



*Office of the*  
**Provincial Auditor**

March 31 1999

**Audit of the Public Accounts**



**Manitoba**

## **VISION**

As a leader in promoting enhanced accountability of government to the citizens of Manitoba, the Office of the Provincial Auditor will contribute to greater public trust and confidence in the institutions of government.

## **MISSION**

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

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

## **VALUES**

In Interpersonal Relationships

Respect  
Honesty  
Integrity  
Openness

In Achieving Our Vision and Mission

Teamwork  
Independence  
Balanced perspectives  
Professional excellence



***Office of the Provincial Auditor***

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500 - 330 Portage Avenue  
Winnipeg, Manitoba  
CANADA R3C 0C4

*May 2000*

*The Honourable Peter M. Liba  
Lieutenant Governor of Manitoba  
Room 235, Legislative Building  
Winnipeg, Manitoba  
R3C 0V8*

*Dear Sir:*

*I have the honour to submit herewith our Annual Report on the Audit of the Public Accounts for the year ended March 31, 1999 to be distributed to Members of the Legislative Assembly in accordance with the provisions of Section 13 of the Provincial Auditor's Act.*

*Respectfully submitted,*

A handwritten signature in black ink, appearing to read 'Jon W. Singleton'. The signature is fluid and cursive, with a long, sweeping tail that loops back under the main body of the name.

*Jon W. Singleton, CMA, CISA  
Provincial Auditor*

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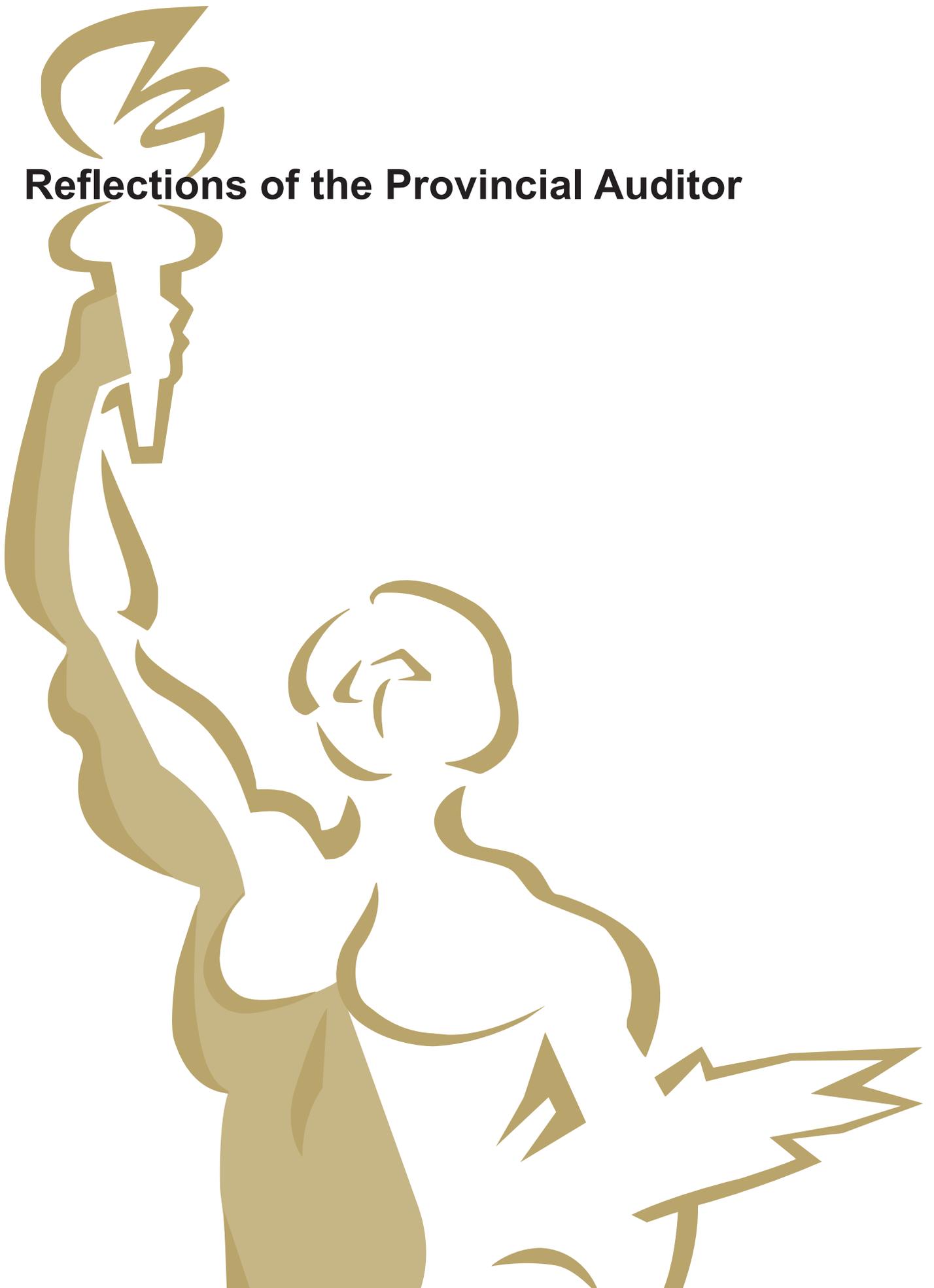
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# Reflections of the Provincial Auditor



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**REFLECTIONS OF THE PROVINCIAL AUDITOR**

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I delayed the issuance of this report until May, 2000 because of the change in Government that occurred in September, 1999. The financial statements which are commented on in this report were issued by a previous government. I thought it appropriate to give the new government time to assess the recommendations I had made in previous reports before issuing this report.

