



Auditor General
MANITOBA

Report to the Legislative Assembly

Public Accounts and Other Financial Statement Audits

Website Version



December 2021

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Auditor General's comments

Each year my office audits the Province of Manitoba's Summary Financial Statements, as well as the financial statements of a number of other government-controlled and related entities.

In 2021, Manitoba's financial results were greatly impacted by the Province's response to the COVID-19 pandemic. While COVID-19 struck in 2020, it was late in the fiscal year— and as a result, spending and other financial impacts were not significant to the Province's financial results that year. This year, there was significant new spending introduced as part of Manitoba's COVID-19 response and recovery, contributing to the \$2.1 billion annual deficit. **SECTION 1** of this report includes an overview of many of the new expenses, revenues, and balances related to the pandemic response, and information on how these are accounted for in the Province's annual results. We also discuss related items such as accounting for personal protective equipment, vaccines, and federal funding.



While pandemic-related spending had a big impact on the annual deficit, it also had a big impact on our audit. New programs, as well as new risks, and changes in the control environment, led us to modify our audit approach. Many new programs were introduced quickly and under emergency circumstances. One thing to consider going forward is how the Province reviews and adapts the controls and oversight structures introduced in an emergency, when the program continues on longer than the initial emergency period.

In Budget 2020, the Province announced a goal to reduce the number of entities in the Government Reporting Entity (GRE). There were a number of changes made this year which will result in 22 fewer entities in the GRE next year. In some cases, the end result will be a change in governance or operations—in others, it will simply result in a change in financial reporting. This is discussed in **SECTION 2**.

There are some changes in the Public Sector Accounting Standards coming in the next few years that may have a significant impact on the Province's financial reporting. While the implementation of these new standards is not required until the year ending March 31, 2023, a significant amount of preparation may be required, as we note in **SECTION 3**. Because of the potential impact this will have on Manitoba's financials, the Province should consider the impact of these changes as well as its implementation plans as soon as possible.

In **SECTION 4**, we follow up on 9 recommendations we made in our December 2020 report, *Public Accounts and other Financial Statement Audits*. I am pleased to see 3 recommendations

have already been implemented, with the others in various stages of progress. We have also made one new recommendation based on findings during this year's audit of the Summary Financial Statements.

Finally, in **SECTION 5**, we provide an overview of the entities we audit, in addition the Summary Financial Statements. A number of these entities had their final year as a separate reporting entity. For a number of years, we have been working towards building a portfolio of financial statement audits that are all of strategic importance to the Legislative Assembly. The elimination of some of the smaller entities we were required to audit by legislation will allow us to redirect some audit resources to more strategic assignments.

I would like to thank the Department of Finance, the Treasury Board Secretariat, and everyone else in the GRE involved in the preparation of financial information. Your cooperation and assistance was greatly appreciated. I would also like to thank my staff for their professionalism and excellent work on the financial statement audits and this report.

**Original Signed by:
Tyson Shtykalo**

Tyson Shtykalo, CPA, CA
Auditor General

Audits of the Public Accounts and other financial statements

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

- Expressing an opinion to the Legislative Assembly as to whether the *Summary Financial Statements* included in the Public Accounts present fairly the financial position of the government in accordance with the accounting policies stated in the Public Accounts.
- 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.

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

Public Accounts of the Province of Manitoba

The Public Accounts are prepared annually in accordance with *The Financial Administration Act* and in 2021 contain:

- A Financial Statement Discussion and Analysis Report.
- The Summary Financial Statements.
- Information provided under statutory requirement.

Other financial statements and financial information we audited

For certain organizations in the GRE, legislation requires the Auditor General to be the auditor of the financial statements and other financial information. We are also engaged to audit financial statements and other financial information of certain entities where legislation does not require the Auditor General to be the auditor.

In 2021, we audited the financial statements of 20 entities. Of these, 14 were for entities within the GRE. All other public sector entities within the GRE are audited by external audit firms. Although not part of the GRE, we also audited 4 public sector pension plans, 1 group insurance fund and the Northern Affairs Fund. The Acts for 3 of these pension plans appoint the Auditor General as their auditor.

Topics covered in this report

This report covers our financial statement audits for the past year. We discuss:

- The impact of the pandemic on the Public Accounts during the 2020/21 fiscal year (**SECTION 1**).
- Changes to the GRE which have taken place in the past year, and the impact of these changes (**SECTION 2**).
- Upcoming accounting standard changes and how they will impact the Public Accounts (**SECTION 3**).
- The status of our past recommendations and new recommendations made during the year (**SECTION 4**).
- Each of the entities we audit and the results of these audits (**SECTION 5**).

1 Impact of COVID-19 on the Public Accounts

The COVID-19 pandemic had a significant impact on the Province of Manitoba's (the Province's) financial reporting and results for the year ended March 31, 2021. There were new programs and new sources of funding. During our audit we looked at the significant revenues and expenditures related to the pandemic, taking into consideration the appropriateness of the accounting under Public Sector Accounting Standards (PSAS).

The pandemic impacted the Public Accounts in a number of ways, including new financial reporting items, audit risks, and how we conducted our audit.

The impacts on how we conducted our audit were a result of some accounting and finance staff working remotely during the year. Some internal processes and controls had to be revised (for example, methods of approval) in order to adapt to the remote environment. Alongside these changes, we evaluated if the internal controls over financial reporting, spending, and payments were operating as originally intended.

In the sections below, we discuss the nature of significant new COVID-19 related revenues (**SECTION 1.1**) and expenses (**SECTION 1.2**), their accounting treatment, and the impact of these new items on our audit.

1.1 Significant COVID-19 related-revenues

The Federal Government introduced a number of new funding arrangements with the provinces during the pandemic. The total COVID-related funding received by Manitoba as of March 31, 2021 was \$730 million.

On the next page is a summary of federal funding, as provided on the Government of Canada website, and includes information on how this money was used in Manitoba.

Federal funding programs and provincial use of funds			
Program	Purpose	Manitoba's use of funds	Amount
Safe Restart Agreement	To help provinces and territories safely restart their economies and make Canada more resilient to possible future surges of COVID-19 cases.	Provincial COVID-19 response programs including funding to municipalities.	\$418 million
Essential Workers Support Fund	To provide support for increase of the wages of low-income essential workers.	Manitoba Risk Recognition and Caregiver Wage Support programs	\$118 million
Safe Return to Class Fund	To ensure Manitoba has the funding it needs to ensure the safety of students and staff members throughout the school year.	Provincial Safe Schools Fund program	\$85 million
Air Services to Remote Communities	To ensure air services to remote northern communities continue through the COVID-19 pandemic for delivery of essential goods and services.	Provincial Essential Northern Airline Support Benefit program	\$12 million
Safe Restart Agreement – Data Management	Funding provided in relation to data management activities including analytics, digital channels management, information management enhancements, etc. in support of the Safe Restart Agreement	Part of miscellaneous COVID-19 program expenditures.	\$4 million
Workforce Development Agreement Top-Up	Additional funding and temporary flexibilities introduced under the Canada-Manitoba Workforce Development Agreements (WDA) and the Labour Market Development Agreement (LMDA) to support Manitoba's COVID-19 recovery efforts.	Provincial Workforce Development Agreement Incremental Spending program.	\$31 million
Personal Protective Equipment (PPE)	Federal Government's donation of PPE including gloves, masks, wipes, respirators, etc. to assist Manitoba in tackling the COVID-19 pandemic.	The Province distributed donated PPE items together with its purchased PPE items for use by healthcare workers and Manitobans.	\$62 million
Total COVID-19 funding			\$730 million

ACCOUNTING FOR FEDERAL FUNDING

The Province accounts for this federal funding under Public Sector Accounting Standards (PSAS) as a government transfer. According to the standards, revenue is recognized and recorded when all of the following criteria are met:

PSAS Criteria	Audit findings
The funding is authorized by the transferor.	The \$730 million in federal funding related to COVID-19 was authorized by the Federal Government to be provided to the Province. Authorization was evidenced in the form of signed letters and in one case a signed agreement authorizing the transfer of the funds.
Any eligibility criteria that must be met by the Province are met.	The Federal Government issued funding letters with eligibility criteria. As part of our audit we observed that all eligibility criteria for the funding were met by the Province.
Any stipulations associated with the funding creates a liability for the province.	The funding agreements or other federal-provincial communications were reviewed to assess whether there were stipulations attached to the funding. A stipulation would require funding to be spent for a specific purpose and if not spent this way would result in the province having a liability to repay the funds or use the amount provided for the outlined purpose. There were no stipulations in the funding documents we reviewed.

All of the criteria were met for all of the COVID-19 funding received during the fiscal year; as such it was all recognized as revenue.

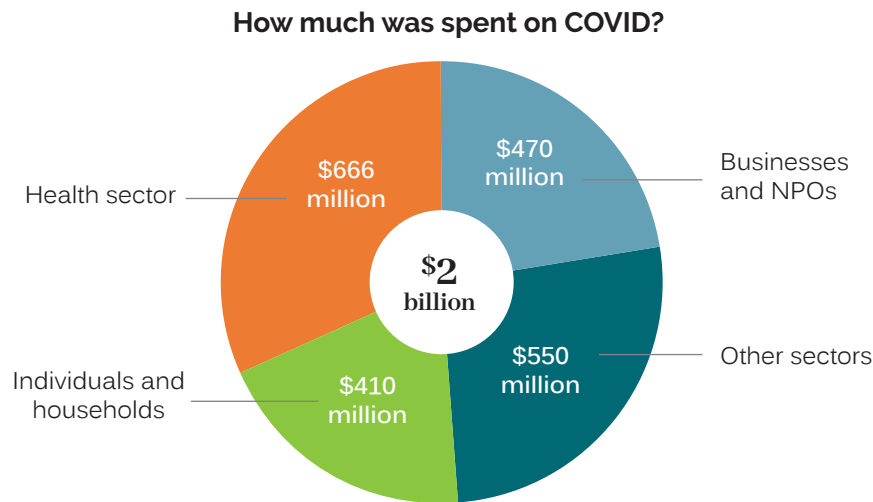
1.2 Significant COVID-19 related-expenses

COVID-19 PROGRAM EXPENSES

In order to meet rising government expenditure requirements related to the COVID-19 pandemic, the Province approved 3 supplementary appropriation acts totaling approximately \$2 billion during the 2020/21 fiscal year. The additional spending authority was intended for areas such as protecting the health and safety of Manitobans, providing relief and support to households and businesses, and limiting impacts of the pandemic on the economy.

Additional expenditure authority for COVID-19 response under <i>Supplementary Appropriation Act</i> (in \$ millions)	
Bill 60 (2nd session)	1,000
Bill 39 (3rd session)	577
Bill 69 (3rd session)	400
Total	1,977

The Province's COVID-19 response programs were grouped into categories based on the program beneficiaries. Some of these programs were fully funded by the Province while others were funded in collaboration with the Federal Government as discussed in the previous section.



Source: Province of Manitoba Annual Report and Public Accounts for the year ended March 31, 2021

Because there is no specific breakdown of COVID-19 program expenses in the SFS, this type of detailed financial information is outside the Public Accounts audit scope, and as a result we did not audit the classification of expenses as to whether they are "COVID-related." For the SFS, we audit expense amounts classified by department (for example Health, Education, Families) and type of expense (for example, personnel, transportation, grants) which included these new COVID-19 program amounts. Despite the breakdown of COVID-19 program expenses included in the Province's Annual Report being outside the audit scope, we used these breakdowns to include these amounts in our testing of COVID-related expenditures included in the Province's total expenses in the SFS.

AUDIT CONSIDERATIONS

To audit the expenses of these programs, our first step was to identify and understand the new programs. For these programs, we obtained an understanding of the business processes and controls put in place for the programs, and performed walkthroughs to identify any areas of elevated risk.

