenue	2024 balance (\$ millions)	2023 balance (\$ millions)
Service fees and other miscellaneous charges	\$1,790	\$1,710
Tuition fees	\$465	\$446
Automobile and motor carrier licenses and fees	\$256	\$178
Fines and costs and other legal	\$63	\$47
Water power rentals	\$51	\$71
Parks: Forestry and other conservation	\$44	\$35
Minerals and petroleum	\$21	\$25
TOTAL	\$2,690	\$2,512

2.3.1 Impact of the change in accounting for revenues

The new revenue standard provides guidance and clarification on how to account for revenues, so that there is consistent application across governments. Prior to its adoption, there was no specific guidance in PSAS on these revenues, other than a definition of what is considered revenue. In practice, most governments applied accounting standards similar to those used in the private sector. The adoption of the standard required significant review of revenue streams and accounting policies to ensure compliance. Given the new standard has many similarities to the private sector standards it did not result in significant changes to revenue recognition.

In 2023, the Province was required to adopt 2 new accounting standards: asset retirement obligations (ARO) and financial instruments. These were complex and the adoption resulted in significant accounting and auditing issues, including a qualification on the Public Accounts opinion related to AROs (see **SECTION 2.1**).

The transition to the new revenue standard was less complex and did not create similar significant impacts on the audit. We did not find any material errors in our audit related to this. However, we found a number of small errors related to the revenues.

Revenue recognition

Under the new revenue standard, revenue the Province earns from an exchange transaction is recognized when the performance obligation has been satisfied.

Performance obligation

A performance obligation is a commitment to deliver a specific good or service to a customer. They can be satisfied at a specific point in time (such as the sale of a good) or over time (such as tuition fees or rental revenue).

The performance obligation may not be at the same point cash is collected. Revenue should be accounted for on an accrual basis when the performance obligation is satisfied rather than based on when cash is received.

Accrual accounting not being used consistently

A fundamental principle of PSAS financial reporting is accrual accounting where revenues and expenses are recognized as they are incurred rather than on a cash basis. The new revenue standard further clarifies how to account for revenue on an accrual basis.

In our sampling of Fees and Other Revenues, we found that some departments were still accounting for certain smaller revenue streams on a cash basis, when monies were received, rather than when the performance obligations related to the revenue were met.

Federal transfers not being classified correctly in some departments

Different accounting standards apply to the recognition of federal transfers compared to non-government sourced revenue. The Province reports federal transfers as a separate major category of revenue, outside of Fees and Other Revenue. These categories factor into unaudited performance measures such as own source revenue to GDP (where federal transfers are not considered "own source revenues"). We found that some departments were recording smaller federal funding agreements under Fees and

Other Revenue. This results in a misclassification of revenues and impacts performance measures based on federal transfers or own-source revenues.

External advice obtained but not always followed through by departments

The Province hired an external accounting consultant to assist with the adoption of the new revenue standard. The Province also hired an external accounting consultant the previous year to assist in implementing the ARO and financial instrument standards. While overall, the implementation of the revenue standards was successful, we found that just as with the implementation of ARO and financial instrument standards, the consultant's advice was not always fully implemented, and there was no follow-up mechanism by the Office of the Provincial Comptroller (OPC) to ensure the departments were following the consultant's advice. During the audit, we observed that several revenue errors could have been avoided if the consultant's advice had been implemented.

None of the issues we identified related to the new revenue standard were material; however, they are indicators of several continuing issues:

- The Province still needs to improve its processes surrounding adoption of new accounting standards.
- Departments need to ensure they are following appropriate accounting policies.

3 Understanding significant note disclosures

Financial statement note disclosures are additional details and information that accompany the main financial statements. Note disclosures are required by Public Sector Accounting Standards (PSAS) and are considered an integral part of the financial statements.

Note disclosures provide additional context and explanations about the numbers presented in the financial statements, helping users understand the accounting policies, underlying assumptions, and estimates. They also provide further information on the financial risks and future liabilities of the government. These disclosures are prepared based on information from both within and outside the financial reporting systems. Poor recordkeeping and a lack of good processes in place to collect the required information has resulted in the Province of Manitoba (the Province) being unable to prepare and support some disclosures. This led to this year's qualified opinion related to contractual obligations and rights.

Below is additional information on some significant disclosures.

3.1 Contractual obligations and contractual rights

As discussed in **SECTION 1.2**, we qualified our opinion on the Summary Financial Statements. The qualification related to lack of appropriate support for contractual obligations and contractual rights disclosures.

Contractual obligations are government obligations or agreements that will become liabilities when the contract terms are met. There is no immediate liability until future action takes place. These include things like lease agreements which will result in future lease rent costs, or construction projects where a contract has been signed committing to pay for the future construction costs.

While these obligations do not yet meet the definition of a liability and are not recorded on the financial statements, they are relevant to users evaluating the Province's finances, because they represent future financial commitments. When making future spending decisions these obligations must be considered first.

Contractual rights are rights to economic resources arising from a contract or agreement that will become assets after a future event takes place. These represent future revenues to the Province under contract, and should be considered when evaluating the Province's future revenue and available funding. These include things like multi-year funding agreements from the federal government and other long-term revenue agreements.

3.2 Asset retirement obligations

Asset retirement obligations (AROs) represent a significant liability for the Province. See **FIGURE 2** for an excerpt of Manitoba's disclosures on AROs.

Discounted cash flows:

Future cash flows are discounted to represent the present value—so an expected payment in 2062 has a much lower present value than one expected to be paid next year, to represent the time value of money.

At the end of March 31, 2024, the ARO liability recorded on the Statement of Financial Position was \$806 million. This represents retirement costs estimated to take place between now and 2062, which have been discounted to represent the present value. The total undiscounted expected cash flows to be paid out over this period are \$1.9 billion.

This amount is an estimate, as in some cases the extent of hazardous materials is not fully known, and future remediation costs are based on the best information available at the time of the estimate.

Figure 2 – Excerpt from the 2024 Summary Financial Statements note disclosures

13. ASSET RETIREMENT OBLIGATIONS

The asset retirement obligations represent management’s best estimate of the present value of the costs that are expected to be incurred for the remediation of hazardous materials present in some of the province’s buildings, equipment, and landfills. The presence of asbestos is not a current health hazard, and there is no requirement to remove asbestos in these buildings if the asbestos is contained and does not pose a public health risk. There is however a legal obligation to incur remediation costs.