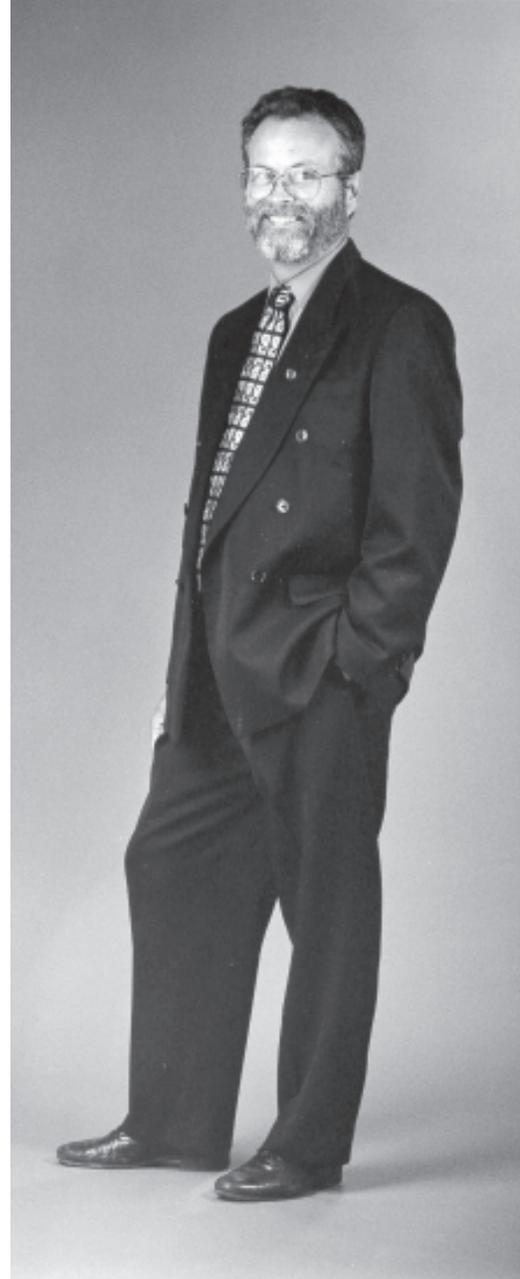
The position taken by the Government on our long standing recommendations, as reflected in this report, represents significant progress toward reliable and understandable financial reporting. The key decisions are:

- to make the Summary Financial Statements, prepared in accordance with generally accepted accounting principles, the primary financial reporting tool of the Government
- to issue, for the year ended March 31, 2001, an annual report that will include the Summary Financial Statements, special purpose financial statements showing how the Government managed the funds available to it in the Consolidated Fund and other information useful to citizens in assessing the financial performance of the Government
- to prepare a summary budget for the 2001/2002 fiscal year in accordance with generally accepted accounting principles
- to direct all Crown agencies to follow generally accepted accounting principles

When fully implemented, these decisions will place the Manitoba Government at the forefront of transparent and reliable financial reporting in Canada. I commend the Government for this.



Jon W. Singleton, CA, CISA



# Overview of the Public Accounts



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## OVERVIEW OF THE PUBLIC ACCOUNTS

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### FINANCIAL REPORTING STRUCTURE

The Public Accounts of Manitoba represent the annual financial statements for the Government of the Province of Manitoba. These financial statements provide an important link in an essential chain of public accountability. They are the principal means by which the Government reports to the Legislative Assembly and to all Manitobans on its stewardship of public funds.

The Public Accounts are prepared in accordance with the Financial Administration Act and contain the financial statements and supporting information required by this legislation. The Public Accounts also include information required by other legislation such as the Balanced Budget, Debt Retirement and Taxpayer Protection Act and by the Public Sector Compensation Disclosure Act.

The Public Accounts for the 1998/99 fiscal year were published in four volumes. The chart depicted below illustrates the structure of the Government's financial reporting in the Public Accounts.

Volume 1, titled *financial statements for the Consolidated Fund*, contains the audited financial statements of the Operating Fund and special funds of the Government. This volume is intended to serve as the Government's accountability report to the Legislative Assembly on revenues raised and expenditures made as authorized by the Appropriation Act and other statutory spending authorities. This volume is also used to reflect the Government's compliance with the Balanced Budget, Debt Retirement and Taxpayer Protection Act.

Volume 2, titled *supplementary information*, contains details of employee compensation of \$50,000 or more as well as information on other payments from the Consolidated Fund

in excess of \$5,000 to corporations, firms, individuals, other governments and government agencies.

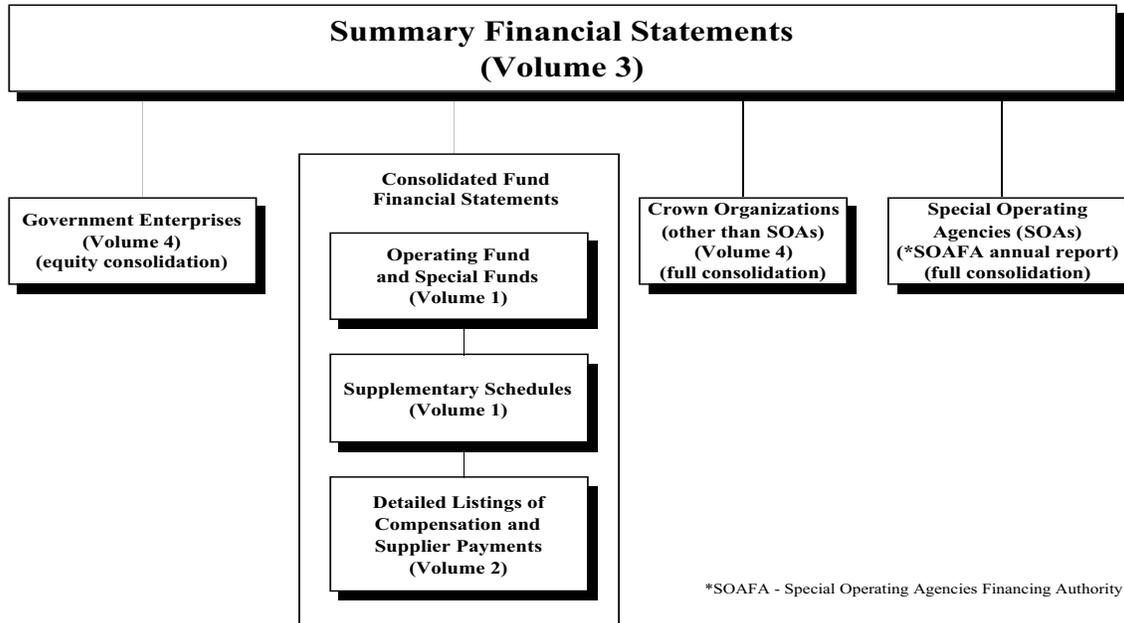
Volume 3, titled *summary financial statements*, provides audited information on the aggregate financial affairs and resources for which the Government is responsible, including all government enterprises and Crown organizations.

