



**Auditor General**  
MANITOBA

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Report to the Legislative Assembly

**Public Accounts and  
Other Financial Statement Audits**

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December 2023

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**Auditor General**  
MANITOBA

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December 2023

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

Dear Mr. Speaker:

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

Respectfully submitted,

**Original Signed by:**  
**Tyson Shtykalo**

Tyson Shtykalo, CPA, CA  
Auditor General

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## Auditor General's comments

Each year, my Office audits the Province of Manitoba's Summary Financial Statements (SFS) as part of the Public Accounts audit. We also audit the financial statements of a number of other government-controlled and related entities. This report provides an overview of our 2022/23 financial statement audit work and observations on matters of concern.

This year, the Province was not able to provide sufficient support for the completeness and valuation of its Asset Retirement Obligations, resulting in a qualification of the audit opinion on the SFS. The Province should ensure that sufficient supporting information is obtained in the future to avoid a similar qualification.

During this year's audit of the SFS, we continued to find significant control and accounting deficiencies throughout government departments. We are currently conducting a performance audit looking into the likely causes of these control and accounting deficiencies. Further, I encourage the Province to address the concerns we have brought forward in this report, in previous reports, and in our management letters.

I am concerned about the pervasive lack of audit readiness during this year's audit of the SFS. This resulted in delays in the finalization of our audit of the SFS. I am encouraged that the Province has committed to improving its audit readiness. Going forward the Province will need to take action to improve the planning, timing, and resources allocated to the preparation of the SFS and supporting documents.

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

**Original Signed by:**  
**Tyson Shtykalo**

Tyson Shtykalo, CPA, CA  
Auditor General



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# Introduction

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

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

The GRE includes all funds, organizations, and business enterprises controlled by the government. 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 125 entities within the GRE.

## Public Accounts of the Province of Manitoba

The Province of Manitoba's Public Accounts are prepared annually in accordance with *The Financial Administration Act*, and in 2023 contain:

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

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

- **The Summary Financial Statements**

The Summary Financial Statements are the consolidated financial statements of the Province of Manitoba, sometimes referred to as the Public Accounts. These statements are prepared by the Provincial Comptroller and included in the Public Accounts Annual Report, as required under *The Financial Administration Act*, Section 65(1)(a). These statements are prepared using Public Sector Accounting Standards (PSAS), which are the Canadian accounting standards used by governments and government organizations. The Auditor General is named auditor of these statements under both *The Financial Administration Act* and *The Auditor General Act*. We perform the audit of the Summary Financial Statements and issue an auditor's opinion under Canadian Auditing Standards. The objective

of our audit is to obtain reasonable assurance to provide an opinion as to whether the Summary Financial Statements are free of material misstatements.

- **Information provided under statutory requirement**

Several acts, including *The Financial Administration Act*, require certain information or reports to be included in the Public Accounts. There is no requirement for auditing most of these reports. However, we do perform the audit for 2 supplementary reports, as required by legislation. We perform audits on the Rainy Day Fund Statement of Transfers and Account Balance, and the Statement of Expenditures for Hospital, Medical, and Other Health Services under the Manitoba Health Services Insurance Plan.

## Other financial statements and financial information we audited

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

In 2023, we audited the financial statements of 13 entities. Of these entities, 7 were within the GRE. All other public sector entities within the GRE are audited by external audit firms. Although not part of the GRE, we also audited 4 public sector pension plans, the Public Service Group Insurance Fund, and the Northern Affairs Fund.

An example of other financial information that we audit is public sector compensation reporting. *The Public Sector Compensation Disclosure Act* (the PSCD) requires the Government of Manitoba and all government agencies and public sector bodies to prepare an audited annual disclosure of employees and directors with compensation above a compensation reporting threshold.

The compensation reporting threshold for the year ended March 31, 2023 was \$85,000. This is an increase from the previous threshold of \$75,000. Per the PSCD, the reporting threshold is \$75,000, indexed to inflation every 5 years. This was the first inflationary increase to the threshold since the PSCD was amended June 4, 2018 to require indexing.

## Results of our financial statement audits this year

In this report we discuss the results of our 2022/23 financial statement audits and look ahead to the year to come. This includes discussions of:

- Issues impacting this year's Public Accounts audit (**SECTION 1**).
- The audit opinion on the Summary Financial Statements (**SECTION 2**).
- Control environment weaknesses (**SECTION 3**).
- Considerations for the future (**SECTION 4**).
- The status of our past recommendations (**SECTION 5**).
- Results of our other financial statement audits for 2022/2023 (**SECTION 6**).

### 1 Issues impacting this year's Public Accounts audit

In our December 2022 report, *Public Accounts and other Financial Statement Audits*, we expressed concerns that the Province of Manitoba (the Province) might not meet the legislative deadline of September 30, 2023 to issue the Public Accounts. We noted that without changes to the processes for consolidation and financial statement preparation, and improved controls over financial transactions, the Public Accounts could be delayed. Further, we stated that the adoption of 2 new complex Public Sector Accounting Standards (PSAS) could cause further delays if not planned appropriately.

This year, the Province did meet the legislative deadline, releasing the Public Accounts on September 29, 2023. However, it was a challenge for the financial statements to be prepared and audited by this deadline. The impacts of the Province not being audit ready are summarized in the table below.

As well, our auditor's report contained a qualification related to lack of sufficient audit evidence for the adoption of asset retirement obligations, one of the new accounting standards. We discuss the issues leading to scope limitation in **SECTION 1.3**, and we discuss the impact on our auditor's report in **SECTION 2**.

## Impacts of the Province not being audit-ready

- Increased audit risk requiring more time and resources to audit the financial statements.
  - Additional resources required from our Office, increasing audit costs, reducing resources for other value-added audit work.
  - Impacts timeliness of completion of audit and release of audited financial information.
- Province not able to release the audited Summary Financial Statements on a more timely basis.
  - Timeliness means having information available to users before it loses its capacity to affect the evaluation of the entity's governance, performance, stewardship, and sustainability, or to inform decisions. The less timely the information, the less useful it is for holding the entity and its management to account and for making decisions. (*The Conceptual Framework for Financial Reporting in the Public Sector, CPA Canada, 2023*)
- Less time for management and auditors to work towards improving optional or immaterial disclosures and accounting presentation issues.

In this section, we discuss the following:

- The lack of audit readiness related to the adoption of the new accounting standards (**SECTION 1.1**).
- The adoption of the financial instruments standards (**SECTION 1.2**).
- Asset retirement obligations (**SECTION 1.3**).
- Change in estimates for corporate and personal income taxes (**SECTION 1.4**).
- Suggestions for implementing new accounting policies going forward (**SECTION 1.5**).

### 1.1 Lack of audit readiness

We found that the Province allocated insufficient planning, time, and resources to the preparation of the Summary Financial Statements to ensure audit readiness. During the audit there were delays in the preparation of financial information, and in responding to our audit requests for supporting analysis and documentation. These delays had a significant impact on the timeliness of the completion of the audit. Overall, to ensure the Public Accounts is completed on time going forward, improved planning and preparation, and a coordinated effort by the Office of the Provincial Comptroller (OPC) and the accounting and finance functions within the government departments, is needed.

#### Adoption of new accounting standards

In our December 2022 report, *Public Accounts and Other Financial Statement Audits (RTL)*, we noted our concerns over the need to prepare new information, estimates, and disclosures for the adoption of 2 new standards—asset retirement obligations and financial instruments. Accounting estimates can be an area of significant complexity for both preparation and audit.

## Accounting estimates

In our December 2020 report, *Public Accounts and Other Financial Statement Audits* (RTL), we recommended that the OPC implement a policy for preparing accounting estimates. In 2020/21, the OPC created a policy for preparing estimates and included it in the Province's Financial Administration Manual. However, in the 2020/21 audit, we continued to experience difficulties in obtaining sufficient and appropriate support for estimates. As a result, our December 2021 RTL included a new recommendation that the OPC provide training and oversight to ensure departments comply with documentation requirements to support accounting estimates.

Officials told us that the OPC would address this recommendation by taking the following specific steps:

1. Train the departmental Executive Financial Officer community on documentation requirements to ensure senior leadership understands the requirements and are in a position to lead adoption in their respective departments.
2. Provide additional requirements and year-end instructions to departments regarding the type and level of documentation available. Provide a webinar to financial staff to provide further training support to departments in meeting this requirement.
3. Develop and implement a risk-based approach for OPC senior accountants to assess departmental estimates for their assigned ministries. This would ensure that a consistent methodology will be used for all government entities.

We found that the initial work done by the departments in 2022/23 to implement the new accounting standards was not sufficient to support the estimates.

The OPC provided some estimates training to departmental executive financial officers and senior financial officers. The training included specific guidance on asset retirement obligations; however, given the deficiencies we noted related to these estimates, this training was insufficient to address the risk. Further, we saw no evidence that the OPC developed a risk-based approach to assessing the departmental estimates. The Province engaged an external accounting firm to assist departments with the implementation of Asset Retirement Obligations and Financial Instruments, but as discussed below, the scope of this work was limited and issues were still noted in the estimates.

## 1.2 Adoption of financial instruments standards

Effective April 1, 2022, the Province adopted a suite of Public Sector Accounting Standards (PSAS) related to financial instruments, foreign currency translation, and remeasurement gains and losses. These new standards direct how to account for and report all types of financial instruments in financial statements.