	(\$ millions)	
	2024 Actual	2023 Restated
Asset Retirement Obligations, Beginning of Year	811	885
Change in Assumptions	(37)	(109)
Additions	-	-
Liabilities Settled During the Period	(3)	(2)
Accretion Expense	35	37
Asset Retirement Obligations, End of Year	806	811

The discount rate used to determine the present value of the obligations ranged from 3.2% to 5.34%. The discount rate is based on the Government’s cost of borrowing.

On March 31, 2024, the undiscounted asset retirement obligations were \$1,910-million (2023 – \$1,862-million). These obligations are expected to be settled between 2028 and 2062.

The asset retirement obligations relate to buildings, equipment, and landfills. The government estimated the nature and extent of hazardous materials in its buildings based on the potential square metres, and the average cost per square metre, to remove and dispose of the hazardous materials. The estimates are based on assessments provided by third-party and internal experts. During the year, several government organizations changed the discount rate, and the impact is reflected in the change in assumptions.

3.3 Contingent liabilities

Contingent liabilities are potential liabilities the government may need to pay depending on the outcome of a future event. Examples of contingent liabilities include legal claims and retroactive pay for settlement of outstanding labour contracts.

Contingent liabilities can make up a significant portion of a government’s liabilities. At March 31, 2024, the Province recorded over \$1.2 billion for contingent liabilities related to legal actions. These amounts are included in the \$8.4 billion accounts payable as part of the other accrued charges subtotal disclosed in Schedule 5 of the Summary Financial Statements.

Contingent liabilities are different than other liabilities because they are not yet confirmed—there is uncertainty around the future obligation.

Contingent liabilities:

- May result in future sacrifice of economic benefits (future payment).
- Exist when there is uncertainty about an outcome that will be resolved by future events outside the government's control.
- Occur when the future obligation is based on an existing condition or situation.

Under PSAS, a government must record a contingent liability when the outcome of a liability is likely, and the amount can be reasonably estimated.

Figure 3

How contingent liabilities are accounted for under PSAS	
Situation	Accounting treatment
Liability is likely and amount can be reasonably estimated .	Record an expense and liability in the year both criteria are met. If the estimated amount (or actual amount paid) changes in future years record any increase in estimated amount as an expense or any decrease in estimated amount as a revenue.
It is undeterminable whether there will or will not be a liability.	Disclose the existence of a contingent liability in the notes to the financial statements but do not record an expense or liability. If a liability has already been recognized in the financial statements and the status moves from likely to undeterminable it is not derecognized, unless the status becomes unlikely.
Liability is likely but the amount cannot be reasonably estimated .	Disclose the existence of a contingent liability in the notes to the financial statements but do not record an expense or liability.
Liability is unlikely.	No disclosure or accounting required.

Assessing and estimating contingent liabilities

Management is responsible for assessing the likelihood of contingent liabilities and estimating their financial impact. Management must consider all relevant information available up to the completion date of the financial statements.

- In the case of legal litigation, this includes considering activity in the legal matter and other relevant events (such as settlement of a similar claim) up to the date of the financial statements.

- In the case of retroactive wage accruals, this includes considering negotiations of outstanding contracts, and settlement of other contracts in similar employee groups.

Because all new information must be considered, contingent liabilities is an area of the financial statements where adjustments could be made up to the audit report date.

4 Existing consolidation process increases the risk of errors in financial information, impacts timeliness

4.1 Overview of the consolidation process and its risks

Summary Financial Statements are consolidated results

Public Sector Accounting Standards (PSAS) require a government to report consolidated financial statements for the entire Government Reporting Entity (GRE), which includes the results of all entities the government controls.

The Summary Financial Statements for the Province of Manitoba (the Province) include the results of government departments combined with entities that are controlled by the Province. This includes Crown corporations, regional health authorities, school divisions, and post-secondary institutions. See the complete list of departments, entities and components in **APPENDIX C**.

Consolidation of financial statements

The financial information for the entities in the GRE comes from many sources. Government departments all use one computerized accounting system, while each controlled entity has its own accounting system and prepares its own financial statements.

The Office of the Provincial Comptroller (OPC) is responsible for compiling and preparing the consolidated financial statements of the Province. This is a very complex process. First, the OPC must obtain the correct information from the various entities. The process involves collecting audited financial statements along with supplemental unaudited information from over 100 entities and verifying the information is correct for the relevant period.

Next, the OPC must aggregate the financial information and make consolidation adjustments. These adjustments are made for several reasons. Some are to eliminate inter-entity transactions and balances. For example, if a government department pays a grant to a school division, the government's expense and school division's revenue are an *inter-entity transaction*—the larger GRE moving money from one pocket to another. These types of transactions and balances are eliminated on consolidation. Adjustments are also made to conform the information from the various reporting entities to the accounting policies of the Province.

Consolidation poses a significant risk of financial statement misstatement

In our audit, we consider the consolidation process to be an area of significant risk of material misstatement to the financial statements. There are a number of factors contributing to the increased risk.

- The entire process used by OPC is manual, requiring data from many sources to be entered into hundreds of large spreadsheets. Accounting adjustments are also prepared manually. Any manual process increases the risk of error.
- Some of the accounting requirements and adjustments are complex. For example, to conform information from entities to the Province's accounting policies, several steps must be taken. These steps include identifying:
 - Differences in accounting policies.
 - Changes in accounting policies.
 - Any new or unusual transactions that were made during the year.
- Adjustments to eliminate the inter-entity transactions and balances can require additional information and analysis to ensure the correct adjustments are being made. There is a risk these adjustments are made at the wrong value or are not made at all.
- Knowledge of both the relevant accounting requirements and the transactions and events taking place in the GRE during the year is required to prepare the consolidation accurately. When there is a new item requiring an accounting policy adjustment or elimination, there is a risk this requirement will not be identified or made correctly.
- Many entries are needed, increasing the risk of an error in any one entry, or the omission of a necessary adjustment.

4.2 Issues we found with the consolidation process

We found numerous errors arising from the consolidation process over the past several years. Errors and issues in the preparation of consolidated financial information have also led to delays in preparing the financial statements and contributed to our qualifications based on scope limitations for the past 2 years.

There are several causes of these errors, which we discuss below.

The process is complex and not well-documented

By its nature, consolidating financial information for over 100 different entities is complex. However, the Province's method creates more complexities than necessary by having multiple points where adjusting entries are made, resulting in a process where:

- To see the full impact of a balance or transaction in the financial statements, information from many sources must be pulled together. Different individuals are often responsible for pulling this information together, often performing similar accounting adjustments without adequate coordination.
- With different individuals responsible for preparing or reviewing each step of the process, they may not have a full understanding of how the entries they are recording will be accounted for in the Summary Financial Statements. This reduces the ability to detect errors.