Program expenditures related to COVID-19 were segregated for detailed testing. Funding letters, application forms, and disbursement reports of selected samples were matched to the transaction details in order to verify the occurrence and accuracy of the expenditures. The testing approach for each program was based on risk assessment and significance.

In order to ensure there were no unrecorded liabilities related to outstanding COVID commitments and programs, we reviewed the commitments made by the Province towards COVID programs and investigated significant variances between commitments and actual expenditures.

PROGRAMS FOR INDIVIDUALS AND HOUSEHOLDS

For the majority of COVID-19 programs administered to individuals, the Province used online applications. Guidelines and manuals were used by the departments responsible for managing programs in order to ensure that applications had been verified for eligibility before disbursements were made.

Programs by the numbers	
Program	2020/21 expenditures (\$ in millions)
Risk Recognition Program	121.8
Seniors Economic Recovery Credit	44.6
Caregiver Wage Support Program	35.2
Manitoba Job Restart Program	8.2
Disability Economic Support Program	4.4
Direct expenditures	214.2
MPI Financial Relief Rebate (non-commercial)	157.8
Elimination of PST on Property Insurance (residential)	37.5
Indirect expenditures	195.3
Total	409.5

Source: Province of Manitoba Annual Report and Public Accounts for the year ended March 31, 2021

The majority of programs had application deadlines during the middle of the fiscal year, and were paid out and completed before year-end. As such, they were fully expensed in the Province's SFS in the 2020/21 fiscal year.

In addition to expenditures incurred by government departments, the Province's COVID-19 program total for individuals and households includes \$157.8 million of rebates from MPI. The MPI rebates were surplus distributions provided to individuals in 2 batches. They were approved by the Public Utilities Board on May 1, 2020 and December 14, 2020. Similarly, the corresponding MPI rebates distributed to businesses amounted to \$21.4 million. These rebate amounts are not directly included in the Province's SFS expense totals, but rather reduce the net income from Government Business Entities which is recorded in the SFS as a net revenue to the Province.

PROGRAMS FOR BUSINESSES AND NON-PROFIT ORGANIZATIONS

Similar to programs administered to individuals, the majority of programs directed to businesses and non-profit organizations used online applications. Guidelines and manuals were used by the various departments responsible for the programs to ensure that eligibility requirements were met before funds are disbursed. Each transaction is recorded in the accounting system upon disbursement or upon issuance of the funding letters. Because the government uses accrual accounting, liabilities have been recorded for amounts owing related to applications that are approved but are not yet disbursed as of year-end.

The most significant COVID-19 program directed to businesses is the Manitoba Bridge Grant Program, which is divided into 2 streams. For every batch of program intake, Stream A provided one-time fixed grants of \$5,000 to eligible small and medium-sized businesses and organizations. Stream B provided one-time grants up to a maximum of \$5,000 to eligible full-time Manitoba home-based businesses impacted by the COVID-19 Prevention Orders. There were 3 program intakes during the year ended March 31, 2021. Because the third intake was opened on March 2, 2021 with an application deadline on March 31, 2021, a liability was recorded for applications pending but not yet paid as of the year-end. A subsequent intake was made in May 2021, as this was after year-end, the related expense will be included in the 2021/22 fiscal year.

Programs by the numbers	
Program	2020/21 expenditures (\$ in millions)
Manitoba Bridge Grant	214.4
Gap Protection Plan	59.4
Long-Term Recovery Fund	50.0
Back to Work Manitoba, Back to Work This Summer Initiative & Summer Student Recovery Jobs Program	40.0
Essential Northern Airline Support Benefit	12.0
Hospitality Sector Relief	8.0
Emergency Stabilization for Arts and Culture Sector	6.0
Safe-at-Home Manitoba Program	6.0
Canada Emergency Commercial Rent Assistance Program (Manitoba)	6.0
Manitoba Economic Support Centre	4.4
Hometown Green Team Program	2.5
Building Sustainable Communities Program	1.4
Pandemic Staffing Support Benefit	0.8
B2B Manitoba – Virtual Marketplace Tool	0.4
Direct expenditures	411.3
MPI Financial Relief Rebate (commercial)	21.4
Elimination of PST on Property Insurance (commercial)	37.5
Indirect expenditures	58.9
Total	470.2

Source: Province of Manitoba Annual Report and Public Accounts for the year ended March 31, 2021

Department-distributed grants vs externally-distributed grants

Although most grants are provided directly to business owners, there are some grants that are administered through an external organization. For instance, at March 31, 2021, an expense and related liability was recorded for the \$50 million Long Term Recovery Fund that was approved during the year by Treasury Board. This program was intended to provide support to businesses as they come out of the COVID-19 pandemic. The grant payment is provided to the Manitoba Chambers of Commerce which is responsible for administering various sub-programs, such as Shop Local Retail, Dine-in Restaurant Relief, Workforce/Skills Development, Digital Transformation, and Emerging Opportunities. The Manitoba Chambers of Commerce will then provide payments directly to eligible businesses subsequent to March 31, 2021.

From the Province's perspective, the cost is incurred and expensed in the current fiscal year, as the grant has already been approved and made to the external program administrator. Those funds are now outside the control of the Province. If these programs had provided directly by the provincial departments they would not have been included in expenses for the March 31, 2021 fiscal year since the program applications and disbursements did not take place until after March 31. As the Province passed control of the programs to a third party, its financial obligation ended resulting in an expense.

PROGRAMS FOR OTHER SECTORS

Some programs are administered within other sectors including health and education. These include funding for entities in the GRE such as the regional health authorities and school divisions, funding to municipalities (outside the GRE) as well as funds intended to stimulate the economy such as the Restart Capital Program. These programs ultimately benefit the public as the funds are used for the administration of other COVID-related programs and support, such as the increased healthcare costs including COVID testing and vaccine delivery, enhancement of schools to protect against the virus and infrastructure projects. Also included on the expenditures directed to the health sector are the purchase and use of Personal Protective Equipment and Vaccines, which are discussed further below.

Programs by the numbers	
Program	2020/21 expenditures (\$ in millions)
Personal protective equipment	367
Funding to Regional Health Authorities	249
Testing and vaccine delivery	35
COVID-19 specialized equipment	12
AbilitiCBT	3
Total funding to health sector	666
Restart Capital Program – 2020/21 portion	239
Funding to municipalities	106
Safe Schools Fund	95
Transitional Support for Post-Secondary	26
Funding to child care providers	7
Home Nutrition and Learning Program	6
Manitoba Rent Relief Fund	6
COVID-19 Research Fund	5
Manitoba Scholarship and Bursary	5
Remote Learning Resource Centre	5
Workforce Development Agreement Incremental Spending	4
Homeless Shelter Response Plan	4
Enhancement of trails	3
Canada-Manitoba Job Grant	2
Miscellaneous	38
Total funding to other sectors	551
Total	1,217

Source: Province of Manitoba Annual Report and Public Accounts for the year ended March 31, 2021

AUDIT CONSIDERATIONS

Compared to the funding to individuals and businesses (which is characterized as a high volume of transactions at relatively small amounts), the funding to other sectors is mostly provided in small batches at high amounts. Therefore, the detailed transactions were reviewed to identify large or unusual disbursements as high-risk transactions to be vouched to supporting documents such as funding letters.

Costs administered by other reporting entities within the GRE (such as Shared Health, Regional Health Authorities and school divisions), were included in these entities' audited financial statements. We relied on the work of their external auditors

PERSONAL PROTECTIVE EQUIPMENT INVENTORY

Prior to the pandemic, the Regional Health Authorities (RHAs) were responsible for purchasing PPE. Early in the pandemic, the Province moved the central responsibility for PPE purchasing to the Province's Department of Central Services (Central Services). Purchases were made at Central Services, with the PPE shipped and inventory held centrally at warehouses managed by Materials Distribution Agency (MDA), a special operating agency of the Province. In the 2020/21 fiscal year, the Province purchased PPE

and rapid testing kits worth \$388 million, and received \$62 million of donated PPE from the Federal Government, for a total of \$450 million worth of PPE. Purchased and donated PPE inventories are held for distribution to government entities at no charge. At March 31, 2021, there was \$100 million PPE inventory remaining (made up of \$99 million purchased and \$1 million donated PPE) at MDA. The total amount of PPE expensed during the year was \$350 million.

In response to the pandemic, Manitoba increased its purchases and inventory holdings of **Personal Protective Equipment (PPE)** significantly. PPE includes masks, gloves, gowns, and face shields.

During the year, government entities in need of PPE, including the RHAs and school divisions, would place orders and PPE was shipped from the MDA warehouse. Central Services maintained ownership of the inventory held at MDA warehouses until March 31, 2021, when ownership of all remaining inventory at the warehouses was transferred to MDA.

Accounting for PPE

PPE purchased through Central Services

The March 31, 2021 PPE inventory total was recorded as an asset on the Statement of Financial Position. This total is based on the quantities of PPE on hand obtained from the year-end inventory count multiplied by its cost. Due to global supply and demand fluctuation, PPE was purchased at varying prices during the year. PPE inventory on hand at March 31, 2021 was valued based on purchase prices at or close to year-end.

The total of all PPE purchased during the year less the amount included in inventory is included in the expenses of Central Services during the year.

PPE donated by the Federal Government

During the year, these donations were not initially tracked in the accounting system because the values of the donated inventories were not provided. During the year-end inventory count, the Province used an external consultant to determine the unit costs of inventory on hand. Based on the unit costs provided by the consultant and the report from MDA of PPE descriptions and quantity donated by the Federal Government, the Province was able to determine the value of donated inventory. To assess the reasonability of unit costs provided by the consultant, the unit costs were agreed to prices of the items per most recent third-party invoices or prices for similar items online using a threshold of +/-5%.

The PPE inventory received from the Federal Government was accounted for in revenues as a government transfer in line with PS 3410 – Government Transfers. Considering that the transfer was without any formal agreement on eligibility criteria or stipulations, the donated inventory was appropriately recognized as revenue in the 2020/21 fiscal year.

AUDIT CONSIDERATIONS

Because the balance of PPE inventory at year-end was significant, we physically observed and tested the year-end inventory count. Additional risks were identified as a result of different parties being involved without IT integration, and with the inventory counts and costing not performed until year-end. The audit approach was updated as there were additional procedures to address the risks below.

- **Two entities involved.** Central Services and MDA are distinct entities with separate accounting systems. For most of the year, Central Services had ownership of the PPE while MDA physically kept the inventory, thereby posing a risk that price and quantities were not accurately shared between the 2 entities.
- **PPE inventory should be recorded at the lower of cost and net realizable value.** Inventory must be recorded at either the original purchase cost or at the market value, as required by the accounting standards. Because inventory is not tracked and actual costs were higher at the onset of the pandemic due to the prevailing economic conditions, there is a risk that inventory is not properly valued.

- **Inconsistencies in labelling at MDA warehouses.** This might lead to a mix-up of inventory items, resulting to a misclassification of certain inventory which may lead to wrong valuation.

Based on these risks identified we attended the inventory counts at the MDA warehouses and worked with the Office of the Provincial Comptroller, Central Services, MDA and MDA's auditors to verify the inventory balances and costs recorded during the year.

VACCINE INVENTORY

Under normal circumstances and in line with PSAS, the value of COVID-19 vaccines received from the Federal Government at no-cost should have been reported in revenues on the audited March 31, 2021 SFS at fair value, similar to how the value of donated PPEs was reported. However, the fair value of

the vaccines received by the Province could not be reasonably determined; therefore, they could not be reported. Due to confidentiality clauses contained in contracts between the Federal Government and vaccine manufacturers, restricting the sharing of information about prices of vaccine doses with the Provinces which received them, no value was recorded for the vaccines on the Summary Financial Statements. The transfer of the vaccines from the Federal Government to the Province was disclosed in Note 20 to the SFS.