## Financial instruments at a glance

**What are financial instruments?** A financial instrument is any contract that gives rise to financial assets in one entity and financial liabilities or equity instruments in another entity.

**What are examples of financial instruments?** Cash, accounts receivable and payable, investments, and borrowings are some examples of financial instruments, as are options, futures, forwards, and swaps (which are also some examples of derivatives).

**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 (such as with 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.

**When did the accounting standards change?** The Province was required to adopt the standards as of April 1, 2022.

**Why did it change?** Accounting for financial instruments at fair value rather than cost is considered to increase the relevance of the financial statements. The fair value of some instruments, such as derivatives, can fluctuate significantly depending on market conditions. Financial instruments can be used for either risk management (such as the Province's use of derivatives to hedge against foreign currency risk), or speculative purposes. If risks are not carefully managed, there can be a significant financial impact. Accounting for these financial instruments provides transparency to the users about a government's use of financial instruments so they can be held accountable for their management of risk.

**What are the key changes to the financial statements?**

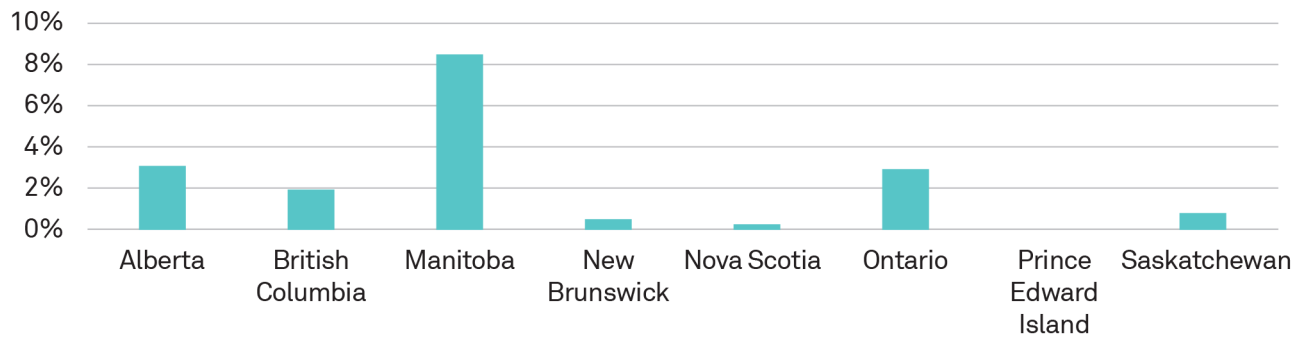
- Some financial instruments (derivatives and equity investments) are now **recorded at fair value**. Fair value is the estimated price to buy or sell an instrument in the market.
- **Derivatives are now recorded on the statement of financial position**. In previous years, fair value of derivatives was only disclosed in the notes to the financial statements.
- Financial instruments denominated in foreign currencies must be **translated to Canadian dollars using the year-end foreign exchange rate**.
- There is a new statement called the **Statement of Remeasurement Gains and Losses**. The fair value of financial instruments is measured each year. Changes to the fair value are recorded on the Statement of Remeasurement Gains and Losses until they are actually realized. This reduces volatility from unrealized gains or losses on the Statement of Revenue and Expense.
- The **accumulated surplus or deficit** now includes the sum of both the accumulated operating deficit or surplus and accumulated remeasurement gains or losses.
- There are **increased disclosure requirements**, such as risks arising from the financial instruments.

The Province uses derivatives to hedge foreign exchange and interest rate risks. For example, to reduce the foreign exchange risk related to borrowings originally denominated in USD, the Province will enter into a legal agreement to exchange USD cash flows to CAD at a pre-determined fixed rate that is defined in the agreement.

Upon adoption of the new financial instrument standard, the Province had to begin recording an estimate for derivatives on the Statement of Financial Position for the first time. The balances for derivatives in Manitoba's Summary Financial Statements at March 31, 2023 were \$2 billion in derivative assets and \$2.8 billion in derivative liabilities.

All provincial governments have adopted this new standard. We noted the fair value of derivatives reported in Manitoba is significantly higher relative to its borrowings than most other provinces as shown in **FIGURE 1**. The Province's derivative usage is primarily driven by managing risks of cash flows related to borrowings.

**Figure 1 – Gross fair value of derivatives as % of borrowings**



The information in **FIGURE 1** is compiled from financial statements of provinces which had released their public accounts at the time we prepared this report.

## Challenges in auditing financial instruments

### Errors noted

The financial instrument standards can be quite complex, which creates increased risk of errors especially when adopting them for the first time. We found several errors related to financial instruments during our audit. Management corrected all material errors that we identified; however, addressing these errors caused delays which impacted the timely completion of the audit.

### Audit readiness

The Province hired an external consultant to help implement the financial instruments standards. The consultant's report provided the Province with guidance on steps to be taken. We noted several issues with the scope of the advice requested by the Province and the implementation and application of the advice received.

**Scope of consultant's contract too narrow:** The Province must account for the consolidation of all investments, debt, and derivatives of the Government Reporting Entity, including those held by other government entities such as universities and health authorities. The consultant's advice only covered the financial instruments held directly by the Department of Finance. During the audit, we found a number of errors and omissions related to the OPC's consolidation of the other government entities' financial instruments, and corrections were being made right up to the date of the auditor's report.

**Implementation of consultant's advice not timely:** The consultant's report included a summary of the implementation activities required, and timelines to ensure audit readiness. The timelines included key dates where information, policies, and disclosures should be provided to our Office for our review. In many cases, we did not receive this information until 6 months or more past the target date. The lack of timely preparation, and lack of management review of financial information, contributed to the number of errors and impacted the timeliness of the audit completion.

### Derivative valuation model

The calculation of derivative fair values is complex because it requires a valuation of uncertain future cash flows. The Province uses valuation software integrated with Microsoft Excel to calculate fair value based on manual data inputs.

We found the manual process used to update the Province's valuations—which uses over 900 separate spreadsheets—created significant operational risk. As a result, we found a number of errors in the valuation process.

For fiscal year ending March 31, 2024, the Treasury Division is transitioning to a more robust derivative modelling software which has features that may address issues found in the current valuation process.

### Areas for improvement

**Missing disclosures** - We noted some areas where the financial instruments presentation and disclosures in the financial statements were not fully compliant with the requirements of the standard. For example, PSAS requires a robust discussion of each type of risk. Note 12 of the Province's Summary Financial Statements contains descriptions of the risks; however, it does not disclose all information outlined by PSAS. While we do not consider these to be material deficiencies, they are areas for the Province to improve on for the March 31, 2024 Summary Financial Statements, to provide better information to users.

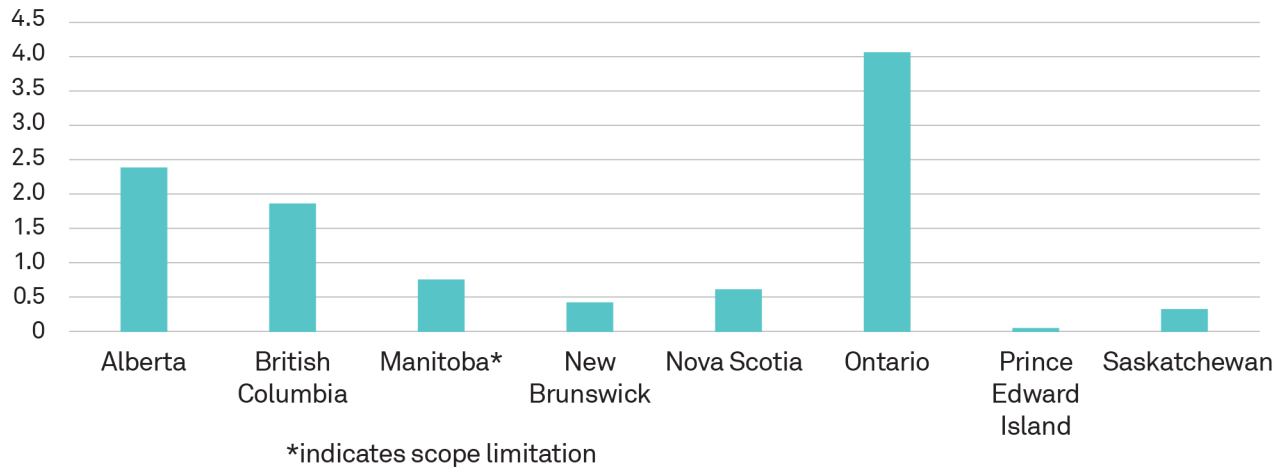
**Realized gains and losses** - PSAS require the Province to present separately the realized gains and losses from the unrealized gains and losses on the Statement of Remeasurement Gains and Losses. However, the Province did not present these separately and instead presented only the net gain and loss.



### 1.3 Asset retirement obligations

During our 2023 audit, we issued a qualified opinion in our auditor's report (**SEE SECTION 2**) related to a scope limitation on auditing the asset retirement obligations. The Province was required to adopt a new Public Sector Accounting Standard (PSAS) related to asset retirement obligations (AROs) 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.

**Figure 2 – ARO balances across Canada (in \$billions)**



The information in **FIGURE 2** is compiled from financial statements of provinces which had released their public accounts, at the time we prepared this report.

#### Challenges in auditing AROs

Throughout the 2023 year-end audit, we faced multiple challenges in auditing the ARO balance. Two significant issues were auditing the valuation and completeness of information related to AROs which led to our qualified audit opinion.