- Errors may occur in this process due to missing adjustments, duplicated adjustments, or entries being reversed in error, due to individual accountants not seeing the full picture.

We found there was no documented process for consolidating financial information. During the 2024/25 audit there was turnover in 2 key roles in the OPC—the Provincial Comptroller left in July 2024 and the Executive Director of Public Accounts left in May 2024. Both of these positions play a key role in preparing the Public Accounts. The departure of these individuals, combined with the lack of documented processes, resulted in significant challenges in preparing accurate and timely financial information.

Individuals responsible for the consolidation do not have sufficient technical and institutional knowledge

As noted above, a well-documented process would help reduce the number of errors and delays in preparing accurate consolidated financial information. However, there is still a requirement for ensuring those responsible for the preparation and review of the consolidated financial information have sufficient technical PSAS knowledge as well as understanding of the specific events, transactions, and financial instruments in the government departments and other reporting entities.

This is because simply making the same entries in the same way each year may result in errors when there are new events or changes in circumstance. The accountants must identify when entries must change due to a change in circumstances, and how new items should be accounted for under the Province's PSAS accounting policies. We found errors in the consolidated financial information due to the preparers not changing the adjustments based on changes in circumstances.

The process does not address accuracy of information being used

We have found numerous errors in the consolidated information due to inaccurate, incorrect, or inconsistent information being used to prepare the adjustments.

Information is provided to the OPC from many sources to use as inputs for the consolidation process. These sources include:

- Government departments' information from the accounting system.
- Other reporting entities' audited financial statements.
- Other information from other reporting entities and government departments compiled specifically at OPC's request.

We found errors occurring when OPC:

- Made incorrect assumptions about the financial information prepared by departments and other reporting entities for other purposes.
- Requested information for specific purposes but did not provide sufficient instruction on what was required. In these cases, OPC also did not review the information for reasonability or corroborate with the entities to ensure the information provided was complete and accurate based on what OPC required.

- Did not request additional information when the information provided indicated there were new or unusual circumstances where more information was needed to prepare accurate consolidated financial statements.

The review processes are insufficient

Management's process for preparing financial statements should include an appropriate review of the information to detect errors. Given the number of errors we have found related to consolidation entries in the past several years, management's review of the consolidation process has not been sufficient.

4.3 Impacts of the poor consolidation process

As a result of issues in the consolidation process, we have observed the following:

- Delays in the preparation of the Summary Financial Statements, impacting the timeliness of financial information.
- Increased audit risk, due to the number of errors identified. This requires more audit procedures and larger sample sizes to allow us to provide an audit opinion.
- Increased errors in the unaudited accountability information, as a result of the combined issues with accounting and controls at the departments and the risks related to this consolidation process. We discuss an example of this further below.

Impact of poor consolidation process on unaudited accountability reporting

In **SECTION 1.3** we stated that weaknesses in accounting processes and controls over financial reporting increase the risks related to the Province's unaudited financial reporting. One example is the Province's Report on Estimates of Expenditures and Supplementary Information (REESI). We noted an increased risk of errors in the REESI that results from the overall accounting and controls issues, combined with the weak consolidation process. The REESI does not incorporate all accounting adjustments made outside of SAP, the Province's main accounting system. Often when an error is made in SAP and detected late in our audit, the correction is not recorded in SAP.

REESI reporting and its significance as an accountability document

The Province controls all entities in the Government Reporting Entity (GRE). The Summary Financial Statements are the consolidated financial statements of all entities in the GRE. However, during the budgeting process, Members of the Legislative Assembly do not vote on the Summary Budget which covers the same GRE-wide perspective as the Summary Financial Statements. Instead, MLAs only vote on "sums to be paid from the consolidated fund" through the annual Appropriation Act. In simple terms, the consolidated fund can be considered the government departments' main bank account.

While only reporting on departmental results does not provide a full picture of the province's budget accountability, the REESI helps to provide information on departmental spending. The unaudited REESI reports on the actual expenses compared to the budgeted amounts for departments.

The current process results in errors or omissions to core departments accountability information

As noted above, there are many points of input to the Province's Summary Financial Statements. When preparing the REESI, the Province uses information from the SAP accounting system. However, when making adjustments and correcting errors in departmental financial information, this is often done outside of the SAP system. These adjustments ensure the audited Summary Financial Statements are accurate, but there is no process to ensure similar adjustments are made to the unaudited REESI, resulting in errors. We found some adjustments to record expenses and liabilities that will eventually be paid out of the consolidated fund that are never recorded in REESI, understating expenses in the REESI.

For example, we found:

- A liability was recorded for core government legal obligations of \$55 million in the March 31, 2023 Summary Financial Statements.
- This should have resulted in an increase to expenses of \$55 million in the REESI for March 31, 2023, but it was not recorded.
- The \$55 million was brought into SAP through an opening period adjustment, in the 2023-24 fiscal year, and therefore was also not included in the 2024 REESI expenses either.

As a result of the legal obligations now being recorded as a liability in SAP through the opening period adjustment, it will be paid from the consolidated fund, without any reporting of this expense against the voted on estimates.

To improve the information provided to users of this accountability information, all adjustments or corrections made for the preparation of the Summary Financial Statements preparation that impact the core government should be recorded in the REESI.

5 Action is needed to enable the Province to prepare timely and accurate financial information

Timely and accurate financial reporting is essential for effective decision-making and responsible management of public resources. In recent years, we have noted deficiencies in the financial reporting process and control environment that affect the Province of Manitoba's ability to produce timely and accurate financial information.

We raised concerns about the deficiencies in our 2 most recent reports on the *Public Accounts and Other Financial Statement Audits*. Unfortunately, in the current year, the issues persisted and were exacerbated by the loss of key senior staff members during the audit.

Investing to increase capacity for accurate and timely financial reporting

To address these challenges, the Province of Manitoba (the Province) must make a substantial investment in building its capacity to produce reliable financial information and strengthen its internal controls.

This investment is crucial for maintaining financial accountability through strong financial reporting capabilities. The Province needs to build capacity, including improvements in staffing, training, review, IT infrastructure, and external support.