Volume 4, titled *the financial statements of funds, organizations, agencies and enterprises comprising the government reporting entity*, contains the individual audited financial statements of the various entities owned or controlled by the Government which comprise the government reporting entity for the Province of Manitoba, except for the Consolidated Fund and Special Operating Agencies (SOAs). The audited financial statements of SOAs are included in a separate annual report prepared for the Special Operating Agencies Financing Authority.

**OVERVIEW OF THE PUBLIC ACCOUNTS**

**OVERVIEW OF THE PUBLIC ACCOUNTS**

**FINANCIAL REPORTING STRUCTURE  
IN MANITOBA'S PUBLIC ACCOUNTS**



**ENHANCING THE PUBLIC ACCOUNTS - A FOLLOW-UP**

Many improvements have been made in the Public Accounts over the last few years. The improvements include recording liabilities for employee severance benefits in 1998/99 and the planned inclusion of tangible capital assets and Regional Health Authorities in 1999/2000.

However, we continue to have concerns over the potential confusion caused by the existence two sets of financial statements; Consolidated Fund Financial Statements (CFFS) and the Summary Financial Statements. We are concerned that the citizens of Manitoba may form the impression that the CFFS reflect the annual surplus or deficit of the Government as a whole. In fact, the annual

surplus or deficit of the Government as a whole is reported in the Summary Financial Statements. The purpose of the CFFS is to reflect the Government's compliance with the Balanced Budget, Debt Repayment and Taxpayers Protection Act, in accordance with the special accounting rules permitted under this Act. This potential confusion is further aggravated by the fact that the CFFS are issued prior to the Summary Financial Statements.

We also promoted the concept of presenting a summary budget to the Legislative Assembly and issuing an annual report on the operations of the Government as a whole. The summary budget and the annual report would make it clearer that the Consolidated Fund is just part of the picture and one to which special accounting rules have been applied.

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## OVERVIEW OF THE PUBLIC ACCOUNTS

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Accordingly, we have made the following recommendations to enhance the Public Accounts over the last several years:

- \* We recommended the Government include both the Summary Financial Statements and the Consolidated Fund financial statements in Volume 1 of the Public Accounts.
- \* We recommended the Government commit to preparing an annual report on overall government operations that includes high-level summarized financial information, commentary on significant budget fluctuations, and long-term graphical trend analysis of government debt, taxation and program levels.
- \* We recommended the Government adopt the concepts suggested by the Canadian Institute of Chartered Accountants (CICA) research report on using financial indicators for disclosure in the annual report for government. More specifically, we recommended the Government:
  - < use information from the Summary Financial Statements to develop the ratios selected for disclosure; and
  - < focus disclosure on only the most significant indicators and make use of graphical presentations to make the report more readable.
- \* We recommended the Government prepare a summary budget based on the budgets for all entities included in the government reporting entity. The summary budget should be based on the same accounting principles used for the Summary Financial Statements, and summary budget amounts should be disclosed in the Summary Financial Statements for comparative purposes with actual results. The Government should present the summary

budget to the Legislative Assembly. This summary budget would include the annual budget for the Consolidated Fund. When presented, the summary budget could be formatted to show separately those parts of the budget (i.e., the Consolidated Fund) which require the authority of the Legislative Assembly.

We continue to believe that early adoption of the above recommendations is essential to improve the openness and transparency of financial reporting by the Manitoba Government.

On October 27, 1999, Deloitte & Touche LLP was contracted by the Government to undertake a financial review of the Government of Manitoba. The recommendations resulting from this review are consistent with our recommendations. The government has advised us that they intend to release Volumes 1 and 3 simultaneously for the fiscal year ended March 31, 2000. This is an important first step in enhancing the prominence given to the Summary Financial Statements for financial reporting purposes.

### ***THE GOVERNMENT'S POSITION***

*We agree with these recommendations and are taking steps to phase in their implementation in a timely and systematic manner.*

*As stated above, Volumes 1 and 3 of the Public Accounts will be released simultaneously for the fiscal year ended March 31, 2000. Beginning with the fiscal year 2000/2001, we plan to prepare an annual report covering all government operations, and containing commentary on fiscal and economic results. This report will have one set of financial statements covering the entire Government reporting entity, which will include a*