While the Federal Government paid for the COVID-19 vaccine vials provided to the Province, the Province was responsible for the cost of administering the vaccines (including storage, syringes, vaccination sites, and labour).

These administration costs are incurred on a continuous basis as the Province's vaccination campaign progresses. Only costs incurred up to March 31, 2021 were included in the expenses for this fiscal year.

Additional expenses for vaccine delivery post-March 31, 2021 will be included in next year's SFS. This includes additional administration costs expected to be incurred related to the production and mailing of vaccine cards to Manitobans, as well as the cost related to the platform for digital vaccine cards.

VACCINE PROCUREMENT

While not the highest cost of the Province's COVID-19 response, vaccines are a significant component of the Province's plan to recover from the pandemic. All vaccines delivered during the fiscal year have been procured by the Federal Government. The vaccines are paid for by the Federal Government and provided to the Provinces at no cost.

2 Changes to the Government Reporting Entity

The Summary Financial Statements (SFS) report the consolidated financial position and operating results of the Government Reporting Entity (GRE). The GRE is the combination of departments of the Province of Manitoba (the Province) and other reporting entities (OREs) controlled by the Province. Examples of OREs include the government business enterprises (GBEs) such as Manitoba Hydro, Manitoba Public Insurance Corporation, and Manitoba Liquor and Lotteries Corporation, as well as other controlled entities such as school divisions, universities and colleges, and regional health authorities (RHAs).

There were 182 government organizations, components, and business enterprises within the GRE during 2020/21, with this being the final year of 22 of these entities being reported as an entity within in the GRE. Changes during the year to entities within the GRE are discussed further below.

GOVERNMENT REPORTING ENTITY

How is an entity determined to be part of the GRE?

Under Public Sector Accounting Standards (PSAS), an entity must be controlled by the government for it to be considered a part of the GRE.

The government controls an entity when:

- It has the power to govern the financial and operating policies of the entity.
- It is expected to obtain financial or non-financial benefits or be exposed to risk of loss arising from the entity's activities.

The Province exercises control over the financial and operating policies of these entities through board appointments, legislated powers over the entity, funding agreements, and other types of agreements. The Province does not need to manage the day-to-day activities in order to control an organization. It is the Province's existing authority to determine the policies governing those activities that is important, not the current status of their involvement.

In PSAS, when determining if an entity is in the GRE or not, it is assumed that where the government has the power to govern the financial and operating policies of an organization, it expects to derive a financial or non-financial benefit, and could also be exposed to the risk of loss.

Why does it matter if an entity is in the GRE?

Whether an entity is included or excluded from the GRE can be very material to the balances and results reported by the Province. The GRE is intended to include all the financial affairs and resources under the Province's control including those of the entities it controls. When accounting for a government's financial performance, all entities in the GRE are consolidated—this way the full picture of a government's revenues, expenses, assets and liabilities is captured. If entities under a government's control are not consolidated, they can be used to manipulate the timing of expenses and revenues included in a government's annual surplus or deficit.

In recent years, we have qualified our audit opinion based on the exclusion of certain entities and accounts from the GRE.

2.1 Changes to the GRE during 2020/21

During 2020/21, there were changes in legislation and reporting entity structures that led to changes in the composition of the GRE for both 2020/21 and 2021/22.

In its Fiscally Responsible Outcomes and Economic Growth Strategy 2020 document, the Province included an objective of reducing the number of entities in the GRE. This was to be achieved through either eliminating the entities that are no longer needed, or rolling the entities into the responsible department of the Province. Eighteen entities were planned in Budget 2020 to have their final year as a separate reporting entity in 2020/21. Not all of these changes took place during the year. We have discussed those that did take place below.

In addition, though not announced in Budget 2020, changes in control or entity status were made to another 8 entities in 2020/21.

We noted 3 types of change in control or entity status that occurred during 2020/21:

- Dissolution or wind-up of entities and their operations.
- Restructuring – operations, assets, and liabilities of entities transferred to a government department.
- Change in control.

Manitoba Health Services Insurance Fund (MHSIF)

Organization's role and purpose: MHSIF was established to provide health-related insurance for Manitobans by funding the costs of qualified hospital, medical, personal care, and other health services.

MHSIF was largely a "flow-through fund," where the departments responsible for Health would budget amounts for health services under the fund to cover costs such as funding Service Delivery Organizations (Shared Health and the Regional Health Authorities), fees for various services performed by doctors, and Pharmacare, with the related amounts being paid into the fund. Throughout the year, the funding would then be administered out of the fund to pay for the related expenses incurred.

Change in 2020/21: Restructuring – As a result of BITSA, effective April 1, 2021, the assets and liabilities of MHSIF were transferred to the Department of Health and Seniors Care (MHSC) and the Department of Mental Health, Wellness and Recovery (MHWR). MHSIF's duties were assigned to the Ministers responsible for MHSC and MHWR.

The Budget Implementation and Tax Statutes Amendment Act (BITSA)

Many of the changes noted in this section took place effective November 6, 2020. This is because most of the changes were enacted under BITSA, a bill that includes a wide variety of amendments to implement the measures and changes announced in the year's budget.

Impact of the change:

Status in the GRE:

No longer a separate entity; operations remain within the GRE as part of government operations.

Change in governance or control?

No: There was no separate governance structure for MHSIF, as it was administered under the responsibility of the Department of Health and Seniors Care. Thus, there is no change in governance or control.

Change in reporting?

Yes: MHSIF issued audited financial statements. With the dissolution of MHSIF, there will no longer be audited information at this level of detail.

However, MHSIF was always consolidated into the SFS. The operations and accounts moving into the Department of Health and Seniors Care will have no impact on the financial reporting of the Province at the consolidated level. Expenses formerly recorded by MHSIF will continue to be included in the SFS. The funds flowing to the service delivery organizations will continue to be included as revenue in the audited financial statements of these entities.

Change in operations?

No: Now that MHSIF has been dissolved, the health services payments are made directly out of the Department of Health and Seniors Care's appropriations, as opposed to the Department funding MHSIF and payments being made out of the MHSIF. There is no change to administrative operations, decision making, funding or oversight as this was always performed by the Department of Health.

The Public Schools Finance Board (PSFB)

Organization's role and purpose: PSFB was responsible for receiving all monies paid for the financing of operating and capital expenditures of public schools in Manitoba. PSFB was responsible for the determination and distribution of all capital grants to Manitoba school divisions under the capital support program. It was also responsible for the distribution of all operating grants to Manitoba school divisions under the operating support program in amounts as determined by the Minister of Education. As with MHSIF above, PSFB was largely a "flow-through entity." Funding from the Department of Education flowed through to the PSFB's Education Support Fund and was paid out to school divisions.

Change in 2020/21: Restructuring – As a result of BITSA, effective November 6, 2020, the assets and liabilities of PSFB were transferred to government and PSFB's duties were assigned to the Minister of Education.

Impact of the change:

Status in the GRE:

No longer a separate entity; operations remain within the GRE as part of government operations.

Change in governance or control?

Yes: PSFB was governed by a Board, with the appointments of each member of the Board being revoked upon the dissolution of PSFB and the duties of the Board being assigned to the Minister of Education.

Change in reporting?

Yes: PSFB issued audited financial statements. With the dissolution of PSFB, there will no longer be audited information at this level of detail.

However, PSFB was always consolidated into the SFS. The operations and accounts moving into the Department of Education will have no impact on the financial reporting of the Province at the consolidated level. Expenses formerly recorded by PSFB will continue to be included in the SFS. The funds flowing to Manitoba school divisions will continue to be included as revenue in the audited financial statements of these entities.

Change in operations?

Yes: All funding is administered by the Department of Education which is not a change, while the capital projects formerly administered directly by staff of the PSFB are now administered by staff in the Department of Central Services.

Manitoba Habitat Heritage Corporation (MHHC)

Organization's role and purpose: MHHC's objectives are the conservation, restoration, and enhancement of Manitoba fish and wildlife habitat and the associated fish and wildlife populations. MHHC is involved in the following initiatives:

- The North American Waterfowl Management Plan.
- The Watershed Districts Program.
- Wetland Restoration Program.
- Conservation Trust, Grow Trust and Wetland Grow Trusts.

Change in 2020/21: Change in control - The Province repealed *The Manitoba Habitat Heritage Act* on February 1, 2021 and allowed MHHC to continue to operate under a Corporate Charter. As a result, effective February 1, 2021, MHHC is at arm's length from the Province. For this transition year, final financial statements were prepared for MHHC for the 10-month period from April 1, 2020 to January 31, 2021.

Impact of the change:

Status in the GRE:

MHHC is now an entity outside of the Province's GRE.

Change in governance or control?

Yes: During 2020/21 there was a change to the Board of Directors appointment process for MHHC. As a result, MHHC is no longer controlled by the Province. The Province retains the ability to appoint one board member. The remainder of the Board of Directors is self-elected at MHHC's annual general meeting, with no input on appointments from the Province. Additionally, MHHC is no longer governed under *The Manitoba Habitat Heritage Act*, as it now operates under a corporate charter independent from government.

Change in reporting?

Yes: As MHHC is no longer controlled by the Province, it is no longer part of the GRE and is therefore no longer consolidated in the SFS. Prior to the change in control of MHHC, its financial statements were prepared in accordance with Canadian Public Sector Accounting standards for government not-for-profit organizations (GNFPO). Following the change in control of MHHC, there is no longer a requirement for MHHC to use GNFPO. As part of the new corporate structure of MHHC, the reporting year-end has been changed from March 31 to December 31.

During 2020/21, an expense of \$48 million was recognized in the SFS based for net value of MHHC assets ceded by the Province.

Change in operations?

Yes: Prior to the change in control of MHHC, MHHC received annual operating funding from the Province. Now, following the change in control of MHHC, an endowment trust has been set up at The Winnipeg Foundation with an irrevocable gift from the Province of \$15 million, where annual earnings will cover MHHC's operations without annual funding from the Province.

Workers Compensation Board of Manitoba (WCB)

Organization's role and purpose: WCB is a statutory corporation created by the Manitoba Legislature under the authority of *The Workers Compensation Act*. WCB is responsible for the following:

- Prevention of workplace injuries and illnesses.
- Administering payments to injured workers and suppliers of services to injured workers.
- Levying and collecting premiums from established classes of employers in amounts sufficient to cover the current and future costs of existing claims.
- Investing funds set aside for the future costs of claims as well as surplus funds.

Change in 2020/21: Change in control – Effective November 6, 2020, amendments were made to *The Workers Compensation Act* to reflect the Province not meeting the criteria to control the WCB in accordance with Canadian Public Sector Accounting Standards (PSAS). The amendments made to *The Workers Compensation Act* include the following:

- Board members representing workers and employees are now required to be selected from a list of nominees provided by external groups not controlled by the Province. On this basis, the Province no longer unilaterally has the power to appoint the majority of WCB's Board.
- The power of the Lieutenant Governor to disallow regulations made by WCB has been repealed. This amendment supports the Province not having the ability to amend regulations of WCB.
- WCB must consult with the Province and provide the Province any financial and other information before establishing a new benefit program, but approval is no longer required. This amendment supports the Province not having the ability to amend programs of WCB.

Impact of the change:

Status in the GRE:

No longer controlled by the Province; operations are outside of the GRE.

Change in governance or control?

Yes: Prior to these amendments, we considered the Province to control the WCB based on the legislation within *The Workers Compensation Act*. Prior to 2017/18, the Province considered the WCB controlled, but during that year they reassessed their control and concluded that they no longer controlled WCB and therefore began to exclude WCB from the GRE and the SFS. The Province's 2017/18 reassessment of control was not based on any changes in *The Workers Compensation Act* or the relationship between WCB and the Province. We had been qualifying our audit opinion for the SFS since 2017/18 based on the exclusion of WCB from the GRE. As a result of the amendments to *The Worker's Compensation Act*, we now agree that as of November 6, 2020, the Province no longer controls WCB under PSAS, supporting its exclusion from the GRE and the SFS.