#### Pricing issues in core government

Pricing of remediation activities is a key component to the valuation. We found an inconsistent pricing methodology across the core government departments. There was insufficient information sharing and coordination between the departments. At the audit report date, some departments still had not sufficiently supported their pricing estimates.

#### Delays in preparation of estimates and support

ARO information was not prepared on a timely basis. We had previously advised the Province to prepare initial balances early to avoid delays. The Province set deadlines for this information too late for an early and timely preparation of the ARO balances, and despite this most entities did not even meet these deadlines. Similar to the issues noted in the adoption of financial instruments discussed above, this

impacted our ability to complete the audit work, in this case resulting in a modified audit opinion due to a scope limitation.

### What is an ARO?

AROs are a liability to account for the legally required future costs of remediation related to capital asset use. An ARO 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. These obligations can be significant. For the year-ended March 31, 2023, the Province recorded an asset retirement obligation of \$757 million (unaudited). See the figure below for a snapshot of AROs across the country.

**Asbestos:** An example of an ARO is the removal of asbestos in the Province's buildings. This is the most significant component of the Province's AROs. If left undisturbed, asbestos does not pose a health risk. However, as buildings are renovated or removed from service, any asbestos will need to be remediated, meeting strict regulatory requirements. Under the new ARO accounting standard, the Province had to estimate the cost for the removal of asbestos and record it as an ARO.

ARO costs include:

- Decommissioning.
- Remediation of contamination.
- Post-retirement activities, such as monitoring for contaminants.
- Constructing other tangible capital assets to perform post-retirement activities.

### Preparing ARO estimates for other reporting entities

The Summary Financial Statements consolidate all the controlled government reporting entities, including school divisions, universities, health authorities, and personal care homes. There were 2 areas where AROs had not been adopted by other reporting entities at March 31, 2023 – school divisions and personal care homes. Because the school divisions have a June 30 year-end rather than March 31, they were not required to prepare audited financial statements, including the AROs, in time for inclusion in the Public Accounts. This timing issue related to school divisions was recognized by the Office of the Provincial Comptroller (OPC), which directed the school divisions to prepare audited ARO estimates at an earlier date. However, not all of the 38 school divisions completed these estimates as directed by the OPC.

Not all personal care homes follow PSAS and therefore not all adopted this ARO accounting standard. Some follow different accounting standards which may have an ARO standard, but it is different from the PSAS standard and many of the personal care homes did not record an ARO. Without a consistent process for recognizing and estimating AROs, the Province was not able to provide sufficient support for the completeness and valuation of this balance.

## Communication to other reporting entities

The Province sent memos to communicate to the departments and other reporting entities providing guidance on some key assumptions. We found that this communication was not always effective as noted by the issues we discussed above. Some examples of communication issues included:

- **Pricing** – Information on pricing was provided to other reporting entities; however, it included incorrect prices. This memo was later rescinded and the entities were told they were to support their own pricing.
- **Legal opinion on asbestos** - The OPC obtained an opinion on the timing of asbestos legal remediation requirements in Manitoba. This opinion came quite late resulting in delays in the ARO estimates.
- **Discount rates** – The Province provided communication on discount rates to the reporting entities. However, the guidance was not consistent with PSAS requirements which created confusion and inconsistencies between reporting entities.

## Areas for improvement

Since completing the audit, we have been in discussions with the OPC who are working toward improving the financial reporting and support for AROs.

We will issue a management letter with additional recommendations to assist the Province in improving the ARO accounting process.

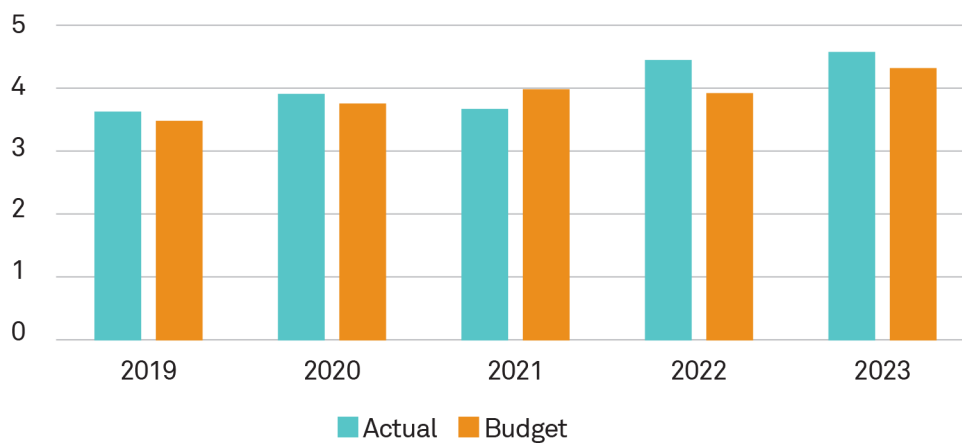
## 1.4 Change in estimate: corporate and personal income taxes

### Change in estimation process for income taxes

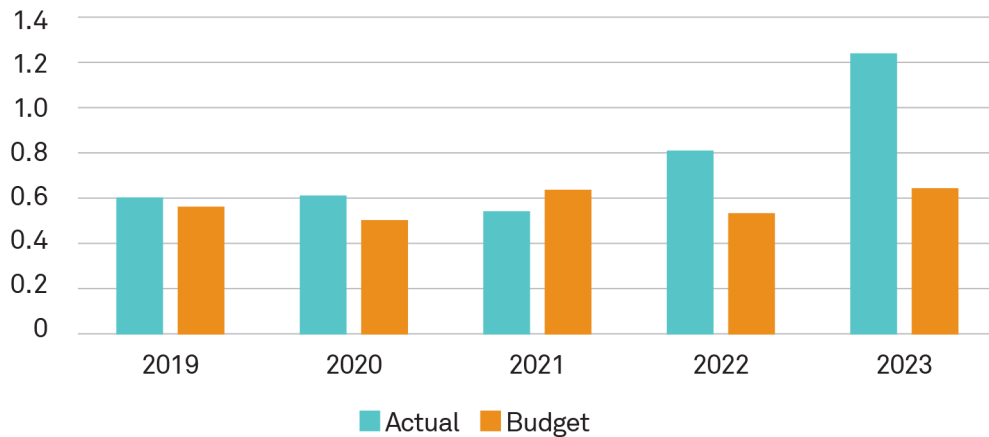
A significant portion of the Province's revenue comes from income taxes. Budgeted and actual income taxes recorded in the Summary Financial Statements over the past 5 years are provided in

FIGURES 3 AND 4.

Figure 3 – Personal income tax revenue – actual vs. budget (in \$billions)



**Figure 4 – Corporate income tax revenue – actual vs. budget (in \$billions)**



Income taxes can vary significantly from budget due to the uncertainty related to the economic and population level impacts. Corporate income taxes tend to be more challenging to forecast than personal income taxes, resulting in larger changes from budget to actual as illustrated in **FIGURES 3 AND 4**.

Income taxes were higher than budgeted in 2022/23 by \$836 million (\$242 million personal income tax and \$594 million corporate income tax). The Province indicated in its Annual Report that the higher than expected tax revenue was boosted by economic growth and a strong labour market.

The Province changed its estimation methodology this year. We reviewed the income tax revenue estimates, including the methodology change, as part of our audit work.

### **Accounting estimates – measurement uncertainty and complexity increase risk**

Accounting estimates are required when preparing financial statements. This is because the exact amounts related to certain revenues, expenses, assets, and liabilities are not always known at the time they need to be reported. Estimates vary in levels of complexity and measurement uncertainty. Those that are more complex and more uncertain are considered higher risk amounts for audit.

Income taxes are an estimate with high complexity and high measurement uncertainty. This is because tax returns are not filed by corporations and individuals until after a taxation period has ended. Further, tax returns are not reviewed and finalized by the Canada Revenue Agency until 14 months after the tax year-end. The timing of the taxation process is shown in **FIGURE 5**. The Province must consider a number of factors, including economic and population data, when developing its income tax estimates.

**Figure 5 – Timing of personal income tax cycle**

2022												2023												2024	
January	February	March	April	May	June	July	August	September	October	November	December	January	February	March	April	May	June	July	August	September	October	November	December	January	February
2022 tax year																								Finalization of 2022 tax	
												2022 returns filed													

**Our audit approach to estimates**

We follow Canadian Auditing Standards, which recognize that accounting estimates are often an area of higher audit risk. As such, there is a standard specifically addressing auditing accounting estimates and related disclosures. The standard requires us to gain an understanding of the processes and controls surrounding identifying and developing estimates and develop an audit approach based on our risk assessment. For the audit of income taxes our approach includes testing how management made the accounting estimate.

**Manitoba's income tax estimates**

In 2023, the Province changed its method of estimating income tax revenues. In prior years, taxation revenues were based on estimates made by the Government of Canada using statistical models. The new estimate is made by Manitoba Finance using its own statistical models. Manitoba's method is further disclosed in the accounting policy note included in the notes to the financial statements:

*Personal Income Tax (PIT) and Corporation Income Tax (CIT) revenue for the period is accrued based on an estimate of current year tax assessments, plus late-arriving assessments and reassessments for the 2022 tax year, prorated from the Federal Department of Finance's Tax Sharing Statements and an estimate for the 2023 tax year based on Manitoba Finance's economic forecasts.*

Our audit approach has not changed—we are still testing how management made the accounting estimate, but the nature and extent of our work has changed based on the new methodology.