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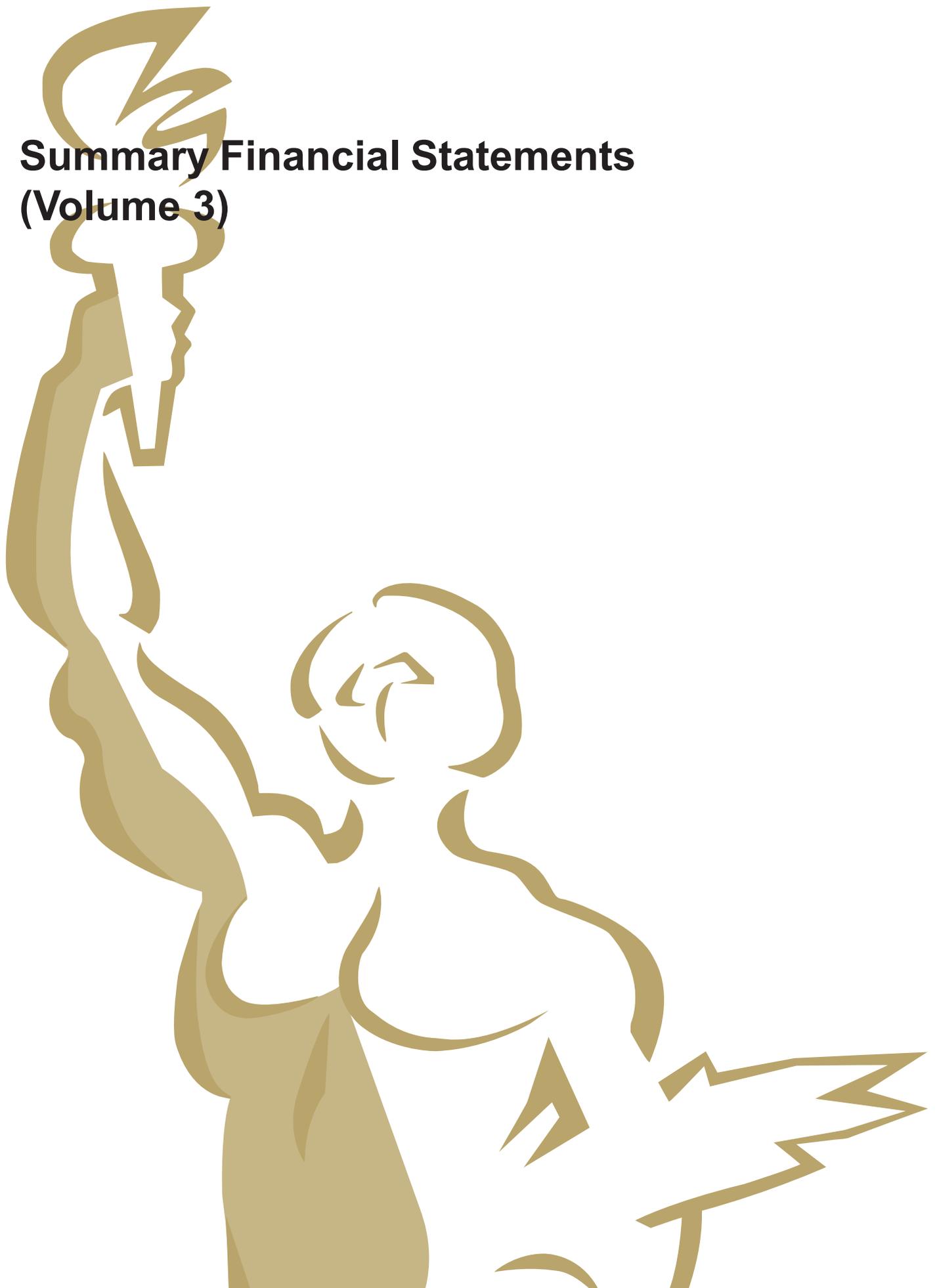
**OVERVIEW OF THE PUBLIC ACCOUNTS**

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*special purpose statement reporting on our stewardship of the Consolidated Fund. We will continue to display financial indicators recommended by the CICA and will expand their use as recommended by both the Provincial Auditor and Deloitte and Touche LLP.*

*We are committed to the development of a summary budget for the fiscal year 2001/2002.*

# Summary Financial Statements (Volume 3)



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**SUMMARY FINANCIAL STATEMENTS (VOLUME 3)**

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**THE STANDARD AUDITOR'S REPORT**

The Provincial Auditor's Act requires the Provincial Auditor to provide assurance to the Legislative Assembly on the annual Public Accounts and other accountability documents prepared by the Government. To address this mandate, my office issues high level assurance reports in the format of the standard auditor's report recommended by the Canadian Institute of Chartered Accountants (CICA).

The purpose of the standard auditor's report is to provide the reader with a high level of assurance on the fairness of financial statements, while clarifying the roles of management and the auditor with respect to the financial statements and outlining the nature and scope of audit work conducted.

An unqualified auditor's report, where there is no reservation of opinion, contains three standard paragraphs. The introductory paragraph identifies the financial statements that have been audited and reflects management's responsibility for preparing the financial statements as well as the auditor's responsibility for expressing an opinion on the fairness of the balances, transaction totals and overall presentation. The second paragraph describes the nature and extent of the auditor's work and the degree of assurance that the auditor's report provides. It refers to generally accepted auditing standards and describes some of the important procedures the auditor undertakes. The final paragraph contains the auditor's opinion or conclusion based on the audit conducted.

In 1981 the CICA established the Public Sector Accounting and Auditing Board to improve and harmonize accounting and auditing standards and practices in the public sector across Canada. In 1998, the mandate for public sector auditing standards reverted to the general section of the CICA. The Board (PSAB) now issues

recommendations governing good practices on public sector accounting and financial reporting.

These pronouncements represent the consensus of senior government officials, legislative auditors and other experts in public sector accounting across Canada. They represent minimum standards for governments and are the benchmark for acceptable financial reporting.

The auditor's reports issued by Manitoba's Provincial Auditor as well as by other legislative auditors across Canada reflect the extent to which government financial statements comply with these standards. In situations where government financial statements do not comply with PSAB standards, legislative auditors consider the need to include a reservation in their opinion. These standards are designed to apply to the Summary Financial Statements of the Government.

In Manitoba the Summary Financial Statements are presented in Volume 3, together with my Auditor's Report thereon. For the third consecutive year, my Auditor's Report on the Government's Summary Financial Statements was issued without reservation. It should be noted however, that my audit opinion is not based on generally accepted accounting principles.

The Government's accounting policies are in transition. My office fully supports this transition as well as the presentation and disclosures that have been adopted by the Government for this transitional period. Exceptions to generally accepted accounting principles have been fully disclosed in Note 1 to the Summary Financial Statements. My Auditor's Report on the Summary Financial Statements is included in Exhibit 2.1 for reference.