Change in Reporting?

No: There are no changes in WCB's financial reporting and WCB will continue to be excluded from the GRE.

However, as noted above, we previously qualified its audit opinions based on WCB not being consolidated. In the future, we will no longer be issuing a qualified audit opinion on the SFS relating to the control of WCB, as going forward, WCB will not be controlled by the Province in accordance with PSAS. We did issue a qualification in 2020/21 because, in our opinion, WCB was controlled until the changes in legislation on November 6, 2020. When the Province passed legislation to give up control of its controlled asset, there should have been a corresponding expense of \$612 million when the asset was removed from their balances – similar to the way the Province did account for the change in control of MHHC in 2020/21 (see MHHC section above).

Change in operations?

No: This change does not result in any changes in operations for WCB.

Leaf Rapids Town Properties (LRTP)

Organization's role and purpose: LRTP was responsible for the planning, design, and development of the community of Leaf Rapids. Since the completion of the development, LRTP managed, leased, and operated its physical assets and properties in Leaf Rapids. LRTP was economically dependent on the Province.

Change in 2020/21: Restructuring – Effective April 1, 2021, the assets and liabilities of LRTP were transferred to the Department of Central Services and LRTP's duties were assigned to the Minister of Central Services.

Impact of the change:

Status in the GRE:

No longer a separate entity; operations remain within the GRE as part of government operations.

Change in governance or control?

Yes: LRTP was a share capital company, with one voting share owned by the Province. Upon dissolution, LRTP ceased to be a corporation, with its duties being assigned to the Minister of Central Services.

Change in reporting?

Yes: LRTP issued audited financial statements. With the dissolution of LRTP, there will no longer be audited information at this level of detail.

However, LRTP was always consolidated into the SFS. The operations and accounts moving into the Department of Central Services will have no impact on the financial reporting of the Province at the consolidated level.

Change in operations?

No: There is no change to administrative operations, as this is continuing to be performed by departmental staff.

Manitoba Learning Resource Centre (LRC)

Organization's role and purpose: LRC, formerly the Manitoba Textbook Bureau, was a Special Operating Agency that was established to achieve economies of scale and reduce the cost of learning resources for schools in Manitoba. LRC was financed through working capital advances from the Special Operating Agencies Financing Authority (SOAFA). This financial framework enabled LRC to operate in a business-like manner according to public policy expectations.

Change in 2020/21: Dissolution or wind-up of entity and its operations – Effective April 1, 2021, following its closure on March 31, 2021, the net assets of LRC were transferred to SOAFA.

Impact of the change:

Status in the GRE:

LRC has been closed and operations were not continued by any entity within the GRE.

Change in governance or control?

Yes: As a result of the closure of LRC, there is no longer any governance or control required for this entity.

Change in reporting?

Yes: LRC issued audited financial statements and was consolidated into the SFS. With the closure of LRC, there is no longer a requirement for audited financial statements and the net assets of LRC that were transferred to SOAFA will be captured by the Province in the SFS through the consolidation of SOAFA.

Change in operations?

Yes: The operations of LRC ceased following its closure on March 31, 2021 and were not continued by another entity.

Special Operating Agencies – Food Development Centre (FDC), Office of the Fire Commissioner (OFC), and Vital Statistics Agency (VSA)

Organizations' role and purpose:

- FDC served the agri-food industry by providing a wide range of services including food product development, research, testing and assistance with technology transfer to enable the industry to efficiently and economically produce high quality foods.
- OFC was responsible for fire and building safety, emergency response, determining cause and origin of fires, and various types of technical equipment safety such as elevators, boilers and pressure vessels, and gas burning devices throughout the Province.
- VSA was responsible for administering and enforcing The Vital Statistics Act, The Marriage Act, and The Change of Name Act, and processing disinterments under The Public Health Act. VSA registered vital events (birth, death, marriage, stillbirth, and change of name) in the Province and provided documents as proof of those events.

Change in 2020/21: Restructuring – FDC, OFC, and VSA have ceased to be entities within the GRE, with their net assets being transferred to SOAFA and their operations being performed directly by departments of the Province.

Effective the close of business on March 31, 2021, the net assets of FDC were transferred to SOAFA, with the Department of Agriculture and Resource Development continuing FDC's operations on April 1, 2021.

Effective the close of business on March 31, 2020, the net assets of OFC were transferred to SOAFA, with the Department of Municipal Relations continuing OFC's operations on April 1, 2020.

Effective the close of business on March 31, 2021, the net assets of VSA were transferred to SOAFA, with the Department of Finance continuing VSA's operations on April 1, 2021.

Impact of the change:

Status in the GRE:

No longer separate entities; operations remain within the GRE as part of government operations.

Change in governance or control?

No: There was no separate governance structure for these entities, as they were administered under the responsibility of departments of the Province. Thus, there is no change in governance or control.

Change in reporting?

Yes: FDC, OFC, and VSA issued audited financial statements. With the dissolution of these entities, there will no longer be audited information at this level of detail.

However, these entities were always consolidated into the SFS. The operations and accounts moving into departments of the Province will have no impact on the financial reporting of the Province at the consolidated level.

Change in operations?

No: There is no change to administrative operations, the employees of the SOAs are now departmental staff.

Helen Betty Osborne Memorial Foundation (HBOMF)

Organization's role and purpose: HBOMF received donations of real and personal property—including cash—to provide financial assistance to indigenous persons residing in Manitoba enrolled in post-secondary studies in Manitoba, and to promote the memory of Helen Betty Osborne. HBOMF operated in accordance with *The Helen Betty Osborne Memorial Foundation Act*.

Change in 2020/21: Restructuring – Effective March 10, 2021, HBOMF was dissolved, with its operations moved into the Department of Advanced Education, Skills, and Immigration. All funds of HBOMF were transferred to The Winnipeg Foundation on March 19, 2021 and an agreement was signed between the Government of Manitoba and The Winnipeg Foundation outlining the administration, investment and distribution of the funds.

Impact of the change:

Status in the GRE:

No longer a separate entity; operations remain within the GRE as part of government operations, with the funds of the former HBOMF being held by The Winnipeg Foundation and excluded from the GRE.

Change in governance or control?

Yes: HBOMF was governed by a Board, with the appointments of each trustee being revoked upon the dissolution of HBOMF. *The Helen Betty Osborne Memorial Fund Act* was amended to reflect HBOMF now operating as a fund under the responsibility of the Province.

Change in reporting?

Yes: HBOMF issued audited financial statements. With the dissolution of HBOMF, there will no longer be audited information at this level of detail. Additionally, funds of the former HBOMF will no longer be consolidated into the SFS, as the remaining funds were transferred to a fund at The Winnipeg Foundation, which is not consolidated into the SFS.

Change in operations?

Yes: Previously, the funds of HBOMF were managed by a Board, which maintained and invested the funds and made decisions on the provision of scholarships, bursaries, and grants provided by HBOMF.

The funds of the former HBOMF are now managed and invested by The Winnipeg Foundation, which is also responsible for selecting an award administrator based on criteria provided by the Province under an agreement.

The Co-Operative Loans And Loans Guarantee Board (CLLGB)

Organization's role and purpose: CLLGB's primary objective was to ensure that cooperative organizations in Manitoba had access to basic financial services through loans and loans guarantees.

Change in 2020/21: Restructuring – As a result of BITSA, effective November 6, 2020, CLLGB was dissolved and its operations were moved into the Department of Economic Development and Jobs.

Impact of the change:

Status in the GRE:

No longer a separate entity; operations remain within the GRE as part of government operations.

Change in governance or control?

Yes: CLLGB was governed by a Board, with the appointments of each member being revoked upon the dissolution of CLLGB and operations being moved into the Department of Economic Development and Jobs.

Change in reporting?

Yes: CLLGB issued audited financial statements. With the dissolution of CLLGB, there will no longer be audited information at this level of detail.

Change in operations?

No: CLLGB had been inactive for a number of years, with only one remaining loan outstanding, which had been fully allowed for a number of years, as collection was not expected. Prior to CLLGB's dissolution, the loan was written-off. As a result, there were no loans, loan guarantees, or other operational matters remaining at the time of dissolution.

Special Funds

One category of "entity" that was dissolved in 2020/21 was the Province's special funds. These were referred to as "fake funds" by the Province in *Fiscally Responsible Outcomes and Economic Growth Strategy 2020* (p.80).

These funds, created by legislation of previous governments, set aside certain revenues to be used for a specific purpose. The purpose of these funds was often to use fees or levies from a certain industry for an industry-related purpose, and legislation ensured those fees could not be used for other purposes as long as the fund was maintained.

Special Funds dissolved in 2021

- Community Revitalization Fund
- Farm Machinery and Equipment Act Fund Financial Literacy Fund
- Fish and Wildlife Enhancement Fund
- Land Titles Assurance Fund
- Manitoba Trucking Productivity Improvement Fund
- Mining Community Reserve
- Veterinary Science Scholarship Fund
- Victims Assistance Fund
- Waste Reduction and Recycling Support Fund
- Workplace Safety and Health Public Education Fund

The Province's concern with these, and the reason they referred to them as "fake funds," is that these funds—while legally separate from the Province's main general-purpose funds—were still controlled by the Province and consolidated into the SFS. This meant these funds had an impact on the consolidated deficit or surplus if the amount received in the fund was not equal to the revenues received by the fund in the fiscal year. If funds remaining from previous years were spent, this would increase the deficit, while if more revenue was earned than spent, this would decrease the deficit. The issue was that these funds were not part of the budgeting process, and legally the spending was authorized by each fund's act and was not a part of the annual voted upon appropriations.

Impact of the change:

Status in the GRE: The funds were always consolidated into the SFS and once remaining funds were transferred to the Province, they are still in the GRE.

Change in governance or control?

No: The funds were always under the control of the Province.

Change in reporting?

Yes: Prior to dissolution, Statements of Receipts and Disbursements were prepared and published for all of the funds. Most were unaudited; however, The Community Revitalization Fund was required to prepare an audited statement. With the dissolution of the funds, there will no longer be financial information at this level of detail

Change in operations?

Yes: Any remaining amounts of the funds transferred that were spent in 2020/21 were expensed, increasing the deficit in 2020/21. Going forward, depending on the specific former fund, different arrangements have been made. The usage of funds transferred are now within the control of the Province and not governed by special fund legislation.

Impact of changes to the GRE on the Summary Financial Statements

What is the impact of the GRE dropping from 182 government organizations, components and business enterprises to 160?

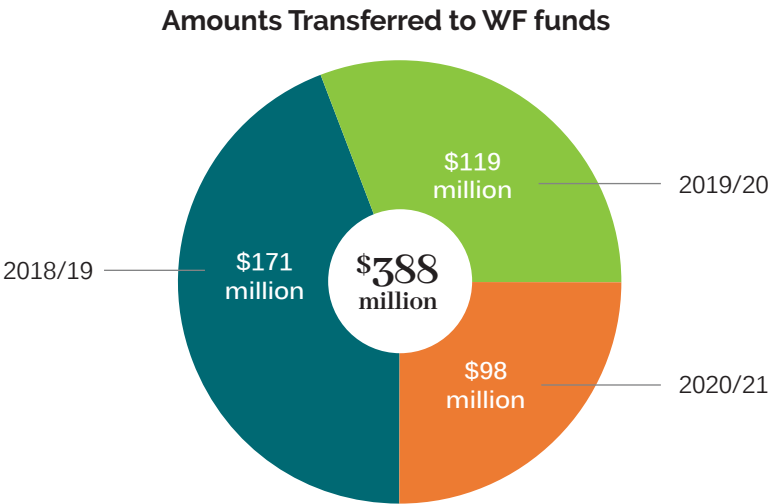
This change does not mean that the assets, liabilities, and operations of those 21 entities are all outside of the GRE and the Province's control. Out of the changes during 2020/21, only 2 of the entities are continuing on their operations as separate entities, only now outside of the control (as defined by PSAS) of the Province. These 2 entities are no longer included in the SFS.