5.1 Strengthen competency in financial reporting through staffing and training

We have serious concerns about the Province's readiness to prepare financial information for the fiscal year ending March 31, 2025. Significant resources and enhancements in financial reporting competencies are urgently needed to address these challenges.

The Province noted in its response to our 2023 report on the *Public Accounts and Other Financial Statement Audits* that it "continues to be challenged by the inability to attract and retain professionally trained staff in core government departments to deliver financial services to the departments and oversee other reporting entities." This challenge persists. Over the past year, there has been considerable turnover within the Office of the Provincial Comptroller (OPC), which handles the central preparation of the Summary Financial Statements. This includes the departure of both the Provincial Comptroller and the Executive Director of Public Accounts.

To address these ongoing staffing issues, the Province must increase its investment in personnel and focus on improving staff competency through targeted training. Hiring staff with specialized knowledge in accounting, finance, and controllership is essential to ensure accurate and timely financial reporting. Training should focus on summary reporting, the consolidation process, public-sector-specific reporting requirements and internal controls. By investing in training, the Province can empower its workforce to handle complex reporting tasks and maintain high standards of accountability.

Structured and ongoing training will support succession planning and preserve institutional knowledge, reducing turnover-related disruptions and promote consistency across departments. This approach will enhance the quality of financial reporting and help sustain accurate financial practices long-term.

5.2 Implement a rigorous review process for accurate consolidation of information

To complement training and competency-building, establishing an effective review process for information received from departments and reporting organizations is essential. A rigorous review process provides a critical layer of oversight, ensuring that information received for consolidation into the Province's accounts is accurate, consistent, and compliant with required standards.

The consolidated financial information, statements, and note disclosures must be reviewed to ensure all required adjustments have been accurately made.

This review process should include verification of submitted information against established requirements, with regular cross-checks to identify and correct any discrepancies before the financial information is finalized. Departments and reporting entities must understand their role in adhering to

these requirements, with any information or reports they submit being subject to thorough review before inclusion in provincial accounts. By setting up clear review procedures and accountability mechanisms, the Province can mitigate the risk of errors or misstatements and reinforce the reliability of consolidated financial information.

An effective review process also fosters consistent practices and high standards across all departments and entities. When combined with training on review practices, staff will be better prepared to identify and address issues.

5.3 Address deficiencies to ensure a successful ERP system implementation

Modern IT systems are essential for supporting accurate and efficient financial reporting. Last year, we reported that the Province initiated a long-term project to modernize its Enterprise Resource Planning (ERP) software, SAP, which underpins functions including financial reporting, asset management, budgeting, and payroll. This project will unfold over several years and will impact all government areas, including the reporting entities under provincial control.

During the past year, the 2 co-chairs of the advisory committee for this transformation—the Provincial Chief Information Officer and the Provincial Comptroller—both left their jobs. Additionally, the Province's response to our 2023 report on the *Public Accounts and Other Financial Statement Audits* highlighted that the finance divisions within departments face a vacancy rate of nearly 30%, resulting in a significant loss of institutional knowledge. Without adequate institutional expertise during the system implementation project, there is a significant risk that the ERP solution may not effectively address the Province's needs, potentially resulting in inefficiencies in financial reporting, related controls and other critical processes.

To fully benefit from the ERP implementation, the Province must first address existing deficiencies and control weaknesses in its current financial reporting processes. Resolving these issues before or during the ERP rollout is essential for establishing a strong foundation for the new system.

5.4 Engage external resources for additional support

Given the immediate demands and gaps in expertise, seeking external support as a transitional measure is important. Engaging consultants or external financial experts can provide assistance to strengthen the current reporting process, meet reporting deadlines, and support the strengthening of controls while the Province builds its capacity. Additionally, external consultants training and knowledge transfer, further contributing to the Province's long-term capacity-building efforts.

6 Follow up on the status of past recommendations

As shown in **FIGURE 4** below, 6 recommendations from recent annual *Reports to the Legislative Assembly - Public Accounts and Other Financial Statement Audits* (RTL) have been implemented: 1 during the current year, and 5 in prior years. Eight recommendations are still in progress.

Figure 4

Report to Legislature Date	Implemented/resolved	Action no longer required	Do not intend to implement	Work in progress	Total
December 2020	5 (5 considered resolved in prior years)	–	–	4	9
December 2021	–	–	–	1	1
December 2023	1	–	–	3	4
TOTAL	6	–	–	8	14

Below we list the status of all recommendations that remain in progress. For certain recommendations we have added our Office of the Auditor General (OAG) comments to clarify implementation status and to highlight select actions or planned actions.

Recommendations implemented/resolved in 2024

2023 recommendations

1. We recommended that Treasury Board amend the Treasury Board Audit Committee Terms of Reference to include requirements for:

Membership to have sufficient knowledge of auditing standards, internal controls, compliance activities and fraud control.

The majority of its members to be independent.

Status: Implemented/resolved

Recommendations still in progress

2023 recommendations

We recommended that:

2. Internal Audit prepare a risk-based annual audit plan in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Status: Work in progress

3. We recommend that Internal Audit's risk-based plan include consideration of significant control deficiencies identified in our management letters and our Report to the Legislative Assembly.

Status: Work in progress

4. Treasury Board consider a government-wide approach to risk management such as Enterprise Risk Management.

Status: Work in progress

2021 recommendation

We recommended that the Office of Provincial Comptroller (OPC) provide training and oversight to ensure departments comply with documentation requirements to support accounting estimates.

Status: Work in progress

2020 recommendations

We recommended that:

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

Status: Work in progress

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.

Status: Work in progress

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

Status: Work in progress

6. The OPC 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.

Status: Work in progress

7 Results of our other financial statement audits for 2023/24

The Auditor General 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	Public Accounts – Province of Manitoba Summary Financial Statements	Department of Health	Manitoba Agricultural Services Corporation (MASC)
Recent audit completed for the year ended	March 31, 2024	March 31, 2024	March 31, 2024
Auditor's reports provided:	1. Qualified Opinion on Summary Financial Statements for a scope limitation related to Contractual Rights and Contractual Obligations – see copy of Auditors Report in APPENDIX A 2. Unmodified Opinion on Public Sector Compensation Disclosure 3. Unmodified Opinion on Fiscal Stabilization Account	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	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
Management letter information:	We issued a management letter to the Provincial Comptroller with 36 new recommendations. We followed up on the status of 54 prior year recommendations; 20 prior year recommendations have been implemented.	We issued no new management letter points for the period March 31, 2024. We followed up on one prior year recommendation and determined that the point identified was resolved.	Issued a management letter to the Chief Executive Officer with 2 new recommendations. We followed up on the status of 7 previous year recommendations, 1 of which has been implemented, and 1 of which will not be implemented.
Other items:	Items related to the Public Accounts audit have been discussed in SECTIONS 1, 2 and 3 ABOVE.	None noted	None noted