Our specific audit work was documented in our Key Audit Matter discussion of corporate and personal income tax revenues in our auditor's report (see **APPENDIX A** for the full reproduction).

Based on our audit work, we did not identify any material misstatements in the audited Summary Financial Statements relating to personal and corporate income taxes.

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## Impact of a change in estimate method on the financial statements

In the 2023 Annual Report, the Province discussed the change in estimation methodology and noted:

*“In early 2023, Finance implemented a change in estimation methodology for personal and corporate tax revenues. This was the result of the work Finance commissioned with Deloitte Canada in 2022 and takes into account the Manitoba specific economic data to forecast personal income taxes (PIT) and corporate income taxes (CIT). This change resulted in a one-time revenue adjustment that must be made in the current year under the accounting standard, increasing the revenues for 2022/23.”*

The discussion above refers to a one-time revenue adjustment. However, it is important to note that adjustments to prior year income tax estimates will be made each year, as more information on those tax years becomes available. Changes and adjustments such as this will continue to occur each year even under the new forecasting model. The size of adjustments going forward will depend on the accuracy of the model.

## Impact of adopting new estimate methodology on audit readiness

We found several issues during our audit of the income taxes this year. The new forecasts were prepared by economists in the Department of Finance. Then accounting adjustments were prepared by the Office of the Provincial Comptroller (OPC) to record the tax revenue in the Summary Financial Statements. We found several errors in the accounting adjustments initially recorded that needed to be corrected by the OPC.

## 1.5 Suggestions for implementing new accounting policies going forward

We identified some areas where the Office of the Provincial Comptroller can learn from the current year adoption challenges and make improvements to the processes for implementing new accounting policies.

- A centralized working group within the core departments would allow for greater information sharing leading to more timely and accurate information. This could also help to ensure departments are more consistently communicating with their controlled reporting entities.
- Clearly defining the needs for external accounting consultants and auditors prior to hiring them.
  - For instance, to reduce the issues experienced, the scope of the consulting on the financial instruments could have been expanded to include the consolidation impacts.
  - In the case of Asset Retirement Obligations (AROs), there was not clear and consistent communication to the external auditors of school divisions on the audit scope and timing needs. Going forward, if similar special engagements are required, the expectations and timelines should be well defined.
- Preparing draft pro forma financial statements and accompanying note disclosures early would allow for time for review and subsequent amendments of required disclosures. It would also ensure all information required for new note disclosures is being collected.

## 2 Understanding the audit opinion

At the end of every financial statement audit, an auditor issues an opinion on whether the financial statements are presented fairly. The standard audit opinion is typically unqualified and states that in the auditor's opinion, the financial statements present fairly in all material respects the financial position and results of the entity being audited in accordance Generally Accepted Accounting Principles (GAAP).

Financial statements prepared in accordance with Public Sector Accounting Standards (PSAS) provide the Legislative Assembly with meaningful, comparable, and consistent financial information. The audit opinion is based on a rigorous evidence-based process, conducted by experienced designated accountants. We adhere strictly to Canadian Auditing Standards developed by the Chartered Professional Accountants of Canada.

This year's opinion was qualified because of insufficient support for asset retirement obligations. We discussed the issues leading to this outcome in **SECTION 1**.

This year, we also discussed Key Audit Matters in our auditor's report for the first time. Key Audit Matters are those matters that, in our professional judgment, were of most significance in the audit of the Summary Financial Statements of the current period. Discussion of Key Audit Matters is a new requirement in Canada this year for publicly listed entities. This requirement applies to the Province because of their debt issuances and related filings.

See **APPENDIX A** for our Auditor's Report which includes our basis of qualified opinion and Key Audit Matters.

### What is a qualified opinion?

An audit opinion is the single most important communication an auditor can have with the users of financial statements. A qualified opinion signals for users where they need to be cautious when relying on the financial statements the opinion is attached to. Qualified opinions should be a rare occurrence.

There are 2 types of qualified opinions:

**Scope Limitation:** A scope limitation is when an auditor is unable to obtain sufficient appropriate audit evidence for a material area of the financial statements. The auditor's report will explain the reasons for the limitation. Our qualification for AROs this year was a scope limitation.

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

## 3 Control environment weaknesses

For the past several years, we have encountered a large number of errors and control deficiencies during our audits of the Summary Financial Statements. During the course of the audit this year, we brought over 100 errors to the attention of the Office of the Provincial Comptroller (OPC) to be corrected. We communicated many of the issues in past management letters and in our annual *Report to the Legislative Assembly - Public Accounts and Other Financial Statement Audits (RTL)*.

### Management letters

Every year after our audit, we provide the OPC with a management letter which includes internal control deficiencies noted during the audit. The letter includes recommendations to both OPC and departments.

In our past 4 audits our management letters included 50 recommendations to OPC and various departments. We follow up on the implementation of our recommendations annually. We note that over the last 4 audits only 14 of the 50 recommendations were considered implemented or resolved.

### Report to the Legislative Assembly - Public Accounts and Other Financial Statement Audits (RTL)

In previous RTLs, we made recommendations for improvements and we follow up on them annually (see **SECTION 5** – Follow up on the status of past recommendations).

In the December 2022 RTL, we reported issues related to 3 areas:

- Controls over purchases and expenses.
- Accounting processes—estimates, accruals, and reconciliations.
- Control environment weaknesses.

In the 2022 report, we highlighted 9 recommendations we made in our 2022 management letter. When we followed up on the status of these recommendations during this year's audit, only 1 of the 9 recommendations was fully implemented. Due to the significant deficiencies we found in the accounting processes, policies, and controls we also initiated a performance audit. The performance audit is currently in progress, looking into the likely causes of control and accounting process deficiencies identified during the audits of the Public Accounts.



## Control environment

During this year's audit we found new issues related to the 3 areas reported in last year's RTL. The recurring and pervasive nature of these issues indicate that management's **control environment** does not provide an appropriate foundation for effective implementation and execution of internal controls. The lack of a sound control environment means that there is an increased risk of material misstatements, as well as a higher risk of fraud.

Each year as part of our audit planning, we gain an understanding of the Province's control environment. We look at many components of the control environment including the risk assessment process and internal audit function (see **SECTIONS 3.1** and **3.2** for a discussion of internal audit and risk management).

### 3.1 Internal audit

An effective internal audit function is an essential component of a sound control environment. Internal audit functions exist to evaluate and improve the effectiveness of governance, risk management, and internal control processes. Formal communication from internal audit should provide information on issues found, and include recommendations to improve administrative policies, processes, and controls.

The Province's Internal Audit (IA) division is responsible for the internal audit of the core government departments. Other reporting entities may have their own internal audit functions.

*The Financial Administration Act* (FAA) establishes the Province's internal audit function. On October 14, 2021, the FAA was amended to grant Treasury Board the authority to establish an audit committee to oversee the internal audit system for the Government Reporting Entity, which includes the core government. The terms of reference for the new Treasury Board Audit Committee (TBAC) were established on November 29, 2022.

In our assessment of the Province's control environment during the audit of the Summary Financial Statements, we noted several areas where the internal audit function could be improved, thereby strengthening the Province's control environment. Specifically, we found:

- The Treasury Board Audit Committee governance model requires improvement (**SECTION 3.1.1**).
- Internal Audit in core government did not fully comply with its charter (**SECTION 3.1.2**).
- Control deficiencies we identified were not considered in Internal Audit's plan (**SECTION 3.1.3**).
- Internal Audit is not regularly reviewing departmental internal controls (**SECTION 3.1.4**).

As defined in the CPA Canada Assurance Handbook, a **control environment** "includes the governance and management functions and the attitudes, awareness and actions of those charged with governance and management concerning the entity's internal control and its importance in the entity".

**Internal Audit budgeted staff level:** 15 employees

**Internal Audit employees 2020-2023:** between 3-5 employees

### 3.1.1 Treasury Board Audit Committee governance model requires improvement

The Treasury Board Audit Committee (TBAC) reports to Treasury Board and has oversight of:

- The Province's Internal Audit (IA).
- Board audit committees and internal audit divisions for the Province's other reporting entities.

The TBAC must meet at least quarterly, and is chaired by the Clerk of Executive Council. There are 4 additional members (2 deputy ministers and 2 members appointed by Treasury Board, based on the recommendation of the Clerk of Executive Council). The TBAC terms of reference require the deputy ministers to be selected from different sectors of provincial responsibility, and to have financial, risk management, and policy skills expertise.

**Independent:** not having a direct or indirect material relationship with the company

*Ontario Securities Exchange*

Leading practices require an audit committee to be **independent**.

- As the Clerk of Executive Council and the 2 deputy ministers discharge management and executive responsibilities, currently 3 of the 5 committee members are not independent.
- For the committee to be independent, a majority of the members should not be involved in the day-to-day management activities of the Province.

Sufficient expertise is necessary for the TBAC to provide proper oversight over the IA function as well as internal audit in the Government Reporting Entity. An example of core competencies can be found in Alberta's Internal Audit Committee Charter as shown below.