For the other entities, in many cases, the biggest change is a change in reporting—which can impact accountability. It is up to the stakeholders impacted by these entities to determine if there was value in the additional financial reporting and accountability provided by separate public and audited reporting. However, these accounts and operations are still included in the SFS.

Finally, for some, particularly the special funds, there is no change in control of the assets, but a change in their use. In this case, the change brought even more control over these assets to the Province, as their usage is no longer governed by legislation.

2.2 Special Funds versus Winnipeg Foundation funds

While the Province has eliminated the legislated special funds, it created another type of fund, which is held by The Winnipeg Foundation (WF). The Province has transferred \$388 million to these WF funds over the past 3 years.



Amounts transferred to the WF funds have been structured in such a way that they do not meet the definition of control under PSAS and are not an asset controlled by the Province.

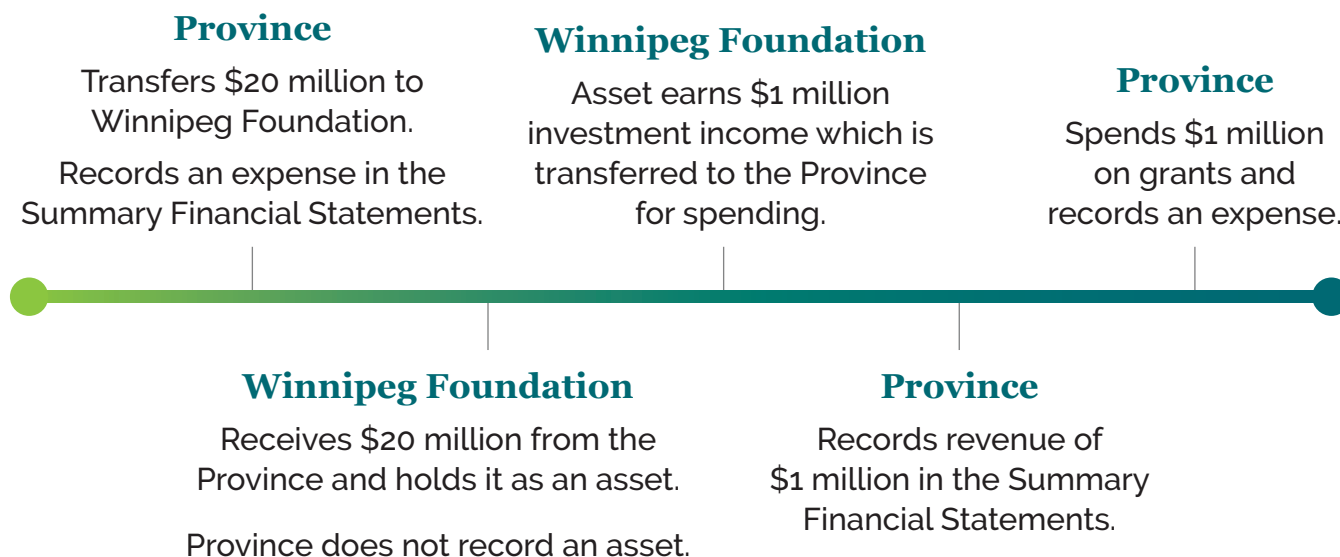
What does this mean?

The structure of these funds is different than the former special funds, but does meet the objective of setting aside funds for a specific purpose in a different way.

Each WF fund or trust account is initially created with a transfer from the Province. In most cases, the initial transfer is in the form of an endowment—a large deposit, which will earn investment income that will then be used for a specific purpose. In some cases, the income each year goes back to the Province or to a controlled entity of the Province to use for a specific purpose during that year. In other cases, the funding flows from WF to an entity outside of the Province's control to be used for a specific purpose.

Accounting for Winnipeg Foundation funds

To illustrate how transfers to WF are accounted for, we describe a hypothetical \$20 million transfer:



Like the former special funds, these WF funds are just one of many ways long-term funding can be structured.

This approach to funding has several aspects to consider:



Impact on the annual surplus or deficit: Long-term funding is provided for a specific purpose with a one-time increase to the deficit or reduction in the surplus. After the fund is set up, there is no impact on net annual surplus or deficit, as long as the money received by the Province from WF each year is spent for the intended purposes.



Significant expense in the first year: This approach to funding programs reduces the impact on future years' annual results. However, the impact to the SFS in the first year is much higher than if the Province chose to fund these programs each year.



Control: The approach used for WF funds removes control from the Province, which is why these assets are not included in the SFS. It also removes the Province's unilateral authority to use these funds for other purposes in the future.

This approach provides a guaranteed funding source for these programs and their objectives. However, the Province has lost flexibility with these funds and cannot use them for a different purpose if priorities change in the future. This is different from the special purpose funds (discussed in **SECTION 2.1**) which while their use was governed by provincial legislation, the Province had the ability to amend the governing legislation (as they did this past year) to change their required use.



Cost of the structure: These funds are being set up when the Province is in an annual deficit position which is being funded by increases to borrowings.

When evaluating the effectiveness of this funding structure the costs of financing the initial transfer of funds should be considered.

3 Upcoming changes to Public Sector Accounting Standards

The Province of Manitoba (the Province) follows Public Sector Accounting Standards (PSAS) when preparing its Summary Financial Statements (SFS) for the Public Accounts. PSAS are set by the Public Sector Accounting Board (PSAB), an independent board whose role includes establishing financial reporting standards and guidance that improve the quality of information reported by Canadian public sector entities, considering the needs of stakeholders and changes in the economic environment.

There are often new or amended standards which the Province adopts. Not all changes to PSAS have a significant impact on the Province's SFS. However, there are several upcoming new standards that may have a significant impact on the Province's financial statements.

Below is an overview of the following standards and their potential impact on the Province:

- PS 3280 Asset Retirement Obligations (**SECTION 3.1**).
- PS 3450 Financial Instruments (**SECTION 3.2**).
- PSAB strategy to adopt IPSAS (**SECTION 3.3**).

3.1 PS 3280 Asset Retirement Obligations

PSAB developed a new accounting standard related to asset retirement obligations (AROs) that will be in effect for the year ended March 31, 2023. This standard requires recording a liability when there is a legal obligation to incur costs when retiring a tangible capital asset from service.

WHAT IS AN ARO?

The Province already records a liability to account for future remediation of contaminated sites. AROs are another type of liability to account for the future costs of remediation related to capital asset use that results in contamination beyond a legislated environmental standard. Costs related to remediation and retiring assets in a safe way to meet environmental standards can be significant; for the year-ended March 31, 2021, the Province

Recording an ARO will require the Province to develop reasonable estimates for costs to clean up sites currently in use. An ARO's costs include:

- Decommissioning or dismantling a tangible capital asset that was acquired, constructed, or developed.
- Remediation of contamination of a tangible capital asset as a result of normal use.
- Post-retirement activities, such as monitoring for contaminants.
- Constructing other tangible capital assets to perform post-retirement activities.

Asbestos: An example of an ARO is the cleanup of asbestos in the Province's buildings. If left undisturbed, asbestos does not exceed environmental standards and as such does not meet the definition of a contaminated site. However, as buildings are renovated and removed from service, any asbestos will be required to be disposed of, meeting strict regulatory requirements. Under the new ARO accounting standard, the Province will have to estimate the cost for the disposal of asbestos and record it as an ARO.

recorded a liability for contaminated sites of \$379 million. AROs are similar to these liabilities, but with some differences – and have not previously been accounted for under PSAS. An ARO differs from a contaminated sites liability in that it represents future costs required after normal use of an asset and is recognized as a result of acquiring, constructing, or developing a tangible capital asset, and these costs may not necessarily be associated with current contamination.

HOW WILL AN ARO BE RECORDED?

When recording the ARO, which is a liability, there will be a corresponding increase to the related tangible capital asset.

A portion of the asset related to the ARO will be amortized (expensed) each year in order to record the costs of retiring the tangible capital asset over the useful life of the asset (period of time that the asset is being used), and this will increase the annual expenses of the Province.

The cost of the asset retirement may take place a number of years in the future. When this is the case, the time value of money needs to be considered—the ARO may be recorded based on the future costs in today's dollars. If so, there will be an additional expense recorded each year as the expected payment date gets nearer.

WHAT IS REQUIRED FOR IMPLEMENTATION?

The Province will have to identify all of the assets in the GRE with AROs. This includes assets belonging directly to government, as well as those of entities in the GRE, such as schools, hospitals, personal care homes, and housing stock held by Manitoba Housing and Renewal Corporation.

Initial review of this standard across Canada has identified buildings with asbestos as a significant source of AROs, however, other types of AROs must also be considered.

After identifying the assets with retirement obligations, the cost of retirement needs to be projected and estimated in accordance with PSAS. Given the number and diversity of assets in the GRE, this initial scoping and valuation activity could require significant work.

3.2 PS 3450 Financial Instruments

PSAB developed a new accounting standard related to financial instruments that will be in effect for governments for the year ended March 31, 2023. This standard has been in effect since April 1, 2012 for government organizations (such as universities and regional health authorities); however, it is not required for the Province until the March 31, 2023 year-end. When consolidating government organizations into the Government Reporting Entity (GRE), the impact of this standard is excluded from the SFS to properly reflect the Province's accounting policies. This new standard directs how to account for and report all types of financial instruments.

WHAT IS A FINANCIAL INSTRUMENT?

A financial instrument is any contract that gives rise to financial assets in one entity and financial liabilities or equity instruments in another entity. Cash, accounts receivables and payables, shares, bonds, and debentures are just some examples of financial instruments, as are options, futures, forwards, and swaps (which are also some examples of derivatives). The Province holds all of these types of financial instruments, so the SFS will be impacted.

A snapshot of changes due to PS 3450

- Some financial instruments will now need to be recorded at fair value—with their values being adjusted at each year end—where previously they were recorded at cost.
- Derivatives will need to be recorded in the financial statements at fair value—previously, the Province only disclosed the use and fair value of derivatives in their note disclosures.
- The Province must include a new statement—the Statement of Remeasurement Gains and Losses.
- The accumulated surplus or deficit will now be presented as the sum of the accumulated opening surplus or deficit and the accumulated remeasurement of gains and losses which will be separately disclosed.
- Increased disclosure requirements, particularly with respect to risks arising from the financial instruments.

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction, whereas **amortized cost** is the original cost incurred on the acquisition of the financial instrument. Fair value would be the quoted market price for actively traded investments, or would be based on more complex valuation methods for investments and derivatives without an active market price.

As fair value fluctuates with the market, recording financial instruments at fair value introduces more volatility into the financial statements.

HOW WILL THEY BE RECORDED?

Based on this new standard, financial instruments must be measured at either **fair value** or **amortized cost**. Portfolio investments in equity instruments quoted in the active market and derivatives are required to be measured at fair value.

Financial instruments in the fair value category must be reported at the end of each reporting period based on their fair value. Changes in fair value from the previous reporting period—which are also called remeasurement gains and losses—must now be reported on the Statement of Remeasurement Gains and Losses until the financial instrument is derecognized from the financial statements.

When a financial instrument is derecognized (such as the sale of an investment or final settlement of a derivative or liability), the accumulated remeasurement gain or loss attributable to the financial instrument is moved from the Statement of Remeasurement Gains and Losses to the Statement of Revenue and Expense. A gain is recorded as revenue and a loss is recorded as an expense finally hitting the annual surplus or deficit.