Audit Entity	University of Manitoba	Civil Service Superannuation Fund
Recent audit completed for the year ended	March 31, 2024	December 31, 2023
Auditor's reports provided:	1. Unmodified Opinion on Financial Statements 2. Unmodified Opinion on Public Sector Compensation Disclosure	1. Unmodified Opinion on Financial Statements
Management letter information:	Issued a management letter to the Vice President (Administration) with 1 new recommendation. We followed up on the status of 5 prior year recommendations; 2 prior year recommendations have been implemented and 2 have been replaced with the current year recommendation.	None issued
Other items:	None noted	None noted

Audit Entity	Legislative Assembly Pension Fund Audit	Winnipeg Child and Family Services Employee Benefits Retirement Fund Audit
Recent audit completed for the year ended	December 31, 2023	December 31, 2023
Auditor's reports provided:	1. Unmodified Opinion on Financial Statements	1. Unmodified Opinion on Financial Statements
Management letter information:	None issued	None issued
Other items:	None noted	None noted

Audit Entity	Public Service Group Insurance Fund Audit	Teachers' Retirement Allowances Fund Audit	Northern Affairs Fund Audit
Recent audit completed for the year ended	April 30, 2024	December 31, 2023	March 31, 2020
Auditor's reports provided:	1. Unmodified Opinion on Financial Statements	1. Unmodified Opinion on Financial Statements	1. Unmodified Opinion on Financial Statements
Management letter information:	None issued	None issued	Issued a management letter to the Executive Financial Officer of Manitoba Indigenous Reconciliation and Northern Relations with 1 new recommendation which has been implemented and following up on 7 past recommendations 4 of which have been implemented and one of which action is no longer required.
Other items:	Audit performed by OAG with assistance of an agent auditor.	None noted	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	Legal Aid Manitoba	Manitoba Housing and Renewal Corporation Audit	Public Guardian and Trustee of Manitoba
Recent audit completed for the year ended	March 31, 2024	March 31, 2024	March 31, 2024
Auditor's reports provided:	1. Unmodified Opinion on Financial Statements 2. Unmodified Opinion on the Statement of Compensation Paid to Council Members and Employees and the Statement of Private Bar Fees and Disbursements in Excess of \$85,000 of Legal Aid Manitoba 3. Unmodified Opinion on the Expenditure Statement – Schedule A of the Final Claim of the Agreements Respecting Criminal Legal Aid and Immigration and Refugee Legal Aid in the Province of Manitoba	1. Unmodified Opinion on Financial Statements	1. Unmodified Opinion on the Financial Statements of Public Guardian and Trustee of Manitoba, Special Operating Agency 2. Unmodified Opinion on the Financial Statements of Public Guardian and Trustee of Manitoba, Estates and Trusts under Administration
Management letter information:	We issued a management letter with no new recommendations. We followed up on one prior year recommendation.	None issued	None issued
Other items:	Audit performed by OAG with assistance of an agent auditor.	Audit performed by OAG with assistance of an agent auditor.	Audit performed by OAG with assistance of an agent auditor.

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Response from officials

A response to our report from the Secretary of Treasury Board on behalf of the Province of Manitoba is provided below.

Thank you for the opportunity to respond to the draft *Public Accounts and Other Financial Statement Audits*.

We are pleased that the consolidated Summary Financial Statements present fairly, in all material respects, the consolidated financial positions of the Province as at March 31, 2024 with the exception of Note 9 of the Summary Financial Statements for which insufficient support was available.

We agree with your recommendations and appreciate the opportunity to improve the process, particularly in the context of the growing complexity of public sector accounting standards. Our response is intended to provide additional clarity and context for the Public Accounts Committee and stakeholders who are not professional accountants and provide an update on the work in progress:

In our response for 2023, we identified three areas of risk that we are continuing to address:

1. Hiring and Retention of Qualified Finance Professionals
2. Technology Constraints
3. Implementing New Accounting Standards

While significant progress has been made in all three areas over the past year, two mid-audit departures in key positions, Provincial Comptroller and the Executive Director, Public Accounts, as well as new staff both in the Office of the Provincial Comptroller (OPC) and the finance units of some of the Departments required additional quality assurance and training during this year's audit process. We appreciate the patience and support provided by your office during this transitional period.

We are taking action to continue to build on improvements in the planning, execution and quality control in the Public Accounts process, including by engaging external resources to review both the current end-to-end process of the preparation and the audit of Public Accounts. The review will result in recommendations to enhance the planning of the Public Accounts, training of staff, managing the process, strengthening the instructions from OPC to departments and Other Reporting Entities (OREs), as well as quality control by the OPC. The consultants will also look

at opportunities for the Province to work with the Office of the Auditor General (OAG) to explore options to complete the audit earlier than the statutory deadline. We thank you in advance for your input into this review.

The world of accounting is evolving in complexity. As you may attest, the new public sector accounting standards implemented in the past two years have significantly increased the resource needs and time required for both the preparer and the auditor of the Public Accounts. We also hope this review will allow us to better coordinate the work and the timing with the OAG and allow us to identify any additional staff or outsourced consulting resources needed by both the preparer and the auditor.

Unfortunately, the demand for CPAs and a competitive labour market makes recruitment of CPAs and staff with controllership experience challenging, in both the public and private sectors. The work reported in last year's response to the Report to the Legislature is continuing and includes the addition of new EFO positions to complex departments, introducing a new financial stream of leaders in training interns, centralized recruitment, new internal controls policy, and external resources for advice, audit preparation and assurance work to support the departments and the OPC.

Since the completion of the Public Accounts audit, OPC has turned its attention to learning and training sessions to support and onboard new staff members, advance knowledge transfer, improve documentation and enhance the understanding of the consolidation and additional entries made throughout the preparation of the Public Accounts.

OPC is also providing enhanced training for the broader financial community in the core government. OPC, through the Council of Executive Financial Officers, has initiated the development of training materials for year-end reporting and other topics, such as the recently implemented accounting standards. This is the first training project that will be targeting the whole financial community, including OPC.