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**SUMMARY FINANCIAL STATEMENTS (VOLUME 3)**


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**CHANGE IN ACCOUNTING POLICY –  
LIABILITIES FOR EMPLOYEE SEVERANCE  
BENEFITS**

As described in Note 3 to the financial statements, the Government changed its accounting policy to adopt full accrual accounting for employee severance benefits liabilities. We agree with this change in accounting policy.

**OTHER ACCOUNTING POLICIES IN  
TRANSITION**

In the 1998 Budget Address, the Government announced its intention to adopt capital asset and amortization based accounting policies, in compliance with the standards of PSAB.

Although the new accounting policies will not be implemented until fiscal year 1999/2000, we fully support this initiative. Once implemented, the new accounting policies should produce more meaningful financial statements as well as greater accountability for the annual cost of government programs.

In 1998/99, the Government's accounting policies were in transition. Note 1 to the Summary Financial Statements describes two significant departures from generally accepted accounting principles that warrant special attention.

**Regional Health Authorities**

Regional Health Authorities (RHAs), which are responsible for delivering and administering health services on behalf of the Government in the province, have been excluded from the Summary Financial Statements. These RHAs will be included as part of the government reporting entity in the 1999/2000 fiscal year, at the same time that the Government changes its accounting policy for tangible capital assets.

We support this approach. Knowing that the RHAs have already adopted the new accounting standards for capital assets, consolidating these entities into the Summary Financial Statements would require a significant adjustment to increase the accumulated deficit for the value of the unamortized capital assets as at March 31, 1999. These adjustments would then be reversed or eliminated in 1999/2000 when capital asset accounting policies are adopted.

**Government Information Services  
Management Organization (Man.) Inc.**

Government Information Services Management Organization (Man) Inc. houses significant capital expenditures related to major government-wide computer system initiatives and upgrades. These systems will not be put into use until the 1999/2000 fiscal period and they have been reflected as assets under development in the Summary Financial Statements.

We agree with the Government's decision to defer these costs to the period they relate rather than increase the expenditures of the 1998/99 fiscal year, only to reverse the expenditure in 1999/2000 when the capital asset accounting policies are implemented. Note 1A provides adequate disclosure of these costs during this transition period.

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**SUMMARY FINANCIAL STATEMENTS (VOLUME 3)**

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**EXHIBIT 2.1**

**AUDITOR'S REPORT ON THE SUMMARY FINANCIAL STATEMENTS**



***Office of the Provincial Auditor***

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500 - 330 Portage Avenue  
Winnipeg, Manitoba  
CANADA R3C 0C4

**AUDITOR'S REPORT**

**To the Legislative Assembly of Manitoba**

I have audited the consolidated statement of financial position of the Government of the Province of Manitoba as at March 31, 1999 and the consolidated statements of revenue and expenditure, accumulated deficit and changes in financial position for the year then ended. These consolidated statements are referred to as the summary financial statements and are the responsibility of the Government of the Province of Manitoba. My responsibility is to express an opinion on these summary financial statements based on my audit.

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

In my opinion, these summary financial statements present fairly, in all material respects, the consolidated financial position of the Government of the Province of Manitoba as at March 31, 1999 and the consolidated results of its operations and changes in its financial position for the year then ended in accordance with the accounting policies stated in Note 1 to the summary financial statements and applied, except as described in Note 3 to the summary financial statements, on a basis consistent with that of the preceding year.

Winnipeg, Manitoba  
November 19, 1999

A handwritten signature in black ink, appearing to read 'Jon Singleton'. The signature is fluid and cursive, with a long, sweeping tail on the final letter.

Jon Singleton, CA  
Provincial Auditor

A stylized, gold-colored illustration of a muscular figure, possibly a deity or hero, holding a torch aloft in its right hand. The figure is rendered in a bold, blocky style with thick outlines. The torch has a flame that is also stylized and gold-colored. The figure's left arm is bent at the elbow, with the hand resting on its hip. The overall composition is dynamic and heroic.

# **Financial Statements of the Consolidated Fund (Volume 1)**

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**FINANCIAL STATEMENTS OF THE CONSOLIDATED FUND (VOLUME 1)**


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**SPECIAL PURPOSE AUDIT OPINION**

My Auditor's Report on the financial statements of the Consolidated Fund has been prepared as a special purpose audit opinion. My intention is to draw the attention of readers to the unique basis of accounting used in the financial statements and to caution readers against placing undue reliance on such financial statements.

In the opinion paragraph of my Auditor's Report, I avoid referring to the presentation as 'fair', because these financial statements are not intended to reflect the financial results of government as a whole and they are presented on a basis that varies significantly from appropriate and generally accepted accounting principles. The two most significant deviations relate to the exclusion of pension liabilities estimated at \$2.7 billion and the inappropriate disclosure of inter-fund transfers.

The Consolidated Fund was established in accordance with the Financial Administration Act and its financial statements account for most of the financial activities of central government. The financial statements of the Consolidated Fund include the accounts of the Operating Fund, Trust Fund, Fiscal Stabilization Fund and other special funds of the government. These financial statements include a comparison of the actual results of central government operations (Operating Fund) with the annual budget of the government as approved by the Legislative Assembly. These financial statements also reflect the extent of the Government's compliance with the Balanced Budget, Debt Retirement and Taxpayer Protection Act.

Although very significant, the Consolidated Fund is only one component of the entire government reporting entity. The financial statements of the Consolidated Fund do not reflect the financial magnitude and impact of other programs and

activities that are administered by various crown entities outside the Consolidated Fund.

Readers are reminded to avoid using the financial statements of the Consolidated Fund for assessing the Government's overall financial position and results of operations. My Auditor's Report states:

"These financial statements reflect only the transactions and balances of the Operating Fund and Special Funds of the Province of Manitoba. Other significant financial activities of the Government, which occur outside the Operating Fund and these Special Funds, are not included in these financial statements, and as described in Note 1A to the financial statements, the accounting principles used vary from generally accepted accounting principles. The accounting principles used are consistent with accounting principles used for the annual budget of the Operating Fund. Accordingly, these financial statements should be used primarily for assessing the Government's compliance with the Balanced Budget, Debt Retirement and Taxpayer Protection Act.