Derivatives are contracts between 2 or more parties with the following characteristics:

- Their value changes in response to an external financial or non-financial variable (e.g. interest rates or foreign exchange rates).
- They do not require an initial net investment or require a lower than normal investment.
- They are to be settled at a future date.

The Province uses derivatives to hedge and mitigate foreign exchange and interest rate risks. For example, to reduce the foreign exchange risk related to issuing debt in USD they will enter an agreement to exchange USD cash flows for those in CAD.

As at March 31, 2021, the fair value of the Province's derivatives was negative \$64 million (2020 - \$1,289 million), representing the estimated amount, based on market factors, that the Province would need to pay to counterparties if the related agreements were terminated on that date.

The table below summarizes the impact on the SFS when remeasurement gains and losses are recorded on either the Statement of Remeasurement Gains and Losses or on the Statement of Operations.

SFS impact from remeasurement gains and losses		
Statement in the SFS	When recorded on the Statement of Remeasurement Gains and Losses	When recorded on the Statement of Operations
Statement of Financial Position <i>"The balance sheet"</i>	The related asset and liability value are adjusted. The cumulative remeasurement gains and losses are included as a component of accumulated surplus (deficit).	Included in accumulated surplus (deficit), moved from the component "accumulated remeasurement gains (losses)" to "accumulated operating surplus (deficit)."
Statement of Operations <i>"The income statement"</i>	No impact.	Included in the annual operating surplus or deficit for the year, either as revenue (gains) or expenses (losses).
Statement of Remeasurement Gains and Losses	Included in remeasurement gains (losses) for the year via unrealized gains (losses), presented by financial instrument type.	Offsets the unrealized gains (losses) for the year as amounts are reclassified to the Statement of Operations. The impact of previously unrealized gains and losses is eliminated here and moved to the annual surplus or deficit.
Statement of Change in Net Debt	Included in net debt for the year via net remeasurement gains (losses).	Included in net debt for the year via net income (loss) for the year. Previous remeasurement gains and losses will be reversed.

As an example of the treatment of fair value adjustments, if the Province holds investments that have increased in value by \$20 million during the year, this will not impact the annual surplus or deficit. Under PS 3450 this will now be recorded as a remeasurement gain of \$20 million. The presentation of this will show up as an increase of \$20 million to the investment on the Statement of Financial Position and the unrealized gain will be included in the accumulated remeasurement gains or losses included in the accumulated deficit.

If the following year the investment value has not changed but the investment is sold, the \$20 million gain will become realized and be recorded in the statement of operations in the annual surplus or deficit, and will move from the accumulated remeasurement gains or losses category to the accumulated operating surplus or deficit category.

What else is impacted by the changes regarding recognition?

- When the Financial Instruments standard is adopted a new accounting standard to address foreign currency translation will also be adopted. *PS 2601 Foreign Currency Translation* was established to replace *PS 2600 Foreign Currency Translation* in order to conform to the PS 3450 changes. The portion of gains and losses resulting from fluctuations in foreign currency exchange is now included in the Statement of Remeasurement Gains and Losses rather than the Statement of Operations until the period of derecognition.
- In April 2021, PS 2601 was further amended wherein entities are provided an opportunity to make an irreversible election of recognizing the foreign currency exchange gains and losses directly to the Statement of Operations. An additional note disclosure is required when making this election.

HOW WILL THE PRESENTATION AND DISCLOSURE BE IMPACTED?

In terms of the presentation on the Statement of Financial Position, the standard does not require all financial assets and financial liabilities to be combined and netted as a single financial statement line item, unless:

- There is a legally enforceable right to offset them.
- There is an intent to simultaneously realize the asset and settle the liability at the same time.

What else is impacted by the changes regarding presentation and disclosure?

PS 1201 Financial Statement Presentation was established to replace *PS 1200 Financial Statement Presentation* in order to conform to the PS 3450 changes. One of the most significant changes is the addition of the Statement of Remeasurement for Gains and Losses to the set of financial statements.

In terms of the disclosure in the notes to the financial statements, qualitative and quantitative disclosure requirements are enhanced for each type of financial instrument risk (credit risk, liquidity risk, market risk, etc.). Other qualitative risk disclosures are also required, such as additional details on impaired financial assets, collateral, and other credit enhancements obtained during the year. An additional disclosure is also required to present the balances of financial instruments based on their fair value hierarchy, which is made up of three levels and is based on the observability of the calculation inputs used to determine the fair value of the financial instruments.

3.3 PSAB strategy to adopt IPSAS

Historically, the Canadian Public Sector Accounting Board (PSAB) has created accounting standards for Canadian governments entirely independently from the standard setters of other countries. While PSAB may have considered accounting standards in place in the private sector or in the public sector in other countries there was no requirement for this consideration.

IPSASB or International Public Sector Accounting Standards Board, sets international standards for public sector accounting. Some jurisdictions follow IPSAS completely as their required accounting standards for the public sector while others consider or adapt IPSAS.

PSAB recently decided, after much analysis and outreach with stakeholders to continue to develop Canadian PSAS but future standards will be based on principles in IPSAS standards.

WHAT ARE THE IMMEDIATE IMPACTS OF THIS PSAB DECISION?

Effective April 1, 2021, PSAB amended PS 1150 Generally Accepted Accounting Principles (GAAP) to refer to International Public Sector Accounting Standards (IPSAS) as the basis for accounting topics not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP.

This change only applies to new transactions or events wherein the entity does not have an accounting policy in place. This amendment does not require existing accounting policies to be revised.

WHAT ARE THE FUTURE IMPACTS OF THIS PSAB DECISION?

Going forward when PSAB chooses to develop a standard where IPSAS already exists, PSAB would use the principles of the IPSAS to develop a Canadian Standard. However, modifications to IPSAS can be made by PSAB where criteria are met. One of the criteria for modification is if the IPSAS is deemed not appropriate for application based on Canadian public interest.

There are 2 things that stakeholders including preparers and users of government financial reporting can do to ensure they continue to have an influence on the standard setting process in Canada.

First, invested stakeholders need to be aware IPSAS principles as well as activity of IPSASB in creating new standards and modifying existing standards. Canadians can provide their feedback at the international level to ensure IPSAS developments are not out of line with Canadian stakeholder needs.

Second, interested Canadian stakeholders can continue to participate in the standard setting feedback process in Canada. PSAB will consider stakeholder feedback and whether IPSAS are appropriate for Canada based on that feedback so it continues to be important that invested stakeholders communicate their needs and concerns with PSAB when given the opportunity to comment on future standards.

As the potentially significant impacts of the Financial Instruments and Asset Retirement Obligations demonstrate, changes in accounting standards can have a big impact on the way the Province must account for their financial position and calculate their key measures including the annual surplus or deficit.

4 Recommendations

4.1 Status of prior year recommendations

In our December 2020 report to the Legislative Assembly on Public Accounts and Other Financial Statement Audits, we made 9 recommendations to the Province.

As shown in the table below, 3 of our 9 recommendations have been implemented.

Report to Legislature date	Implemented/resolved	Action no longer required	Do not intend to implement	Work in progress	Total
December 2020	3	–	–	6	9

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

1. We recommended that the Office of the Provincial Comptroller implement a policy for recording accounting estimates. This policy should include at a minimum:

- Requirements for documentation of the model and methodology used to create the estimate.
- Support for all assumptions used.
- An assessment of the need for the use of experts.
- A risk-based review process by the Office of the Provincial Comptroller for departmental estimates.

Status: Implemented/resolved

OAG comment: The Office of the Provincial Comptroller (OPC) updated the Financial Administration Manual to include a policy on accounting estimates. The policy stated all requirements listed above. However, as noted in Recommendation 6 below, the OPC did not comply with its own policy as it did not perform risk-based reviews for departmental estimates. We have made an additional new recommendation related to the implementation of this policy in this report.

2. We recommended that the Provincial Comptroller require all entities within the government reporting entity to report, alleged or suspected fraud to the Province.

Status: Implemented/resolved

OAG comment: The provincial comptroller issued a letter to Deputy Ministers and CEOs to inform them of the requirement that all entities in the GRE are to report confirmed, alleged or suspected fraud to the OPC. Included in the letter were instructions on how to provide information.

The Office of the Auditor General is currently undertaking a performance audit related to Fraud Risk Management in selected departments and entities in the GRE.

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

Status: Work in progress

OAG comment: Many of the Delegation of Financial Signing Authority (DFSA) Charts should have been updated in January 2021 to coincide with changes in Cabinet. According to the FAM, departments are required to submit updated charts when any major reorganization affecting the department occurs. In April 2021, we found that multiple departments subject to reorganization did not have an updated DFSA.

4. **We recommended that 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. **We recommended that the Province develop a central process to assess risk and prioritize remediation work on contaminated sites.**

Status: Work in progress

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

Status: Work in progress

OAG comment: The OPC did not perform a risk-based review of contaminated sites liability estimates provided by departments to ensure that they were adequately supported. This resulted in increased communication and documentation requests with departments by our staff, resulting in delays to the timing of audit work. If the OPC had performed a review of estimates information before it was provided to our office, they would have found that there was an expectation gap between the requirements defined in the new estimates policy (see Recommendation 2 above) and the information prepared by the departments.

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

Status: Work in progress

OAG comment: *Third-party engineers have been engaged to:*

- *Provide estimates of the Department of Conservation and Climate's contaminated site liabilities.*
- *Perform assessments on the Department of Infrastructure's contaminated sites. These assessments will be performed in 3 phases over several years and will guide the department's actions related to future contaminated site remediation.*

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

Status: Work in progress

OAG Comment: *The OPC year-end Financial Administration Information Circular did include the rate of inflation to be applied to year-end contaminated sites balances. However, OPC did not ensure that inflation was applied to each department's contaminated sites liability balance.*

9. **We recommended that the Department of Conservation and Climate update the information disclosed on its website related to orphaned and abandoned mines and review this information on an annual basis to ensure it remains current.**

Status: Implemented/resolved

OAG Comment: *The Department of Conservation and Climate updated information disclosed on its website related to orphaned and abandoned mines and other contaminated sites. The responsibility for orphaned and abandoned mines is now with the Department of Conservation and Climate however, the Department of Agriculture and Resource Development has outdated information related to orphaned and abandoned mines that should be removed from the government website.*

4.2 New recommendation

As a result of our follow-up work we are providing the following new recommendation:



Recommendation 1

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

Responses of officials:

The Province agrees with the Auditor General's recommendation. The Office of the Provincial Comptroller will address this recommendation in 2021/22 by taking the following specific steps:

1. Council of Executive Financial Officers (CEFO) – describe and train the EFO community at CEFO on documentation requirements to ensure senior leadership in departments understand the requirement and are in a position to lead adoption in their respective departments. This will build upon and reinforce the introduction to the new financial policy provided at CEFO in 2020/21.
2. 2021/22 Year End Instructions – will provide additional requirements and instructions to departments respecting the type and level of documentation available. Will provide webinar to financial staff to provide further training support to departments in meeting this requirement.
3. Office of Provincial Comptroller – will develop and implement a risk-based approach for assessing departmental estimates by Senior accountants for their assigned ministries. This is to ensure that a consistent methodology will be utilized for all government entities.

The Office of Provincial Comptroller will also develop a 7th Comptrollership course in 2022/23 on Accounting estimates that will build on work in 2021/22 to provide a more targeted training module that addresses departmental experiences as they work towards meeting this requirement.

5 The financial statement audits we conducted in 2020/21

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

This section provides a summary of each audit we conducted and includes the following information:

- **Audited financial reports for each entity.**
- **Our involvement with each audit.**

Some of these audits are conducted by our office using our own staff, while others are conducted under agent agreements with external audit firms. When agent agreements are used, we are involved with planning and file review but the external firms conduct audit fieldwork on our behalf. In both cases, the audit opinion is issued by the Office of the Auditor General.