#### Internal Audit Committee qualifications

*"The members should collectively possess sufficient knowledge of information technology systems and controls; risk identification, evaluation, and management; the roles of internal and external audit; the application of accounting auditing and assurance standards; public sector reporting requirements including financial and performance reporting; and internal control, compliance activities and fraud control. Members' competencies and the overall balance of skills on the committee should be periodically evaluated to respond to emerging needs. At least one of the members must be knowledgeable about audit practices, have accounting or related financial management experience and/or qualifications, and a comprehensive understanding of accounting and auditing standards."*

*Source: Government of Alberta Internal Audit Committee Charter*



## Recommendation 1

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

- a. Membership to have sufficient knowledge of auditing standards, internal controls, compliance activities and fraud control.
- b. The majority of its members to be independent.

### 3.1.2 Internal audit in core government did not fully comply with its charter

An internal audit charter outlines the internal audit function's purpose, authority, and responsibilities. IA's Charter was revised in November 2022 following the amendment to the FAA to introduce the TBAC. It now states that the Executive Director, Internal Audit is the core government's Chief Audit Executive and reports functionally to the TBAC.

IA's charter defines its position in government and provides the authority to carry out its duties. IA's charter states it is required to:

- Support departments and executive management in the effective discharge of their responsibilities by providing analyses and recommendations to improve the effectiveness of governance, risk management, and internal controls.
- Follow the Institute of Internal Auditors' mandatory guidance including the *International Standards for the Professional Practice of Internal Auditing* (IIA Standards).
- Develop audit plans using a risk-based approach with input from senior management.
- Receive requests from management and audit committees to conduct specific work.

IA did not fully comply with its charter as it did not comply with IIA standards as discussed below.

#### Internal Audit plans did not comply with IIA Standards

IIA Standards require the Chief Audit Executive to prepare an annual plan. This plan must be based on a documented risk assessment and consider the input of senior management, the board, and key stakeholders to obtain an understanding of the organization's strategies, key objectives, associated risks and risk management processes.

Our planning for the audit of the Summary Financial Statements includes a review of IA's annual plan. In reviewing the plans for fiscal years ended March 31, 2020 to 2023, we found that IA's plans were not comprehensive, and were instead a listing of projects.

The IA plans did not:

- Provide information on what the Province's most concerning issues are and how IA will provide assurance that significant risks are being mitigated effectively.
- Provide enough information for individual's approving the plan to understand how projects selected for audit make the best use of limited resources.
  - There is no information on the process used to perform the risk assessment and how projects were selected.
  - There is no information on the tentative audit objective, period covered, and resource allocation for projects listed. The IIA Guide includes this type of information as a leading practice as it helps the reader understand what IA will be assessing in its audits.

Leading practices in the Global IIA's *Practice Guide on Developing a Risk Based Internal Plan* (IIA Guide) indicate that:

*"...internal auditors start with their understanding of how the organization views and categorizes its activities, risk and controls, and how it obtains assurance over its risk management and control processes".*

IA did not produce comprehensive risk assessments. Based on leading practices, IA should have followed a process resembling the one outlined below.

Leading practices for risk assessment per IIA guide
<p>1. To obtain an understanding of the organization's risk assessment, where Enterprise Risk Management (ERM) has been implemented, internal auditors use its comprehensive risk register as a source of information in preparing its annual plan.</p> <p>Manitoba does not conduct ERM, therefore the guide states IA should gather risk related information to prepare its risk assessment (SEE SECTION 3.2).</p>
<p>2. Risks accumulated in step 1 may be large, and risks may be grouped by characteristics, for example:</p> <ul style="list-style-type: none"><li>• Impact on objectives</li><li>• Dollar value</li><li>• Complexity</li><li>• Number of transactions</li><li>• Susceptibility to fraud</li><li>• Known deficiencies</li><li>• Amount of time since last review or audit</li></ul>
<p>3. Risks should be measured. Two common measures of risk are likelihood and impact.</p>
<p>4. Risks should be ranked.</p>
<p>5. In selecting engagements for its plan, the Chief Audit Executive should consider which engagements would have the most value to the organization.</p>

Source: *Global IIA's Practice Guide on Developing a Risk Based Internal Plan*

We reviewed IA's audit reports from April 1, 2020 to March 31, 2023 and found that 6 reports were completed during the period. In reviewing the 6 reports, we noted 4 were prepared leveraging work and related reports by a public accounting firm under contract to audit these areas. All of the audits were requested by the departments.

In order for IA to contribute to the Province's effective governance, risk management, internal control processes and improved operations, it is important for IA to select audits based on its own risk assessment. Relying solely on management requests to develop an audit plan provides an opportunity for departments to avoid the IA process all together.



## Recommendation 2

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

### 3.1.3 Control deficiencies we identified not considered in Internal Audit's plan

Each year, after our audit of the Summary Financial Statements, we issue a management letter related to deficiencies that we identify during our audit that are of sufficient importance to report to those charged with governance. In **SECTION 3**, we discuss the number of recommendations in our past 4 audits. We also issue an annual *Report to the Legislative Assembly - Public Accounts and Other Financial Statement Audits (RTL)* that highlights issues found during our audit of the Summary Financial Statements. Risks identified in our management letters and RTL can be used by IA to inform its risk-based planning. By not including issues raised in our management letters and RTL in a risk-based audit plan, IA is missing a key opportunity to target areas of higher risk that have a direct impact on the preparation of the Summary Financial Statements.



## Recommendation 3

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

### 3.1.4 Internal Audit not regularly reviewing departmental internal controls

Annually, each department's Executive Financial Officer (EFO) and Deputy Minister are required to provide a management representation letter to the Provincial Comptroller related to the annual audit of the Province's Summary Financial Statements. Included in this letter are attestations to:

- The responsibility for the design and implementation of departmental internal controls.
- The department is following the controls systems indicated in its Comptrollership Plan.
- The completeness of departmental financial information.
- Compliance with the Province's accounting policies.
- The provision of all required information relevant to the preparation of the financial statements.

IA has not done audits to verify the attestations made by the departmental Deputy Ministers and Executive Financial Officers to the Provincial Comptroller.

The management representation letter is a key accountability document for the Provincial Comptroller and is provided to us as part of our audit of the Summary Financial Statements. Given the increasing number of control deficiencies we found and reported, there is evidence that the work done by departments to support their attestations is inadequate. IA performing work on the attestation process could lead to recommendations and improvements, while providing assurance to the Provincial Comptroller on controls and financial reporting processes in departments.

## 3.2 Risk management

Risk management is intended to identify and manage potential events, both harmful and beneficial, that may affect the achievement of an organization's long- and short-term goals. As such, risk management is a key component of a sound control environment. Failure to effectively manage risks can result in reduced organizational effectiveness, and poor financial performance.

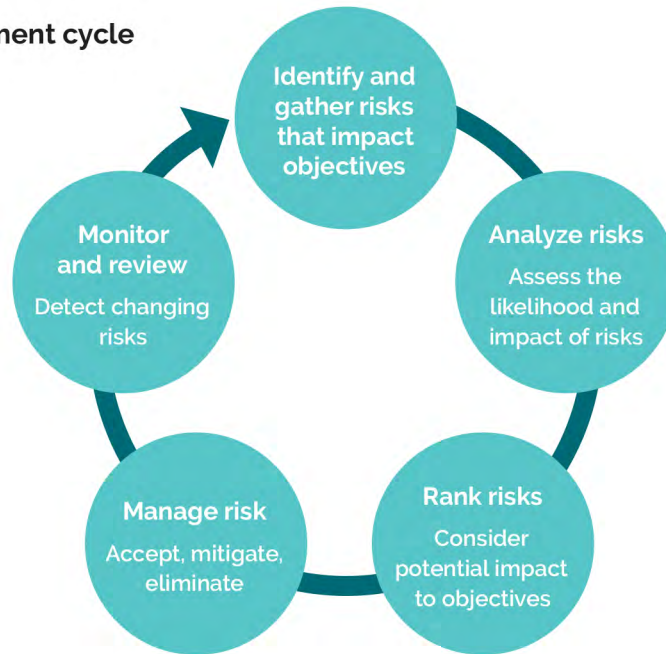
Canadian Auditing Standards require us, as part of our audit planning procedures, to obtain an understanding of the Province's risk assessment process relevant to the preparation of the financial statements.

We found there is some coordinated risk management being performed by the Province, but it is limited in scope. The Insurance and Risk Management Branch focuses on insurance risks, and the Office of the Provincial Comptroller has processes in place related to its Fraud Prevention and Reporting Policy (**SEE EXHIBIT 1**). Other than these 2 central processes, risk management is determined at a departmental level. There is no centralized risk register or coordinated documented approach to risk management by the Province.

As a large, complex organization providing many services across multiple departments, the Province requires a coordinated approach to risk management. To address the need for a government-wide risk management process, some Canadian jurisdictions have adopted Enterprise Risk Management (ERM).

An ERM process is a proactive integrated approach within and across functions. This process includes monitoring and ranking existing and emerging risks by likelihood and magnitude. Information generated by this process is provided to decision makers so that they can focus on managing risks that have the biggest impact to the organization. Managing risk within pre-determined risk parameters helps the Province respond to change and uncertainty by using risk-based information as a key input into decision making. This is helpful in the management of provincial policies and programs, including planning and resource allocation.

**Figure 6 – Risk management cycle**



ERM is an internationally recognized discipline. Two leading organizations that have issued risk management guidelines are the Committee of Sponsoring Organizations (COSO) and the International Organization for Standardization (ISO). At the federal government level, Treasury Board of Canada published its ERM framework in 2010. The Province has not implemented an ERM framework.