Those wishing to understand and assess the Government's management of public financial affairs and resources as a whole should refer to the Province's Summary Financial Statements. The Summary Financial Statements, which are included in Volume 3 of the Public Accounts, have not been released as of the date of this report."

If these financial statements were reported as special purpose financial statements, it would reduce the confusion the public has in assessing the information included in them. It would then be clearer that the purpose of the statements is to demonstrate that the Government has adhered to an Act of the Legislature and not to generally accepted accounting principles. This clarity would be further enhanced by subordinating these

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**FINANCIAL STATEMENTS OF THE CONSOLIDATED FUND (VOLUME 1)**


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statements to the Summary Financial Statements which are intended to disclose the financial results of the Government in accordance with generally accepted accounting principles.

**PENSION LIABILITIES EXCLUDED FROM CONSOLIDATED FUND**

My office issued our first audit qualification for not recording pension liabilities in the financial statements of the Consolidated Fund for the year ended March 31, 1990. Since then, each year we have recommended the Government amend its accounting policy for pension costs and liabilities.

While we prefer that the Government record the entire pension costs in the Consolidated Fund to reflect employee entitlements and unfunded liabilities on a current basis, an acceptable alternative would be to treat Volume 1 as a special purpose financial statement subordinate to the Summary Financial Statements. However, we continue to recommend that the Government work toward recording the entire pension cost and unfunded pension liabilities in Volume 1.

**THE GOVERNMENT'S POSITION**

*Our intent is to subordinate the financial statements for the Consolidated Fund in the Summary Financial Statements. They will be represented as Special Purpose Statements in the Public Accounts.*

*With respect to the pension liability related to the Operating Fund, as announced in our recent budget, we are beginning in 2000/2001 to match the pension contributions for all civil servants and teachers hired on or after April 1, 2000. Furthermore, we will, when possible, make special contributions toward our pension liability.*

**INAPPROPRIATE DISCLOSURE OF INTER-FUND TRANSFERS**

The Combined Statement of Revenue and Expenditure in the financial statements of the Consolidated Fund for the year ended March 31, 1999 discloses three separate inter-fund transfers:

- \* From the Operating Fund to the Fiscal Stabilization Fund - \$31 million
- \* From the Fiscal Stabilization Fund to the Operating Fund - \$186 million
- \* From the Operating Fund to the Debt Retirement Fund - \$150 million

Only the first of these inter-fund transfers is appropriately disclosed. This transfer is properly shown after the surplus for the year has been determined. The other two transfers are disclosed as revenue and expenditure elements of the Operating Fund respectively, and are used to determine the budgetary surplus of the Operating Fund for the year.

Since these transfers do not represent economic activities of the Government with other parties, they should not be disclosed as business transactions.

The "Province of Manitoba Financial Review" also recommended that the Government not characterize as revenue or expenditure transactions inter-fund transfers that do not represent actual economic activities of the Government.

We recommend the Government amend the disclosure of inter-fund transfers, in future financial statements of the Consolidated Fund. Inter-fund transfers should only be shown after the annual budgetary surplus or deficit for the year has been determined.

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**FINANCIAL STATEMENTS OF THE CONSOLIDATED FUND (VOLUME 1)**

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***THE GOVERNMENT'S POSITION***

*We agree with this recommendation and will begin to show inter-fund transfers after the net revenue/expenditure for the year; beginning with the Public Accounts for the 1999/2000 fiscal year.*

A stylized, gold-colored illustration of a muscular figure, possibly a warrior or a personification of strength, holding a torch aloft in its right hand. The figure is rendered in a bold, graphic style with thick outlines and solid gold fills. The torch has a flame that is also stylized and gold. The figure's left arm is bent, and its hand is positioned near its chest. The overall composition is dynamic and heroic.

**Crown Organizations  
& Government Enterprises**

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## CROWN ORGANIZATIONS & GOVERNMENT ENTERPRISES

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### WHO CONDUCTS THE AUDITS

The Provincial Auditor's Office audits many of the crown organizations and government enterprises included in the government reporting entity, and many others are audited by private sector auditors (PSAs) appointed by the Government. Consequently, my staff need to place reliance on the audit work and opinions of the private sector auditors in forming my audit opinion on the Summary Financial Statements. We obtain written representations from the PSAs regarding their independence and compliance with generally accepted auditing standards. We also perform additional auditing procedures, as we consider necessary to fulfil our broader reporting responsibilities to the Legislative Assembly.

Exhibit 4.1 lists those government entities audited by the Office of the Provincial Auditor and those audited by PSAs.

### AUDIT RESERVATIONS - CROWNS AND ENTERPRISES

In 1998/99 there were 83 entities comprising the government reporting entity.

Last year, we recommended the Boards of Directors for the eight entities with qualified opinions take steps to adopt generally accepted accounting principles for 1998/99.

We would like to commend the Boards of Directors of the Communities Economic Development Fund and the Council on Post Secondary Education for amending their accounting policies and receiving unqualified opinions from their auditors for the year ended March 31, 1999. We would like to also commend the Board of Directors of Red River College for amending their accounting policies and receiving an unqualified opinion from their auditor for their year ended June 30, 1999. Finally, we would like

to commend the Board of Directors of the Manitoba Centennial Centre Corporation for committing to amending their accounting policies for the year ending March 31, 2000.

The remaining four entities received qualified opinions for not recording the pension liabilities in 1998/99. The Government has advised us that they will direct these four entities to adopt generally accepted accounting principles and record the pension costs and liabilities for the year ended March 31, 2000.

This step effectively resolves our concerns.