OPC is developing an enhanced quality control process that will include support from Internal Audit and Compliance Division, adding external resources during the Public Accounts process, working with the departments to address issues related to the control environment identified in the management letters to the Provincial Comptroller, and refreshing the year-end templates for departments and Other Reporting Entities (OREs) to improve the collection of financial information.

As you know, last week the Manitoba Government established a new Department of Innovation and New Technology. The Department will finalize the recruitment of the CIO and will further strengthen institutional governance and expertise to support the ERP modernization program to address the concerns raised in your report.

The ERP modernization project is well in progress with a number of modules already live. The group reporting module from SAP as part of the ERP modernization is scheduled for implementation starting in January 2025. This will address the long-standing issue of the manual process of compiling and consolidating the financial information from various entities that continue to pose an operational risk and delays to the audit process. The Province plans to pilot the module for the 2024/25 Public Accounts in parallel with the existing manual process.

We trust these measures will address your concerns and significantly improve the Public Accounts 2024/25 process.

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Appendix A - Independent auditor's report

Below is a reproduction of our independent auditor's report on the Province's Summary Financial Statements for the year ended March 31, 2024.



Auditor General
MANITOBA

INDEPENDENT AUDITOR'S REPORT

To the Legislative Assembly of the Province of Manitoba

Qualified Opinion

We have audited the consolidated financial statements of the Province of Manitoba (the Province), which comprise the consolidated statement of financial position as at March 31, 2024, and the consolidated statement of operations, consolidated statement of accumulated operating deficit, consolidated statement of remeasurement gains and losses, consolidated statement of changes in net debt, and consolidated statement of cash flow for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (the Summary Financial Statements).

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion* section of our auditor's report, the accompanying consolidated Summary Financial Statements present fairly, in all material respects, the consolidated financial position of the Province as at March 31, 2024, and the consolidated results of its operations, consolidated statement of accumulated operating deficit, consolidated remeasurement gains and losses, consolidated changes in its net debt, and consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards (PSAS).

Basis for Qualified Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Summary Financial Statements* section of our report. We are independent of the Province in accordance with the ethical requirements in Canada that are relevant to our audit of the Summary Financial Statements, and we have

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fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Insufficient support available for contractual obligations

Under Canadian PSAS, contractual obligations that commit the Province to make certain expenditures, for a considerable period into the future, are required to be disclosed to provide an understanding of the nature and extent to which the province's resources are already committed to meet its future obligations.

Information on the Province's contractual obligations is included in Note 9 of the Summary Financial Statements. We were unable to obtain sufficient appropriate audit evidence regarding contractual obligations as at March 31, 2024 as the Province was unable to provide support to allow us to verify the accuracy and completeness of the information included in Note 9. Consequently, we were unable to determine whether or not the information in Note 9 represents a departure from Canadian PSAS.

Insufficient support available for contractual rights

Under Canadian PSAS, rights to economic resources arising from contracts or agreements that will result in both an asset and revenue to the Province in the future are required to be disclosed to provide an understanding of the resources that will be available to the Province to meet its future obligations or to finance future operations.

Information on the Province's contractual rights is included in Note 19 of the Summary Financial Statements. We were unable to obtain sufficient appropriate audit evidence regarding contractual rights as at March 31, 2024 as the Province was unable to provide support to allow us to verify the accuracy and completeness of the information included in Note 19. Consequently, we were unable to determine whether or not the information in Note 19 represents a departure from Canadian PSAS.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Summary Financial Statements of the current period. These matters were addressed in the context of our audit of the Summary Financial Statements as a whole, and in forming our auditor's opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matters described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Key audit matters	
Corporate and personal income tax revenues	How the matter was addressed during the audit:
Overview Corporate and personal income tax are major sources of revenues for the Province, at \$900 million and \$4.46 billion respectively for the year. The Province considers economic forecasts and modelling for provincial tax revenue generated between January and March 2024, and generates an estimate based on revenue earned from April to December of the previous year based on Canada Revenue Agency tax assessment information. Related financial statement disclosures Note 1 - Significant Accounting Policies; Schedule 1 - Consolidated Statement of Amounts Receivable Why this is a key audit matter. Corporate and personal income tax revenues are estimates involving significant management judgement and estimation uncertainty. Income Tax revenue in a fiscal year is derived from management's estimates of tax for 2 separate calendar years. For the year ended March 31, 2024, the Province recorded 9 months of revenue for the 2023 calendar year and 3 months of revenue for the 2024 calendar year. The Canada Revenue Agency will not finalize its assessments for either of these years until after the financial statements for the year ended March 31, 2024 have been issued. Uncertainty exists due to differences that may arise in final tax assessments and initial economic estimates.	• We obtained an understanding of the systems and controls over the process of recording and estimating both tax revenues. • We engaged an independent economist to assist us in our review of the Province's economic forecast model for its reasonability and completeness, including management's use of key assumptions. • We reviewed the Province's retrospective review comparing previous actual results to managements estimates using the current model. • We tested the accuracy of management's calculations supporting the estimate. • We reviewed the Province's accounting adjustments made to the economic forecasts.



Key audit matters

Asset Retirement Obligations	How the matter was addressed during the audit:
Overview In the 2023 fiscal year, the Province was required to adopt the accounting standard PS 3280 Asset Retirement Obligations. We qualified our opinion in 2023 on the basis that the Province had not provided sufficient appropriate audit evidence regarding the completeness and valuation of the amounts recorded and the disclosures required. During the 2024 fiscal year, the Province prepared a supported estimate. At March 31, 2024 the Province recorded \$806 million in asset retirement obligations and restated March 31, 2023 asset retirement obligation to \$811 million. Related disclosures are Note 1 - Significant Accounting Policies; Note 2 –Adoption of New Accounting Standards and Changes to the Accumulated Deficit; Note 13 – Asset Retirement Obligations Schedule 7 – Consolidated Statement of Tangible Capital Assets Why this is a key audit matter. The asset retirement obligations are complex estimated liabilities that require significant judgements. It includes identifying legal requirements and assumptions used in the estimation of the costs to complete the work at a point in the future.	• We obtained an understanding of systems and internal controls over the process of recording asset retirement obligations. • We obtained an understanding of the Province's methodology and assumptions used. • We examined the Province's underlying support for all assumptions used in the estimation. • We reviewed the Province's identification of asset retirement obligations for both the 2023 and 2024 years. • We reviewed changes to the assumptions made in 2024. • We reviewed all financial related disclosures for accuracy and completeness.