By using a standardized approach across government, ERM could provide management:

- Information on when achievement of goals is at risk.
- Which specific risks are impacting those goals.
- What the likelihood and magnitude of the risks are.
- What actions are required to manage risks.



#### Recommendation 4

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

## Exhibit 1 – Fraud risk management

### Province of Manitoba's Fraud Prevention and Reporting Policy

#### Background

Governments and government organizations have a duty to the public to ensure that reasonable steps are taken to protect assets from fraudulent activity. With fraud schemes becoming more sophisticated, it is important for all organizations to understand the fraud risks that apply directly to them.

The Province of Manitoba's Financial Administration Manual includes a Fraud Prevention and Reporting Policy (the Policy). The Policy states that there is zero tolerance for fraud in any form. Chief Executives, defined as Deputy Ministers for departments or Chief Financial Officers (CFOs) for other reporting entities, are charged with ensuring a system of internal controls for detection and prevention of fraud is implemented and maintained.

The Policy also states that departmental Executive Financial Officers (EFOs) and CFOs in other reporting entities are responsible for:

1. Comptrollership, establishing, maintaining, and ensuring compliance with the policy on financial management and administration, and control systems within their department/organization.
2. Implementing the fraud prevention and investigation requirements under Manitoba's Comptrollership Framework.
3. Documenting the types and occurrences of fraud on a regular basis and documenting fraud risk in their departmental operations and programs.
4. Assessing fraud risk to ensure all types of potential frauds and all existing controls and possible corrective actions are considered and operationalized.

Based on the above, all government organizations should have the following:

- Fraud risk assessment including:
  - Identification of fraud risks.
  - Assessment of likelihood and significance of fraud risks.
- Controls and processes to address fraud risks, including:
  - Identification of preventative and detective controls mapped to identified risks.
  - Evaluation of identified controls to ensure that they are operating effectively.
  - Identification of residual fraud risk (the risk remaining after attempts to mitigate fraud risk).
  - Responses to identified residual risks.



- Internal investigation activities including reporting to management and corrective actions, including:
  - Systems to promptly and confidentially review, investigate and resolve instances of potential fraud.
  - Reporting all frauds to the Provincial Comptroller and Insurance and Risk Management.

## Findings

In 2021, we commenced a fraud risk management audit. We will be communicating specific findings to key stakeholders. Below are some key findings from that audit.

We examined the Fraud Risk Management in place at 8 government organizations including departments, Crown corporations, and other reporting entities over the 5-year period ending March 31, 2021.

Most of the organizations that we selected for examination were deficient in using an assessment approach to identify fraud risks and mitigating actions, which puts the public assets they are responsible for at risk. Additionally, most of the organizations we selected have not evaluated whether the controls they have in place to mitigate fraud risk are operating effectively.

Some of our findings included:

- Manitoba Public Insurance did not have an updated fraud risk assessment. The document we received was dated 2013 and focused on physical damage and personal injury claims, which are the areas of highest fraud risk at MPI. We reviewed several audits performed at MPI on different business areas.  
A common finding was that no formal fraud assessments were done.
- The Fraud Prevention and Reporting Policy requires government organizations to report all confirmed, alleged, or suspected fraud to the Provincial Comptroller annually. These Annual Fraud Summary Reports should include all confirmed, alleged, or suspected frauds. We found that most frauds occurring in government organizations were not reported to the Provincial Comptroller. Examples include:
  - The Department of Families reported \$33,563 in fraud over a 5-year period on its Annual Fraud Summaries. No fraud amounts related to Income and Employment Assistance (EIA) were noted on these forms. When we asked for total EIA frauds over the same period we were provided a listing totaling over \$2 million.
  - This was because, until the 2022 fiscal year, the reporting mechanism only included fraud and theft committed by employees, rather than all fraud and theft.

In 2021/22, we notified the Provincial Comptroller of our 2 findings above. This resulted in a change to the Annual Fraud Summary Report to emphasize that all frauds are to be reported.

### Key considerations

Entities should prepare a documented fraud risk assessment, tailored to the size and complexity of the organization. Based on this fraud risk assessment, controls and activities should be in place to address identified risks.

The Office of the Provincial Comptroller should provide oversight and follow-up procedures over Fraud Risk Assessment and Reporting for the Government Reporting Entity.

## 4 Considerations for the future

### Audit readiness in the future

We continue to identify deficiencies each year in financial reporting controls and in the financial statement preparation process. We have noted concerns related to the Province's ability to prepare financial statements in time to meet the financial reporting deadline for several years. For the last 2 years, the audited financial statements were released the last business day before the deadline. To address these issues, our last 3 annual *Reports to the Legislative Assembly - Public Accounts and Other Financial Statement Audits (RTL)* included recommendations and suggestions to the Province for improving its processes. We have not seen significant improvements or efforts to address our recommendations.

### Adoption of new revenue standard

Effective April 1, 2023, the Province is required to adopt a new Public Sector Accounting Standard PS 3400 - Revenue. This new standard provides specific guidance on when to recognize revenue. Relevant fees and other revenues reported by the Province in the year ended March 31, 2023, totaled over \$2 billion.

Considering the issues experienced this past year when adopting Financial Instruments and Asset Retirement Obligations standards (as discussed in **SECTION 1**), the Office of the Provincial Comptroller (OPC) should work toward early preparation for the implementation. The OPC will need to review revenue recognition policies to ensure compliance with PS 3400 and communicate the changes and requirements to the departments and other reporting entities.

In **SECTION 1.5** we provided some suggestions for an improved accounting policy implementation process, based on this year's experiences.

### Enterprise Resource Planning modernization project

The Province has embarked on a long-term project of upgrading SAP, which is its current Enterprise Resource Planning (ERP) system. Currently, SAP supports numerous functions within the Province, such as financial reporting, asset management, budgeting, and payroll. The ERP modernization project

will replace the current SAP with the cloud-based SAP S/4HANA. The new system will be phased in over several years and will impact all areas of the government, including other reporting entities controlled by the Province. One of the objectives of the project is for the core government and all government reporting entities to fully transition to SAP S/4HANA to streamline the consolidation process.

There are significant risks during the different phases of the implementation of the system. These risks should be proactively mitigated in order to prevent future operational issues.

There are many risks that have to be identified and managed during a significant IT transformation project including:

- Meeting budget and timeline objectives.
- Resource constraints.
- Over reliance on third parties, and lack of internal knowledge transfer.
- Lack of stakeholder involvement resulting in user needs not being identified or met
- Weaknesses in the design and effectiveness of organizational change activities – as business and financial processes could change drastically.
- Inadequate controls in new business processes.
- Ineffective monitoring of controls.
- Cybersecurity risks related to cloud service provider use.
- Accounting for the project's significant costs.

## 5 Follow up on the status of past recommendations

As shown in the table below, 5 recommendations from recent annual *Reports to the Legislative Assembly - Public Accounts and Other Financial Statement Audits (RTL)* have been implemented: 2 during the current year, and 3 in prior years. Five recommendations are still in progress.

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

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

## Recommendations still in progress

### 2021 recommendation

We recommended that:

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

**Status: Work in progress**

**OAG comment:** The new Asset Retirement Obligations (ARO) accounting standard was implemented this year. OPC provided training to departments and provided guidance on certain assumptions including the legislated date of obligation, discount rate, inflation rate, and accretion rate. However, each department and component were responsible for calculating their individual ARO balances, including determining the assumptions and valuation method. We found that the support obtained from the departments for their calculations and assumptions used was insufficient. Based on our assessment of the implementation of the new ARO standard and support obtained, OPC has not fully resolved this issue.

### 2020 recommendations

We recommended that:

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

**Status: Work in progress**

**OAG comment:** During our testing performed during the current year, we found instances indicating that the DFSA chart had not been properly updated. Therefore, we have concluded that this recommendation is still a work in progress.

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

**Status: Work in progress**

**OAG comment:** We found issues with HR Master Data during our current year's testing. Notably, the processes for the quarterly audits designed to address changes in HR Master Data have not yet been fully implemented, therefore, we have concluded that this recommendation is currently a work in progress.

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

**Status: Work in progress**

**OAG comment:** The OPC advised us in 2022 that they will develop a central process to confirm the liabilities and rank them by risk. The departments are responsible for establishing a work plan for priority remediation of the sites and manage the remediation.

For department specific work, OPC and the departments have retained consultants to assess risk and validate the estimates, which will inform departments work plans. To date we have not received documentation of a centralized process.

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

**Status: Work in progress**

**OAG comment:** Several new valuations were obtained for departmental contaminated sites, and adjustments were made. We did not note evidence of review by the OPC and identified several areas where documentation supporting the estimates was insufficient to support the proposed adjustments.