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**CROWN ORGANIZATIONS & GOVERNMENT ENTERPRISES**


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EXHIBIT 4.1

**SUMMARY OF WHO CONDUCTS THE AUDITS**

(PAO – Provincial Auditor’s Office; PSA – private sector auditors)

	<b>Audit Conducted By</b>	
	<b>PAO</b>	<b>PSA</b>
<b>Government Enterprises</b>		
Leaf Rapids Town Properties Ltd.	X	
Manitoba Hazardous Waste Management Corporation	X	
Manitoba Hydro-Electric Board		X
Manitoba Liquor Control Commission		X
Manitoba Lotteries Corporation		X
Manitoba Product Stewardship Corporation		X
Manitoba Public Insurance Corporation		X
Workers Compensation Board		X
<b>Crown Organizations</b>		
Addictions Foundation of Manitoba		X
Assiniboine Community College		X
Brandon University	X	
Centre Culturel Franco-Manitobain	X	
Child and Family Services of Central Manitoba		X
Child and Family Services of Western Manitoba		X
Communities Economic Development Fund		X
Cooperative Loans and Loans Guarantee Board	X	
Cooperative Promotion Board	X	
Council on Post-Secondary Education	X	
Crown Corporations Council		X
Deer Lodge Centre Inc.		X
Economic Innovation and Technology Council	X	
Embalmers and Funeral Directors Act, Board of Administration under the	X	
Government Information Systems Management Organization (Man.) Inc.	X	
Health Information Services of Manitoba (HISM) Corporation	X	
Horse Racing Commission	X	
Insurance Council of Manitoba		X
Keewatin Community College		X
Legal Aid Services Society of Manitoba	X	
Manitoba Adolescent Treatment Centre Inc.		X
Manitoba Agricultural Credit Corporation	X	
Manitoba Arts Council		X

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**CROWN ORGANIZATIONS & GOVERNMENT ENTERPRISES**


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**EXHIBIT 4.1 (CONT'D.)**

	<b>Audit Conducted By</b>	
	<b>PAO</b>	<b>PSA</b>
Manitoba Boxing Commission		X
Manitoba Cancer Treatment and Research Foundation		X
Manitoba Centennial Centre Corporation	X	
Manitoba Community Services Council Inc.		X
Manitoba Crop Insurance Corporation	X	
Manitoba Development Corporation		X
Manitoba Film and Sound Development Corporation		X
Manitoba Foundation	X	
Manitoba Gaming Control Commission		X
Manitoba Habitat Heritage Corporation	X	
Manitoba Health Research Council	X	
Manitoba Health Services Insurance Plan	X	
Manitoba Hospital Capital Financing Authority	X	
Manitoba Housing and Renewal Corporation	X	
Manitoba Trade and Investment Corporation	X	
Manitoba Water Services Board	X	
Public Schools Finance Board	X	
Red River College		X
Rehabilitation Centre for Children, Inc.		X
Special Operating Agencies Financing Authority	X	
University of Manitoba	X	
Venture Manitoba Tours Ltd.		X
Winnipeg Child and Family Services		X
<b>Special Operating Agencies</b>		
Civil Legal Services		X
Companies Office		X
Fire Commissioner, Office of the		X
Fleet Vehicles Agency		X
Food Development Centre		X
Industrial Technology Centre		X
Land Management Services		X
Mail Management Agency		X
Manitoba Education, Research and Learning Information Networks (MERLIN)		X
Manitoba Text Book Bureau	X	
Materials Distribution Agency		X
Organization and Staff Development	X	

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**CROWN ORGANIZATIONS & GOVERNMENT ENTERPRISES**


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**EXHIBIT 4.1 (CONT'D.)**

	<b>Audit Conducted By</b>	
	<b>PAO</b>	<b>PSA</b>
Pineland Forest Nursery		X
The Property Registry		X
The Public Trustee	X	
Vital Statistics Agency		X

**Regional Health Authorities**

(to be included in the summary financial statements for the 1999/2000 fiscal year)

Brandon		X
Burntwood		X
Central		X
Churchill		X
Interlake		X
Marquette		X
Norman		X
North Eastman		X
Parkland		X
South Eastman		X
South Westman		X
Winnipeg Community and Long-Term Care Authority Inc.		X
Winnipeg Hospital Authority, Inc.		X

A stylized, gold-colored illustration of a person's upper body and arms. The person is shown from the chest up, with their right arm raised high, holding a large, jagged lightning bolt. The person's head is tilted back, and their left arm is partially visible, also holding a smaller lightning bolt. The background is plain white.

# **Application Security and Controls Review Summary Report**

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**APPLICATION SECURITY AND CONTROLS REVIEW SUMMARY REPORT**


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**BACKGROUND**

The Government of Manitoba (Government) replaced its legacy computer accounting systems with SAP R/3 version 3.1H (SAP) effective April 1, 1999. SAP is a fully integrated computerized accounting and management information system and functions across multiple departments, agencies, commissions and sites throughout Manitoba. SAP allows for the sharing of common data, so transactions initiated by one business area will have a direct impact on other business areas. The broad and detailed functionality that gives the system its flexibility often results in complex control and security requirements.

My office identified that the complexity of the controls and security requirements of SAP created a new set of challenges to be addressed, as we will need to rely on SAP in the audit of Public Accounts. To this end, we initiated a review of the controls over SAP.

**OBJECTIVE, APPROACH AND SCOPE**

Our objective was to determine if we could rely on the controls over SAP in our audit of Public Accounts. Accordingly, we conducted our review to obtain reasonable assurance the key business processes supported by SAP have an appropriate level of automated and manual controls, operate in a properly secured information system environment, maintain the integrity of information and allow for proper management trails to support recorded transactions.

Specifically, we addressed:

- \* Infrastructure Security

We assessed the design, build and administration of security over the technical infrastructure, including the operating system, database and the network environment.

- \* Application Level Security and Administration and Program Change Controls

We assessed the design, build and administration of security over the SAP application and assessed the security over the process of managing changes.