Key audit matters

Financial Instruments	How the matter was addressed during the audit:
Overview Financial Instruments standards PS 3450, Portfolio Investments PS 3041 and Foreign Currency Translation PS 2601 are designed to provide the users of the financial statements information on how instruments were measured, and the extent the Province is exposed to financial risks. Significant items on the statements and disclosures are as follows: • Derivatives Financial Instruments are recorded at fair value in the consolidated statement of financial position. At March 31, 2024, the Province recorded a \$2.3 billion derivative asset, and a \$2.5 billion liability • \$149 million portfolio Investments in equity as disclosed in note 3 are recorded at fair value at March 31, 2024. • Unrealized gains and losses on foreign exchange, derivatives and portfolio investments are recorded in the consolidated statement of remeasurement gains and losses. The accumulated remeasurement losses at March 31, 2024 were \$521 million. Related disclosures are Note 1 - Significant Accounting Policies; Note 3 – Financial Instrument Classification; Note 4 - Portfolio Investments; Note 12 - Risk Management and the Use of Derivative Financial Instruments; Schedule 4 - Consolidated Statement of Public Debt Why this is a key audit matter. Financial Instruments and related standards have a significant impact on the consolidated financial statements. The measurement uncertainty involved in the determination of the fair value of derivatives is complex and requires management's judgement. There are also key disclosures related which include investments and risk disclosures associated with the Province's use of these instruments.	• We obtained an understanding of systems and internal controls over the process of recording and the valuation of derivatives. • We reviewed any changes in the valuation model to assess the appropriateness of the Province's model in estimating the fair value of derivatives. • We examined the Province's underlying data for its estimate of fair value of derivatives. We tested the completeness of derivatives recorded in the Province's financial statements • We reviewed the Province's identification of other contract types to ensure any material embedded derivatives identified were accurate and recorded. • We tested management's calculations of gains and losses recorded on the consolidated statement of remeasurement gains and losses for accuracy and completeness. • We reviewed all financial instruments-related disclosures for accuracy and completeness.



Other Information

The Province is responsible for the other information. The other information comprises the Province of Manitoba Annual Report and Public Accounts (the Annual Report) but does not include the Summary Financial Statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our qualified opinion on the Summary Financial Statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the Summary Financial Statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the Summary Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance. As described in the *Basis for Qualified Opinion* section above, we were unable to obtain sufficient appropriate evidence about the disclosures for contractual obligations and contractual rights as at March 31, 2024. Accordingly, we will be unable to conclude whether or not the other information is materially misstated with respect to this matter.

Responsibilities of Management and Those Charged with Governance for the Summary Financial Statements

Management is responsible for the preparation and fair presentation of the Summary Financial Statements in accordance with PSAS, and for such internal control as management determines is necessary to enable the preparation of Summary Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Summary Financial Statements, management is responsible for assessing the Province's ability to continue as a going concern, meaning that the Province will continue in operation, and will be able to realize assets and discharge liabilities and meet its statutory obligations in the normal course of operations for the foreseeable future.

Those charged with governance are responsible for overseeing the Province's financial reporting process. With respect to the Province, those charged with governance refers to the Minister of Finance.

Auditor's Responsibilities for the Audit of the Summary Financial Statements

Our objectives are to obtain reasonable assurance about whether the Summary Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Summary Financial Statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Summary Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Province's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Province's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Summary Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Province to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the Summary Financial Statements, including the disclosures, and whether the Summary Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Province to express an opinion on the Summary Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Summary Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Winnipeg, Manitoba
September 25, 2024

Tyson Shtykalo, FCPA, FCA
Auditor General

Appendix B - Extracts from the Summary Financial Statements

SUMMARY FINANCIAL STATEMENTS CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES For the year ended March 31, 2024

	(\$ millions)	
	2024 Actual	2023 Restated
Accumulated remeasurement gains/(losses), beginning of year, before other comprehensive income	(982)	(436)
Unrealized gains/(losses) Attributable to:		
Foreign Exchange.....	1	(540)
Derivatives.....	688	(7)
Portfolio Investments:		
Quoted in an active market.....	55	-
Total unrealized gains/(losses)	<u>744</u>	<u>(547)</u>
Reclassified to Consolidated Statement of Operations:		
Foreign exchange.....	(34)	(6)
Derivatives.....	37	7
Portfolio Investments:		
Quoted in an active market.....	(66)	-
Total reclassified to the statement of operations	<u>(63)</u>	<u>1</u>
Accumulated remeasurement gains/(losses), end of year, before other comprehensive income.....	<u>(301)</u>	<u>(982)</u>
Accumulated other comprehensive income/(loss), beginning of the year.....	(291)	(264)
Other comprehensive income/(loss) (Schedule 3).....	71	(27)
Accumulated other comprehensive income/(loss).....	<u>(220)</u>	<u>(291)</u>
Accumulated remeasurement gains/(losses), end of year.....	<u>(521)</u>	<u>(1,273)</u>

SUMMARY FINANCIAL STATEMENTS CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES

For the Year Ended March 31, 2023

	(\$ millions) 2023 Actual
Accumulated remeasurement gains/(losses), beginning of year	-
Adjustment on adoption of the financial instruments related standards:	
Accumulated unrealized remeasurement gains/(losses).....	(746)
Accumulated unrealized foreign exchange gains/(losses).....	311
	<u>(435)</u>
Net remeasurement gains/(losses) attributable to:	
Derivatives.....	(7)
Foreign exchange.....	(540)
Equity at fair value.....	-
Net remeasurement gains/(losses) for the year.....	<u>(547)</u>
Accumulated other comprehensive income/(loss), beginning of the year	(264)
Other comprehensive income (Schedule 3).....	42
Accumulated other comprehensive income/(loss).....	<u>(222)</u>
Accumulated remeasurement gains/(losses), end of year.....	<u>(1,204)</u>