The Public Sector Compensation Disclosure Act requires public sector bodies to disclose compensation over \$75,000 paid or provided to them over the course of a calendar or fiscal year. Where we audit public sector bodies, we also audit these public sector compensation disclosure reports.

- **The results of each audit, which would include the following matters:**

- The audit opinions that were issued.

An "unqualified" opinion means the statement or information under examination is fairly presented, in all material respects, in accordance with the related financial reporting framework. We provide a "qualified" opinion when this is not the case. A qualification can occur when the financial statements are materially misstated or when we were unable to obtain sufficient audit evidence to support our opinion for all areas under audit.

Sometimes, an unqualified audit opinion may include an "emphasis of matter" paragraph which, while not modifying the related opinion, directs the user to a matter that, in our judgment, is of fundamental importance to users' understanding of the statement or information. Our standard audit opinion on schedules of public sector compensation disclosure payments includes such a paragraph, stating the information is specifically prepared to meet legislated reporting requirements and therefore may not be suitable for another purpose.

- Areas of audit significance.

These are areas where we direct a substantial portion of our audit effort.

For all of our audits, Canadian auditing standard CAS 240 (The Auditor's Responsibility Relating to Fraud in an Audit of Financial Statements) sets out the auditor's responsibility regarding obtaining reasonable assurance on whether the financial statements are free of material misstatement, whether caused by error or by fraud. We have not included this separately as an area of audit significance for each audit.

Under auditing standards, there are several presumed (or standard) significant risks related to material misstatement in revenue recognition and management override of internal controls due to fraud. We perform audit procedures to address these fraud risks and any other fraud risks we identify, which include examining journal entries and reviewing accounting estimates and significant unusual transactions.

We have not listed the presumed significant risks due to fraud on the summaries of each financial statement audit conducted by our Office because those risks are common to all financial statement audits.

- Whether we provided a management letter, and to whom we provided it.

A management letter is a summary of recommended improvements to internal controls or other management systems. As the name implies, the letter is typically addressed to an entity's senior management. We will issue new recommendations for issues identified during the year, and follow up on the status of implementation of past recommendations.

- To whom our audit results were presented.

We typically present those charged with governance with an "audit results memo".

This document includes:

- » The results of our work in key risk areas.
- » Our comments regarding:
 - Any changes from our planned audit approach.
 - The reasonableness of the entity's financial statement or schedule disclosures and accounting estimates, if any.
 - Any significant issues with the entity's related parties.
 - Any significant difficulties encountered during the audit with management and staff.
 - Any other significant matters arising from the audit.
- » Draft audit opinions.
- » Copies of the entity's management letter and our schedule of unadjusted errors if applicable.

- Any other matters we wish to bring to the Legislative Assembly's attention.

Section 10(2) of *The Auditor General Act* requires the Auditor General to report on matters that he considers should be brought to the attention of the Legislative Assembly. These matters include but are not limited to circumstances in which:

- » Required information was not provided or was not provided within a reasonable time.
- » Accounts were not properly kept or public money was not fully accounted for.
- » Essential records were not maintained, or the rules and procedures applied were insufficient to:
 - Safeguard and control public property.
 - Secure an effective check on the assessment, collection and proper allocation of revenue.
 - Or ensure that expenditures were made only as authorized.
- » Public money was expended for purposes other than those for which it was appropriated by the Legislature
- » Financial and administrative provisions of Acts, regulations, policies and directives were not complied with.

Public Accounts Audit

For the year ended March 31, 2021

Public accounts:

- Audit of the Province of Manitoba
- Comprised of 181 government organizations, components, and business enterprises, including:
 - 38 school divisions
 - 46 personal care homes
 - 4 government business enterprises

Areas of audit significance:

- COVID-19 funding and PPE
- Valuation and existence of wage accrual liabilities
- Assets of unincorporated communities
- Consolidation of controlled entities
- Valuation of pension and other employee future benefits liabilities
- Valuation and existence of liabilities for contaminated sites

What we found:



We audited the Financial Statements, Public Sector Compensation Disclosure, and Fiscal Stabilization Account. We issued a qualified opinion on the Financial Statements and an unqualified audit opinion on the other reports. We presented our audit results to the Minister of Finance. See our qualified auditor's report in APPENDIX A.

We issued a management letter to the Provincial Comptroller with:

7
new
recommendations

14
previous
recommendations
in progress

6
recommendations
implemented
during 2021

Community Revitalization Fund Audit

For the year ended March 31, 2021

Community Revitalization Fund:

- Provides a means to collect community revitalization levies imposed in lieu of incremental school taxes
- Provides grants for the purposes set out in *The Community Revitalization Tax Increment Financing Act*



Areas of audit significance:

- Fund receipts and disbursements Fund was dissolved at the end of the 2020/21 fiscal year



What we found:

We audited the Statement of Receipts and Disbursements and issued an unqualified audit opinion. We presented our audit results to the Assistant Deputy Minister, Industry Programs and Partnerships Division, Department of Economic Development and Jobs.



The Community Revitalization Fund was dissolved at the end of 2020/2021, along with various other special funds. See **SECTION 2** for more details of special fund dissolutions.

2020/21 was a transition period where levies collected were credited to the Community Revitalization Fund as in previous years. However, disbursements were paid from the Department of Economic Development and Jobs budget and the remaining Community Revitalization Fund balance was transferred to the Department.

All balances collected over the years remaining in the fund will be returned to the project proponents. Any levies collected on properties that were unable to be flowed back to project proponents as grants prior to March 31, 2021 were accrued and will be paid in 2021/22.

The Co-operative Loans and Loans Guarantee Board Audit

For the period April 1, 2020 to November 6, 2020

Co-operative Loans and Loans Guarantee Board:

- Ensures that cooperative organizations have access to basic financial services
- A non-significant component of the Government Reporting Entity



Areas of audit significance:

- Dissolved as of November 6, 2020
- \$1.6 million loan to Neechi Foods Co-op Ltd was written-off on August 1, 2020 as it was deemed uncollectable



What we found:

We audited the Financial Statements and issued an unqualified audit opinion. We presented our audit results to the chairperson of the Co-operative Associations Loans and Loans Guarantee Board.



The Board was dissolved November 6, 2020, along with various other entities. See **SECTION 2** for more details on dissolutions.

Funeral Board of Manitoba Audit

For the year ended December 31, 2020

Funeral Board of Manitoba:

- Purpose is to improve funeral and cemetery services by overseeing implementation of regulations and acts
- A non-significant component of the Government Reporting Entity



Areas of audit significance:

- Due to the Province's 2021/22 budget announcement that the Funeral Board would be wound up, we have removed the material uncertainty related to going concern from our report.



What we found:

We audited the Financial Statements and issued an unqualified audit opinion. We presented our audit results to the Funeral Board Audit Committee.



We issued a management letter to the acting board chair with:

1

new recommendation

Manitoba Agricultural Services Corporation (MASC) Audit

For the year ended March 31, 2021

MASC:

- Provides lending and insurance services for agriculture development
- Trustee for Production and Hail Insurance Trusts (PIT & HIT)
- A significant component of the Government Reporting Entity



Areas of audit significance:

- Treatment of production and hail insurance programs
- Qualified audit opinion for MASC due to non-consolidation of Production and Hail Insurance Trusts



What we found:



We audited the Financial Statements (MASC, PIT, HIT) and Public Sector Compensation Disclosure (PSCD). We issued a qualified opinion for MASC, and an unqualified opinion for PIT, HIT, and PSCD. We presented our audit results to the MASC Board.

We issued a management letter to the President and Chief Executive Officer with:

2

new recommendations

The Province has made some changes to the regulations and insurance contracts and MASC is looking at changes to their accounting treatment which may cause the qualified opinion issue to be resolved in the future.

Manitoba Health Services Insurance Plan Audit

For the year ended March 31, 2021

The Plan:

- Provides funding to health service delivery organizations (Regional Health Authorities, Shared Health, Addictions Foundation of Manitoba, CancerCare) in the Manitoba healthcare system
- Administers the processing and payment of fee-for-service to registered medical practitioners and benefits under the Pharmacare program



Areas of audit significance:

- Received additional funding for service delivery organizations and health care facilities in response to COVID-19 costs for the year
- During the year, the Department of Health, Seniors and Active Living split into 2 new Departments (Health and Seniors Care and Mental Health, Wellness and Recovery); however, the Plan's service delivery remained the same



What we found:

We audited the Financial Statements and Public Sector Compensation Disclosure and issued unqualified audit opinions for both. We presented our audit results to the Assistant Deputy Minister for the Department of Manitoba Health and Seniors Care.



Manitoba Health Services Insurance Plan dissolved effective April 1, 2021. The duties were assigned to the Minister of Health and Seniors Care and the Minister of Mental Health, Wellness and Recovery, and all assets and liabilities were transferred to the Departments.

Public Schools Finance Board Audit

For the period from July 1 to November 6, 2020

Public Schools Finance Board:

- Administers the operational and capital support programs through which public school divisions are funded
- Non-significant component of the Government Reporting Entity



Areas of audit significance:

- Dissolved as of November 6, 2020
- Duties of the Board were assigned to the Minister of Education and all assets and liabilities were transferred to the Department



What we found:

We audited the Financial Statements and issued an unqualified audit opinion. We presented our audit results to the Minister of Education.



The Board was dissolved November 6, 2020, along with various other entities. For more details on dissolutions, see **SECTION 2**.

University of Manitoba Audit

For the year ended March 31, 2021

University of Manitoba:

- The largest post-secondary education institution in Manitoba
- A significant component of the Government Reporting Entity



Areas of audit significance:

- Valuation of employee future benefits and pension
- Government reporting entity (UM Properties Limited Partnership)



What we found:

We audited the Financial Statements and Public Sector Compensation Disclosure and issued an unqualified audit opinion for both. We presented our audit results to the Audit and Risk Management Committee, which reports to the Board of Governors.



We issued a management letter to the Vice President (Administration) with:

2

new recommendations

Civil Service Superannuation Fund Audit For the year ended December 31, 2020

The Fund:

- Established in May 1939
- Provides pension benefits to employees of the Province of Manitoba and its agencies participating in the Plan



Areas of audit significance:

- Investments
- Actuarial valuation for pension liability
- Contributions
- Pensions paid



What we found:

We audited the Financial Statements and issued an unqualified audit opinion. We presented our audit results to the Audit Committee of the Civil Service Superannuation Fund Board.



Legislative Assembly Pension Fund Audit

For the year ended December 31, 2020

The Fund:

- Established on March 31, 2005
- Provides pension benefits to members of the Manitoba Legislative Assembly



Areas of audit significance:

- Investments
- Actuarial valuation for pension liability
- Contributions
- Pensions paid



What we found:

We audited the Financial Statements and issued an unqualified audit opinion. We presented our audit results to the Audit Committee of the Civil Service Superannuation Fund Board.



Public Service Group Insurance Fund Audit

For the year ended April 30, 2020

Public Service Group Insurance Fund:

- Administrates the Fund and group insurance policies for participating Government of Manitoba employers and employees



Areas of audit significance:

- Investments
- Actuarial provision
- Contributions
- Death claims



What we found:

We audited the Financial Statements and issued an unqualified audit opinion. We presented our audit results to the Public Service Group Insurance Fund Audit Committee.



Teachers' Retirement Allowances Fund Audit

For the year ended December 31, 2020

Teachers' Retirement Allowances Fund (TRAF):

- Administers *The Teachers' Pensions Act* and functions as a trustee of a fund maintained to provide defined benefit pensions to public school teachers in Manitoba



Areas of audit significance:

- Investment assets and income
- Actuarial valuation of pension obligation
- Benefit payments
- Plan contributions



What we found:

We audited the Financial Statements and the Public Sector Compensation Disclosure and issued an unqualified audit opinion for both. We presented our audit results to the Teachers' Retirement Allowances Fund Audit and Risk Committee.