Below are the recommendations we consider implemented/resolved in 2023:

## Recommendations implemented/resolved in 2023

### 2020 recommendations

We recommended that:

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

**Status: Implemented/resolved in 2023**

8. We recommended that the Office of the Provincial Comptroller (OPC) 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: Implemented/resolved in 2023**

## 6 Results of our financial statement audits for 2022/23

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

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

Audit entity	Recent audit completed for the year ended	Auditor's reports provided	Management letter information	Other items
<b>Public Accounts – Province of Manitoba Summary Financial Statements</b>	March 31, 2023	<ol style="list-style-type: none"> <li>1. Qualified opinion on Summary Financial Statements for a scope limitation related to Asset Retirement Obligations – see copy of Auditors Report in <b>APPENDIX A</b></li> <li>2. Unmodified opinion on Public Sector Compensation Disclosure</li> <li>3. Unmodified opinion on Fiscal Stabilization Account (Rainy Day Fund)</li> </ol>	<ol style="list-style-type: none"> <li>1. Issued a management letter with 17 new recommendations. We followed up on the status of 38 prior year recommendations; 4 prior year recommendations have been implemented.</li> <li>2. We plan to issue a second volume later in the 2024 fiscal year.</li> </ol>	Items related to the Public Accounts audit have been discussed in <b>SECTIONS 1, 2 and 3.</b>

WEBSITE VERSION

Audit entity	Recent audit completed for the year ended	Auditor's reports provided	Management letter information	Other items
<b>Department of Health</b>	March 31, 2023	<ol style="list-style-type: none"> <li>1. Unmodified opinion on the Statement of Expenditures under the Manitoba Health Services Insurance Plan</li> <li>2. Unmodified opinion on the Manitoba Health Services Insurance Plan Public Sector Compensation Act Disclosure of Payments</li> </ol>	Issued a management letter with 1 new recommendation.	None noted
<b>Manitoba Agricultural Services Corporation (MASC)</b>	March 31, 2023	<ol style="list-style-type: none"> <li>1. Unmodified opinion on the Consolidated Financial Statements</li> <li>2. Unmodified opinion on the Production Insurance Trust Financial Statements</li> <li>3. Unmodified opinion on the Hail Insurance Trust Financial Statements</li> <li>4. Unmodified opinion on the Employee Compensation Disclosure Report</li> </ol>	Issued a management letter with 3 new recommendations. We followed up on the status of 8 previous year recommendations, 3 of which have been implemented, 2 of which action is no longer required.	None noted

Audit entity	Recent audit completed for the year ended	Auditor's reports provided	Management letter information	Other items
<b>University of Manitoba</b>	March 31, 2023	1. Unmodified opinion on Financial Statements 2. Unmodified opinion on Public Sector Compensation Disclosure	Issued a management letter with 5 new recommendations.	None noted
<b>Civil Service Superannuation Fund</b>	Dec. 31, 2022	1. Unmodified opinion on Financial Statements	None issued	None noted
<b>Legislative Assembly Pension Fund</b>	Dec. 31, 2022	1. Unmodified opinion on Financial Statements	None issued	None noted
<b>Winnipeg Child and Family Services Employee Benefits Retirement Fund</b>	Dec. 31, 2022	1. Unmodified opinion on Financial Statements	None issued	None noted
<b>Public Service Group Insurance Fund</b>	April 30, 2023	1. Unmodified opinion on Financial Statements	None issued	None noted
<b>Teachers' Retirement Allowances Fund</b>	Dec. 31, 2022	1. Unmodified opinion on Financial Statements 2. Unmodified opinion on Schedule of Compensation	None issued	None noted



Audit entity	Recent audit completed for the year ended	Auditor's reports provided	Management letter information	Other items
Northern Affairs Fund	March 31, 2019	1. Unmodified opinion on Financial Statements	Issued a management letter with 1 new recommendation and followed up on 7 past recommendations, 1 of which has been implemented.	The preparation of financial statements and audits for this fund are several years behind and have been for a number of years. The last time the financial statement was completed and audited within one year of the period end was for the March 31, 2011 statement.

Audit entity	Recent audit completed for the year ended	Auditor's reports provided	Management letter information	Other items
<b>Legal Aid Manitoba</b>	March 31, 2023	<ol style="list-style-type: none"> <li>1. Unmodified opinion on Financial Statements</li> <li>2. Unmodified opinion on the Statement of Compensation Paid to Council Members and Employees and the Statement of Private Bar Fees and Disbursements in Excess of \$85,000 of Legal Aid Manitoba</li> <li>3. Unmodified opinion on the Expenditure Statement – Schedule A of the Final Claim of the Agreements Respecting Criminal Legal Aid and Immigration and Refugee Legal Aid in the Province of Manitoba</li> </ol>	We issued a Management letter with one recommendation.	Audit performed by OAG with assistance of an agent auditor.
<b>Manitoba Housing and Renewal Corporation</b>	March 31, 2023	1. Unmodified opinion on Financial Statements	None issued	Audit performed by OAG with assistance of an agent auditor.

Audit entity	Recent audit completed for the year ended	Auditor's reports provided	Management letter information	Other items
Public Guardian and Trustee of Manitoba	March 31, 2023	<ol style="list-style-type: none"> <li>1. Unmodified opinion on the Financial Statements of Public Guardian and Trustee of Manitoba, Special Operating Agency</li> <li>2. Unmodified opinion on the Financial Statements of Public Guardian and Trustee of Manitoba, Estates and Trusts under Administration</li> </ol>	None issued	Audit performed by OAG with assistance of an agent auditor.

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## Response from officials

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

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

The Office of the Auditor General has a total of four new recommendations to the province in 2023. The department agrees with the principle and intent of all new recommendations and plans to implement them.

This year's audit was unique due to the implementation of two highly complex accounting standards, a new methodology to provide an accounting estimate for taxation revenues, and significant disclosure changes constrained by ongoing systemic capacity and technology limitations. Our response is intended to provide additional clarity and context for the Public Accounts Committee and stakeholders who are not professional accountants:

### Section 1: Issues Impacting this Year's Public Accounts Audit

The systemic issues that have been impacting financial controllership in the departments and the technology deficits continued to limit the capacity of the Core government departments to respond to the unique circumstances in this year's audit. I am pleased to share that the Clerk is committed to addressing all three areas of organizational capacity constraints: Stronger financial comptrollership in departments, getting Information Technology right and improved recruitment and retention.

1. Hiring and Retention of Qualified Finance Professionals: The Province continues to be challenged by inability to attract and retain professionally trained financial staff in the core government departments to deliver financial services to the department and provide oversight to the other reporting entities (OREs). Finance divisions within departments have a vacancy rate that approaches 30% and compensation differential between the core government and the market including OREs that are funded by the government results in lower applications to core government job postings and losing trained staff to the market and the OREs. Province anticipates to address some of the compensation issues in the upcoming Collective Bargaining.

The Province has implemented some measures to mitigate the risk in 2022/2023:

- Addition of three new EFO/ADM positions to move three large and complex departments from a shared support model to a dedicated financial support and requiring all EFOs to be ADMs to reflect the importance of the role and responsibility of financial management on departmental executive management teams;
  - Changes to the leaders-in-training program's financial stream to adjust classifications for CPA recruits and sponsor non-CPA candidates to obtain a CPA while working for the government;
  - Recognition of foreign professional accounting credentials in the hiring process for accounting roles and support for recruits to qualify to practice in Manitoba;
  - Centralized recruitment of finance and accounting staff and introduction of open postings;
  - New internal controls policy introduced for the very first time in the province's history in 2023;
  - Created sub-committee of Council of EFOs that is joint with the Public Service Commission to enable the financial community to work more collaboratively and strategically in both the recruitment, promotion and retention of qualified financial staff; and
  - Retaining external accounting firms for advice, audit preparation and assurance work to support the departments and the OPC.
2. Technology constraints: Inadequate technology and delays in acquiring and implementing new technology continue to pose an operational risk and delays the audit process. Consolidation of 129 entities within the Office of the Provincial Comptroller (OPC) is a manual process that is completed in excel spreadsheets with manual data entry. Treasury Division manages its derivatives using over 900 separate spreadsheets. Lack of a Government wide Asset Management System create inconsistencies in valuation of Asset Retirement Obligations. Ongoing work in acquiring technology is paused to focus on the ERP Modernization project that will implement SAP S4/HANA in the core Government. The future stages of the ERP modernization is expected to address some of the operational risk when complete in 2025 and paving the way for other projects to proceed.
  3. New Accounting Standards: The Province was required to adopt two new Public Sector Accounting Standards in the fiscal year ended March 31, 2023. As the OAG recognized, this year's first-time implementation of two new accounting standards was inherently complex and increased the risk of errors. Province estimates the effort to implement the standards for 129 entities making up the summary government was equivalent to a combined full year effort of at least 50 FTEs and created net liabilities of \$1.7 billion and accumulated remeasurement losses of \$1.2 billion. Public Sector Accounting Standards are mandatory and provide the financial statement readers better insight into the financial position of the entity but in these two instances the work for estimating future events was significant and certainly contributed to an elevated level of audit risk requiring additional time and resources for audit on the OAG's side as well. This increased risk of errors was anticipated by both the OAG and the OPC and

both preparer and auditors incorporated additional time and resources in the preparation as well as the audit in the first year of implementation.

The Province has implemented some measures over the last two fiscal years to mitigate the risk of the Accounting Standards implementation in 2022/2023:

- Retention of a professional accounting and consulting firm to support the Core Government departments with the implementation of Asset Retirement Obligations, PS 3280;
- Retention of a professional accounting and consulting firm to support Department of Finance – Treasury Division with the implementation of the new accounting standards for Financial Instruments and Foreign Currency Translation, PS 3450 and PS 2601;
- Providing training to departmental Executive Financial Officers (Assistant Deputy Ministers) and OREs;
- Providing additional requirements, year end instructions and consistent methodologies to Departments and to Government Reporting Entities.

The Province will incorporate the experience from 2022/23 into the implementation of new accounting standards in the future.