- \* Process Integrity

Process integrity relates to controls over the procurement, accounting and human resource business processes. The business processes are captured in various modules in SAP. We reviewed controls over the procurement, general ledger, accounts payable, funds management, controlling, asset management, HR organization and administration, time management, applicant administration (Recruitment) and HR payroll modules within SAP.

- \* Data Conversion

We assessed the conversion of information from the old legacy systems to the new SAP system.

Due to the highly specialized and complex nature of SAP, we contracted with specialists in SAP auditing to assist us in conducting our review.

We conducted our review from January to October 1999. The very nature of an implementation review entails reviewing a 'moving target'. Therefore, we provided advice to individual implementation team members in the form of verbal suggestions throughout our audit, since the process of drafting and issuing reports would not be timely enough for the development and configuration process. Furthermore, at the end of each stage of our review, we issued draft control matrices that included controls that were in place as well as detailed suggestions for

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improving controls. In November 1999, we provided Better Methods with a complete set of final control matrices. Better Methods, under the direction of the Government's Chief Information Officer, designed and implemented SAP and continues to provide the ongoing technical support as well as modifications and refinements required.

### SUMMARY CONCLUSION

We determined that generally the controls within the SAP installation are adequate and the initial indication is that we can rely on the controls in SAP in our audit of Public Accounts. However, we identified a number of areas where controls should be improved. We will evaluate the areas during the audit of Public Accounts to ensure that the concerns have been addressed or that there are sufficient compensating controls.

Of the areas we identified where controls should be improved, we believe the following three areas are the most critical.

#### 1. Access to SAP by Departmental Managers

Departmental managers do not have access to SAP. The Government focused their efforts on giving the transaction processors access effective April 1, 1999. They planned to provide departmental managers with access to SAP by September 1, 1999 and delegated management responsibilities to the administrative staff in the interim. However, departmental managers still did not have access to SAP by the end of our review.

The delegation of management tasks to administrative staff may result in a loss of segregation of duties and exposure to fraud. One of the major ways of ensuring the integrity of processing in SAP is to segregate incompatible functions between more than one user. Incompatible business functions can

be thought of as of a combination of activities that provide a single user with the opportunity to commit an error or fraud without detection. In information technology, this is most commonly viewed as the ability to add, delete or change data without the involvement of a second user.

Furthermore, the approval levels delegated to senior managers may be assigned to administrative staff members. Consequently, the delegated authorization levels set by the Government may not be appropriately represented the SAP. Although the departments are required to have the manager's approval documented on paper prior to the administrative staff entering the approval into SAP, the opportunity exists for the administrative staff to incorrectly or fraudulently approve a transaction and not be detected on a timely basis. It is management's responsibility to monitor the processing but this is made difficult if they do not have access to SAP.

Finally, SAP is a management information system. It can provide extensive information to the managers for their use in making informed decisions. If the managers do not have access, use of SAP will not be optimized.

We recommend that departmental managers should be provided with access to SAP and the management tasks removed from administrative staff as soon as possible.

#### COMMENTS OF OFFICIALS

*Until on-line managerial access is available, departments are aware that the onus rests with*

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*them to ensure appropriate off-line, paper-based authorization and control procedures are implemented and monitored. Though not optimal, these procedures, which are not dissimilar to those which preceded SAP, in combination with SAP transaction audit capabilities, are key to ensuring continuous business process integrity.*

*We recognize the importance of providing access to managers. Planning for on-line managerial access is currently underway. To date, effort has been directed to meeting the needs of the transaction processors. As stabilization of Manitoba's SAP environment is achieved, attention and effort will be focussed on familiarization and training of managers regarding the value inherent in "hands-on" use of SAP. This is planned to take place during the year 2000.*

## **2. Critical Standard Reports**

The production and review of critical standard reports had not been established for some processes at the time of our review. Reports are essential for monitoring the operations and security of the system. Without appropriate reports prepared and monitored, incomplete, inaccurate or unauthorized data may not be detected on a timely basis.

We recommend that critical standard reports should be established and used for all processes.

### **COMMENTS OF OFFICIALS**

*Substantial resources have been directed in recent months at report development. High priority reports have been made available to satisfy a*

*variety of demands from a variety of user groups, including Executive and Senior Financial Officers, Human Resource Directors, Civil Service Commission, Finance Department, and Treasury Board Secretariat. Detailed user guides have been prepared and communicated relative to all key reports. Effort continues to be dedicated to additional report development.*

## **3. Business Continuity Plan**

There is no business continuity plan in place for the SAP application. Business continuity plans are necessary to restore critical business activities in the event of a disaster. They specify how alternate facilities and SAP processing capabilities will be provided to continue and restore operations within a planned timeframe. Without a business continuity plan, users may be unable to access SAP.

We recommend that a well thought-out and effective business continuity plan should be developed to minimize the risk of disruptions caused by unforeseen events.

### **COMMENTS OF OFFICIALS**

*The Government's legacy systems were not year 2000 compliant. The primary focus of the SAP implementation plan was on a "go-live" date of April 1, 1999 to ensure readiness for the year 2000. An operational Business Continuity Plan is in the process of being developed.*

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**EXCERPT: PROVINCIAL AUDITOR'S ACT**

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**Examination of accounts**

**12(1)** The Provincial Auditor is the auditor of the accounts of the government including those relating to the Consolidated Fund and as such shall make all examinations and inquiries he considers necessary to enable him to report as required by this Act.

**Audit of other public moneys**

**12(2)** Unless some other provision is made pursuant to a statute in that behalf, the Provincial Auditor is responsible for the examination, checking and auditing, of the receipt and payment of public moneys that are not part of the Consolidated Fund.

Copies of this Report may be obtained by contacting:

Office of the Provincial Auditor  
500 - 330 Portage Avenue  
Winnipeg, Manitoba R3C 0C4  
Telephone: (204) 945-3790  
Fax: (204) 945-2169  
eMail: [shumbert@pao.mb.ca](mailto:shumbert@pao.mb.ca)