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SCHEDULE 8

GOVERNMENT ORGANIZATIONS, COMPONENTS AND BUSINESS ENTERPRISES COMPRISING THE GOVERNMENT REPORTING ENTITY

HEALTH

Health, Seniors and Long-Term Care

CancerCare Manitoba
Not-for-Profit Personal Care Homes and Community Health Agencies
3885136 Manitoba Association Inc. (operating as Calvary
Place Personal Care Home)
Actionmarguerite (Saint-Boniface) (Saint-Vital) and (St. Joseph)
Bethania Mennonite Personal Care Home, Inc.
Clinique Youville Clinic Inc.
Donwood Manor Personal Care Home Inc.
Eden Mental Health Centre
Fred Douglas Personal Care Home
Holy Family Home Inc.
Hope Centre Health Care Incorporated
Klinic Incorporated
LHC Personal Care Home Inc.
Luther Home Corporation
MFL Occupational Health and Safety Centre Inc.
Main Street Project, Inc.
Meadowood Manor
Menno Home for the Aged Inc. (Personal Care Home
Division)
Mount Carmel Clinic
Nine Circles Community Health Centre Inc.
Niverville Heritage PCH Inc.
NorWest Co-op Community Health Centre, Inc.
Odd Fellows and Rebekahs (Personal Care Homes
Inc. Golden Links Lodge)
Park Manor Care Inc.
Pembina Place Mennonite Personal Care Home Inc.
Prairie View Lodge Inc.
Rest Haven Nursing Home
Rock Lake Health District
Salem Home Inc.
Sexuality Education Resource Centre Manitoba, Inc.
Southeast Personal Care Home Inc.
Tabor Home Inc.
The Convalescent Home of Winnipeg
The Salvation Army Golden West Centennial Lodge
The Saul and Claribel Simkin Centre Personal Care Home Inc.
Villa Youville Inc. - Nursing
West Park Manor Personal Care Home Inc.
Women's Health Clinic Inc.
Regional Health Authorities (including controlled organizations)
Interlake-Eastern Regional Health Authority
Northern Regional Health Authority Inc.
Prairie Mountain Health
Southern Health-Santé Sud
Winnipeg Regional Health Authority
Rehabilitation Centre for Children, Inc.
St.Amant Inc.
Shared Health Inc.

EDUCATION AND ECONOMIC DEVELOPMENT

Advanced Education and Training

Assiniboine Community College
Brandon University
Manitoba Institute of Trades and Technology
Red River College Polytechnic
Research Manitoba
Université de Saint-Boniface
University College of The North
University of Manitoba
University of Winnipeg

Education and Early Childhood Learning

Public School Divisions
Beautiful Plains School Division
Border Land School Division
Brandon School Division
Division scolaire franco-manitobaine
Evergreen School Division
Flin Flon School Division
Fort La Bosse School Division
Frontier School Division
Garden Valley School Division
Hanover School Division
Interlake School Division
Kelsey School Division
Lakeshore School Division
Lord Selkirk School Division
Louis Riel School Division
Mountain View School Division
Mystery Lake School District
Park West School Division
Pembina Trails School Division
Pine Creek School Division
Portage la Prairie School Division
Prairie Rose School Division
Prairie Spirit School Division
Red River Valley School Division
River East Transcona School Division
Rolling River School Division
Seine River School Division
Seven Oaks School Division
Southwest Horizon School Division
St James-Assiniboia School Division
Sunrise School Division
Swan Valley School Division
Turtle Mountain School Division
Turtle River School Division
Western School Division
Whiteshell School District
Winnipeg School Division

SCHEDULE 8 (cont'd)

GOVERNMENT ORGANIZATIONS, COMPONENTS AND BUSINESS ENTERPRISES COMPRISING THE GOVERNMENT REPORTING ENTITY

EDUCATION AND ECONOMIC DEVELOPMENT (continued)

Economic Development, Investment, Trade and Natural Resources

Abandonment Reserve Fund
Economic Development Winnipeg Inc. - Note b
Manitoba Development Corporation
Manitoba Opportunities Fund Ltd.
Mining Rehabilitation Reserve Fund
Quarry Rehabilitation Reserve Fund
Rural Manitoba Economic Development Corporation

Indigenous Economic Development

Communities Economic Development Fund

SOCIAL SERVICES

Families

General Child and Family Services Authority

Housing, Addictions and Homelessness

Manitoba Housing and Renewal Corporation

COMMUNITY AND RESOURCE DEVELOPMENT

Agriculture

Manitoba Agricultural Services Corporation

Environment and Climate Change

Efficiency Manitoba Inc.
Manitoba Hazardous Waste Management Corporation

Transportation and Infrastructure

Municipal and Northern Relations

Manitoba Water Services Board
North Portage Development Corporation - Note a

GENERAL GOVERNMENT

Public Debt

Notes:

- North Portage Development Corporation is a government business partnership
- Economic Development Winnipeg is a government partnership
- Fiscal Stabilization Account
- Reports to Minister of Finance
- Reports to Minister of Justice
- Reports to Minister of Sports, Culture, Heritage and Tourism

JUSTICE AND OTHER EXPENDITURES

Public Service Commission

Employee Pensions and Other Costs
Executive Council
Legislative Assembly
Tax Credits

Consumer Protection and Government Services

Manitoba Education, Research and Learning Information
Networks (MERLIN)
Materials Distribution Agency
Vehicle and Equipment Management Agency
Entrepreneurship Manitoba
The Public Guardian and Trustee of Manitoba

Finance

Insurance Council of Manitoba
Manitoba Financial Services Agency
Pension Asset Fund

Justice

Legal Aid Manitoba
Liquor, Gaming and Cannabis Authority of Manitoba
Manitoba Law Reform Commission

Labour and Immigration

Sport, Culture, Heritage and Tourism

Le Centre culturel franco-manitobain
Manitoba Arts Council
Manitoba Centennial Centre Corporation
Manitoba Combative Sports Commission
Manitoba Film and Sound Recording
Development Corporation
Sport Manitoba Inc.
Travel Manitoba

SPECIAL ACCOUNTS, not attached to a Sector or Department

Rainy Day Fund - Note c

GOVERNMENT BUSINESS ENTERPRISES: (Schedule 3)

Utility:

Manitoba Hydro-Electric Board - Note d

Insurance:

Deposit Guarantee Corporation of Manitoba - Note d
Manitoba Public Insurance Corporation - Note e

Finance:

Manitoba Liquor and Lotteries Corporation - Note f



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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Tyson Shtykalo, FCPA, FCA

Deputy Auditor General

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Assistant Auditor General IT and Innovation

Wade Bo-Maguire

Assistant Auditor General – Investigations & Strategic Projects

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The Office of the Auditor General of Manitoba acknowledges with respect that we conduct our work on the ancestral lands of Anishinaabeg, Anishininewuk, Dakota Oyate, Denesuline, and Nehethowuk Nations, and on the National Homeland of the Red River Métis. We respect the Treaties that were made on these territories, we acknowledge the harms and mistakes of the past, and we dedicate ourselves to move forward in partnership with Indigenous communities in a spirit of reconciliation and collaboration.



Auditor General
MANITOBA

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