Winnipeg Child and Family Services Employee Benefits Retirement Fund Audit

For the year ended December 31, 2020

The Fund:

- Established on December 29, 2003
- Pension plan and provides benefits to employees of the Winnipeg Child and Family Services



Areas of audit significance:

- Investments
- Actuarial valuation for pension liability
- Contributions
- Pensions paid



What we found:

We audited the Financial Statements and issued an unqualified audit opinion. We presented our audit results to the Winnipeg Child and Family Services Employee Benefits Retirement Fund Board.



Northern Affairs Fund Audit

For the years ended March 31, 2017 and 2018

Northern Affairs Fund:

- Administers trust funds on behalf of designated communities
- Administers the property tax system on behalf of these designated communities in compliance with *The Northern Affairs Act*



Areas of audit significance:

- Construction in Progress Community
- Council Funds revenues and expenditures
- Prior period restatements in capital support interest and allowance for doubtful accounts



What we found:

We audited the Financial Statements for 2017 and 2018 and issued an unqualified audit opinion for both year-ends. We presented our audit results to the executive financial officer and assistant deputy minister.



We issued a management letter to the executive financial officer of Manitoba Indigenous Reconciliation and Northern Relations with

3

new recommendations

We have in the past written to the Minister responsible for the Northern Affairs Fund and reported on significant delays in the presentation of the Northern Affairs Fund financial statements to us for audit. The Department has been working to catch up on the financial reporting, with 2 years of financial statements prepared and audited during the past year. We are presently working with the Department on the March 31, 2019 and March 31, 2020 audit.

Helen Betty Osborne Memorial Foundation Audit

For the years ended March 31, 2018, March 31, 2019, March 31, 2020 and March 10, 2021

Helen Betty Osborne Memorial Foundation:

- Promotes the memory of Helen Betty Osborne
- Provides financial assistance to Indigenous persons residing in Manitoba who are enrolled in postsecondary studies in Manitoba



Areas of audit significance:

- Cash
- Donation revenue
- Expenses - bursaries and scholarships
- Going concern



What we found:

We audited the Financial Statements for 2018 to 2021 and issued qualified audit opinions for each year due to the limited ability to verify completeness of donations, which is common for many charitable organizations. We presented our audit results to the Deputy Minister of Advanced Education, Skills and Immigration.



On March 10, 2021, upon proclamation of Bill 2, the operations of the Foundation moved into the Department of Advanced Education, Skills and Immigration, and all the funds were transferred to The Winnipeg Foundation on March 19, 2021. The March 10, 2021 financial statements will be the final statement issued by the Foundation. See **SECTION 2** for more information.

Leaf Rapids Town Properties Ltd. Audit

For the year ended March 31, 2021

Leaf Rapids Town Properties:

- Incorporated in 1971
- Responsible for the planning, design, and development of the community of Leaf Rapids
- Managed, leased, and operated its physical assets and properties in Leaf Rapids



Areas of audit significance:

- On March 31, 2021, the company was dissolved and all assets and liabilities were transferred, subsequent to year end, to the Province of Manitoba



What we found:

We audited the Financial Statements and issued an unqualified audit opinion. We presented our audit results to those charged with governance in the Municipal Relations.



As sole shareholder of the Corporation, the Province of Manitoba directed that the Company begin the process of winding down, and for it to be dissolved completely. On December 3, 2020, the Company's Board of Directors passed a shareholder's resolution to begin the process of winding down the company. See **SECTION 2** for more information on the dissolution.

Legal Aid Manitoba Audit

For the year ended March 31, 2021

Legal Aid Manitoba:

- Provides quality legal advice and representation to eligible low-income individuals
- Administers the delivery of legal aid in a cost-effective and efficient manner



Areas of audit significance:

- Cash and short-term investments
- Long-term receivable from the Province of Manitoba
- Future employee benefits
- Revenue from the Province of Manitoba



What we found:

We audited the Financial Statements and Public Sector Compensation Disclosure and issued unqualified audit opinion for both. We presented our audit results to the Management Council of Legal Aid Manitoba.



Manitoba Habitat Heritage Corporation Audit

For the year ended March 31, 2021

The Corporation:

- Objectives are conservation, restoration, and enhancement of wildlife habitat and populations in Manitoba
- Administering funding for the Conservation, Grow and Wetland Grow Trusts which are held by the Winnipeg Foundation



Areas of audit significance:

- Capital assets
- Pre-paid land use rights
- Grants held in trust
- Deferred contributions



What we found:

We audited the Financial Statements and Public Sector Compensation Disclosure and issued an unqualified audit opinion for both. We presented our audit results to the Manitoba Habitat Heritage Corporation Board.



On February 1, 2021, the entity was incorporated in the Province of Manitoba as a non-profit organization and is no longer included in the Government Reporting Entity. The fiscal year end will be changed to December 31, 2021. See SECTION 2 for more information.

We issued a management letter to Chief Executive Officer with

1

new recommendation

Manitoba Housing and Renewal Corporation Audit

For the year ended March 31, 2021

MHRC:

- Enhances affordability and accessibility to housing
- Maintains and improves adequate housing stock and its condition
- A significant component of the Government Reporting Entity



Areas of audit significance:

- Revenue and expense from Waverly West land development
- Tangible capital assets
- Allowance for doubtful accounts



What we found:

We audited the Financial Statements and Public Sector Compensation Disclosure and issued an unqualified audit opinion for both. We presented our audit results to the MHRC Board.



During the year, MHRC's Housing Development and Rehabilitation Fund was transferred to the Province. Beginning in 2022, any land development profits earned by MHRC will be paid to the Province as a grant. See **SECTION 2** for more information on the Province's dissolution of Funds during 2021.

MHRC may be significantly impacted by the new Asset Retirement Obligation accounting standards effective in 2023. See **SECTION 3** for more information,

Manitoba Learning Resource Centre Audit

For the year ended March 31, 2021

Manitoba Learning Resource Centre:

- Created in 1931, originally called the Manitoba Text Book Bureau
- Established to achieve economies of scale and reduce the cost of learning resources for schools in Manitoba
- Closed effective March 31, 2021



Areas of audit significance:

- Sales
- Cost of sales
- Inventory
- Admin expenses



What we found:

We audited the Financial Statements and issued a qualified audit opinion as no physical inventory count was performed at March 31, 2020 due to COVID-19 restrictions at the Manitoba Learning Resource Centre's warehouse. We presented our audit results to the Deputy Minister of Education.



Upon closure of the agency, net assets were transferred to Special Operating Agencies Financing Authority.
See **SECTION 2** for more information on the closure.

Public Guardian and Trustee of Manitoba Audit

For the year ended March 31, 2021

Public Guardian and Trustee:

Special Operating Agency:

- Provides trust, legal, financial, and personal services for those who are unable to do so themselves

Estates and trusts:

- Reflects the custodial activities of the Public Guardian and Trustee



Areas of audit significance:

Special Operating Agency:

- Cash and short-term investments
- Fees and other revenue
- Salary expense

Estates and trusts:

- Excess assets over liabilities



What we found:

We audited the Financial Statements for the SOA and the Estates and Trusts and issued unqualified audit opinions.

We presented our audit results to the Public Guardian and Trustee of Manitoba.



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Appendix A – Excerpt from our independent auditor's report on the Province's Summary Financial Statements for the year ended March 31, 2021

Qualified Opinion

We have audited the summary financial statements of the Province of Manitoba (the Province), which comprise the consolidated statement of financial position as at March 31, 2021, and the consolidated statement of revenue and expense, consolidated statement of accumulated deficit, 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.

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Province as at March 31, 2021, and the consolidated results of its operations, consolidated changes in its net debt, and its 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 that are relevant to our audit of the summary financial statements in Canada, and we have 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.

Change in Control of the Workers Compensation Board not recognized

Effective November 6, 2021, the Province amended *The Workers Compensation Act*. Based on the definition of control in PSAS, the amendments resulted in the Province no longer controlling the Workers Compensation Board (WCB). In our opinion, prior to the amendments, the Province controlled the WCB based on the definition of control in PSAS. PSAS requires the Province to include the WCB's financial position and results of operations in the summary financial statements while they were controlled, up to November 6, 2021. As of November 6, 2021, PSAS requires the Province to remove the WCB's net financial assets by expensing them in the statement of operations.

However, the Province has not included WCB's financial position and results of operations since the year ended March 31, 2018. In this respect, the summary financial statements are not in accordance with PSAS.

Had the Province addressed this PSAS departure;

- the March 31, 2020 equity in government business enterprises would have increased by \$647 million, accumulated deficit and net debt would each have decreased by \$647 million, the net income from government business enterprises would have increased by \$48 million, other comprehensive income would have decreased by \$33 million, and the annual surplus would have increased by \$48 million for the year ended March 31, 2020.
- the March 31, 2021 net income from government business enterprises would have increased by \$4 million, and other comprehensive income would have decreased by \$39 million to reflect the WCB's results of operations up to November 6, 2021. On November 6, 2021, the Province would have decreased the net financial assets by \$612 million and increased the disposal of equity in government business enterprises expense by \$612 million to remove the WCB's assets that were no longer under their control. The net result of the above adjustments on the annual deficit for the year ended March 31, 2021 would have been an increase of \$608 million.

Failure to recognize controlled assets

The Province has not included the financial position and results of operations of the Manitoba Agricultural Services Corporation's (MASC) Production Insurance Trust and the Hail Insurance Trust (the Trusts) in the summary financial statements for the years ended March 31, 2021 and March 31, 2020.

In our opinion, the Trusts are assets under the control of the Province, and the financial position and results of operations should be consolidated into the summary financial statements for the years ended March 31, 2021 and March 31, 2020. In this respect, the summary financial statements are not in accordance with PSAS, which require that the Province account for all assets under its control.

Had the Province included the Trusts' financial position and results of operations in the summary financial statements, the current year cash and cash equivalents would have increased by \$594 million, the accounts payable, accrued charges, provisions and unearned revenue would have increased by \$0.5 million, and accumulated deficit and net debt would each have decreased by \$594 million, the Agriculture expenses would have decreased by \$111 million, the investment income would have increased by \$2 million, and the annual deficit would have decreased by \$113 million.

Had the Province included the Trusts' financial position and results of operations in the summary financial statements for the year ended March 31, 2020, the prior year cash and cash equivalents would have increased by \$513 million, the accounts payable, accrued charges, provisions and unearned revenue would have increased by \$33 million, accumulated deficit and net debt would each have

decreased by \$513 million, the Agriculture and Resource Development expenses would have increased by \$19 million, the investment income would have increased by \$9 million, and the annual surplus would have decreased by \$10 million.

Combined impact of departures from PSAS

Had the WCB and MASC Trust departures from PSAS been corrected, the Province would have an annual deficit of \$2,612 million in the current year, and for the prior year would have an annual surplus of \$43 million. The accumulated deficit would be \$12,304 million at March 31, 2021, and \$9,864 million at March 31, 2020.

Combined impact on the annual deficit or surplus		
	2021 (\$ million)	2020 (\$ million)
Annual (deficit) surplus as presented	(2,117)	5
Operating (loss) surplus of Workers Compensation Board	(608)	48
Net income (loss) of MASC trusts	113	(10)
Annual (deficit) surplus in accordance with Canadian public sector accounting standards	(2,612)	43
Combined impact on the ending accumulated deficit		
	2021 (\$ million)	2020 (\$ million)
Accumulated deficit as presented	(12,898)	(11,024)
Equity of Workers Compensation Board	Nil	647
MASC Trust Assets	594	513
Accumulated deficit in accordance with Canadian public sector accounting standards	(12,304)	(9,864)

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Valued for positively influencing public sector performance through impactful audit work and reports.

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To focus our attention on areas of strategic importance to the Legislative Assembly, and to provide Members of the Legislative Assembly with reliable and efficient audits.

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