4. New Estimation Methodology for Corporate and Personal Income Taxes: Department of Finance implemented a new estimation methodology in March 2023. The methodology, developed by an external accounting firm did not provide advice to the Province of the accounting treatment in the first year of recognition. The year end implementation of the methodology created time constraints for both OPC on the accounting treatment of the implementation as well as the OAG on the reasonability and completeness of the new economic forecasting model. The Province appreciates and thanks OAG for retaining their own independent consultant to assist OAG to understand and review the model and work with Department of Finance on the accounting impacts of the late in-year implementation of a very complex model.

The Province will implement some measures to mitigate the risks in 2023/24:

- Department of Finance is enhancing its capacity within Finance to ensure that there is sufficient support to this area, both in Central Finance division, as well as Fiscal Policy and Corporate Services (FPCS).
- The accounting entries will now be completed in Central Finance (working closely with FPCS) and then validated/assessed by OPC.
- Finance is also enhancing the resource capacity for both tax credits and government revenues in FPCS for capacity and succession planning.

## Section 2: Audit Opinion

In relation to the audit opinion, most Core Government Departments and large OREs, including health service delivery organizations and post secondary institutions, have successfully implemented the standard, evident in the Unmodified Audit Opinions provided by their external Auditors. The three areas that had challenges implementing and failing to demonstrate adequate support were one Core Government department and some Personal Care Homes and School Divisions, which collectively constituted a material estimate. Province will provide guidance to these areas for the next year.

## Section 3: Control Environment Weaknesses

### Control Environment:

Manitoba has a decentralized finance function, with 15 departmental executive financial officers (EFOs) responsible for the budgets, forecasts and accounting transactions for their own departments, including those providing shared services for more than one department. The provincial comptroller sets accounting policies and guidelines to be functionally carried out by the departments. There are over 800 finance staff reporting to 15 EFOs who are responsible for financial operations within the core departments and six special operating agencies. The 129 consolidated OREs have their own Chief Financial Officers (CFOs) with a similar complement of financial staff functionally administering the financial operations and supporting the preparation of the respective financial statements. The Office of the Provincial Comptroller has a staff of 25, with only 10 of those directly involved in the summary financial statement consolidation.

The Province uses the Institute of Internal Auditors (IIA) Three Lines Model to facilitate structures and processes that facilitate strong governance and risk management. The provincial departments represent the first line of defense and represent a workforce of 2,400 staff that have some financial role; OPC is the second line of defense and represent a workforce of 25 staff; and Internal Audit is the third line of defense and represents a workforce of 15 staff.

The Province is looking forward to OAG's Comptrollership review and recommendations for improving structure and strengthening accountability. The Province also notes that the OAG is starting an audit of Public Service Commission, and is looking forward to the recommendations that will help address some of the challenges with recruitment and retention of financial staff.

### Internal Audit:

Province agrees an effective Internal Audit function is an essential component of and is the third level of defense for effective governance and risk management. Internal Audit has not fulfilled this role due to inability to attract and retain qualified auditors as well as challenges with the independent governance to the function. Of the 15 staff positions, currently only 2 are filled with a third nonprofessional employee.



A structural challenge in providing governance and oversight to the Internal Audit function is that Internal Audit function is required to report to an independent committee and not to a line manager in order to ensure the professional requirement for independence of the auditors are met. IA previously reported to a Deputy Ministers Audit and Risk Management committee and currently reports to Treasury Board Audit Committee. Neither committee had the independence or competencies to provide oversight and effective governance.

As Treasury Board will establish the new TBAC, the terms of reference will be amended and a slate of candidates where the majority of members will have the professional competency will be recommended to TB for its consideration.

Province will consider external professional support to ensure a risk-based internal audit plan that considers weaknesses in previous Reports to the Legislature is prepared and executed and obtain assurance on behalf of TBAC on the quality and volume of the audits performed. Province will also review Internal Audit departments in other Canadian provinces to implement a structure, organizational alignment and competencies for an effective Internal Audit function.

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# Appendix A - Independent auditor's report on the Summary Financial Statements for the year ended March 31, 2023

Below is a reproduction of our independent auditor's report on the Province's Summary Financial Statements for the year ended March 31, 2023.



## INDEPENDENT AUDITOR'S REPORT

To the Legislative Assembly of the Province of Manitoba

### *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, 2023, and the consolidated statements of revenue and expense, accumulated operating deficit, changes in net debt, remeasurement gains and losses, and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (the Summary Financial Statements).

In our opinion, except for the possible effects of the matter described in the *Basis for qualified opinion* section of our auditor's report, the accompanying consolidated Summary Financial Statements present fairly, in all material respects, the consolidated financial position of the Province as at March 31, 2023, and the results of its operations, its accumulated deficit, its changes in net debt, its remeasurement gains and losses, and its 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 auditor's report. We are independent of the Province in accordance with the ethical requirements in Canada that are relevant to our audit of the Summary Financial Statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### *Insufficient support for asset retirement obligations*

Under PSAS, as of the year ended March 31, 2023, the Province was required to adopt a new accounting standard, PS 3280 – Asset Retirement Obligations. The Province has recognized a liability for asset retirement obligations in the statement of financial position as at March 31, 2023 and the related expenses in the statement of revenue and expense for the year then ended, and has restated the comparative figures using the modified retroactive approach.



Asset retirement obligations are legal obligations associated with the retirement of tangible capital assets. During the initial year of adoption, the Province was made to identify all legal obligations associated with retirement of its assets to ensure completeness of the asset retirement obligations recorded, and estimate the future costs of remediation for these obligations to determine their valuation. The Province has not provided sufficient appropriate audit evidence regarding the completeness and the valuation of the amounts recorded and the disclosures required in respect of this liability.

Consequently, we were unable to determine whether the amounts in question should have been adjusted with respect to the accumulated deficit as at March 31, 2022; tangible capital assets and the asset retirement obligations as at March 31, 2022 and March 31, 2023 and the related expenses for the years then ended; and the related disclosures in notes 2, 13 and Schedule 7 of the Summary Financial Statements. The relevant figures are included in table below.

<b>Scope limitation – impacted accounts and balances</b>		
	2023 (\$ million)	2022 (\$ million)
<b>Opening asset retirement obligation:</b>	<b>788</b>	<b>760</b>
Accretion expense	35	29
Liabilities settled during the period	(2)	(1)
Change in assumptions	(64)	nil
Ending asset retirement obligation	<b>757</b>	<b>788</b>
<b>Tangible capital assets:</b>		
Amounts related to asset retirement obligation	<b>247</b>	<b>248</b>
<b>Adjustments to operating accumulated deficit:</b>	<b>540</b>	<b>494</b>

#### Key audit matters

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

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



## Key audit matters

### Corporate and personal income tax revenues

#### *Overview*

Corporate and personal income tax are major sources of revenues for the Province, estimated at \$4.6 billion and \$1.2 billion respectively (2022: \$4.4 billion and \$810 million). In 2023, the Province implemented a new model to estimate income tax revenues. The new model considers economic forecasts and modelling for provincial tax revenue generated between January and March 2023, and generates an estimate based on revenue earned from April to December of the previous year based on Canada Revenue Agency tax assessment information.

#### *Related financial statement disclosures*

Note 1D (ii) (2) - Significant Accounting Policies;  
Basis of Specific Accounting Policies - Revenue – Taxes,  
Schedule 1 - Consolidated Statement of Amounts  
Receivable

#### *Why this is a key audit matter.*

Corporate and personal income tax revenues are estimates involving significant management judgement and estimation uncertainty.

Income Tax revenue in a fiscal year is derived from management's estimates of tax for two separate calendar years. For the year ended March 31, 2023, the Province records 9 months of revenue for the 2022 calendar year and 3 months of revenue for the 2023 calendar year. The Canada Revenue Agency will not finalize its assessments for either of these years until after the financial statements for the year ended 2023 up to 21 months after March 31, 2023. Uncertainty exists due to differences that may arise in final tax assessments and initial economic estimates.

### How the matter was addressed during the audit:

- We obtained an understanding of the systems and controls over the process of recording and estimating both tax revenues.
- We engaged an independent economist to assist us in our review of the Province's newly implemented economic forecast model for its reasonability and completeness, including management's use of key assumptions.
- We reviewed the Province's retrospective review comparing previous actual results to managements estimates using the current model.
- We tested the accuracy of management's calculations supporting the estimate.
- We reviewed the Province's accounting adjustments made to the economic forecasts.



## Key audit matters

### *Financial Instruments*

#### **Overview**

In the 2023 fiscal year, the Province adopted the accounting standards for Financial Instruments and Foreign Currency Translation, PS 3450 and PS 2601.

The changes in statements and disclosures upon adoption are as follows:

- Derivatives are recorded at fair value in the statement of financial position, which were previously only recorded upon settlement. At March 31, 2023, the Province recorded a \$2 billion derivative asset, and a \$2.9 billion liability
- Investments in equity previously recorded at cost in the statement of financial position with fair value disclosure in a note are recorded at fair value in the statement of financial position. The total investments in equity as at March 31, 2023 were \$132 million.
- Unrealized gains and losses on portfolio investments and unrealized foreign exchange gains and losses are recorded in the new statement of remeasurement gains and losses. The accumulated remeasurement losses at March 31, 2023 were \$1.2 billion.
- Significant new disclosures related to quantitative and qualitative information about risks associated with financial instruments

#### **Related disclosures are**

Note 1 - Significant Accounting Policies

Note 2 –Adoption of New Accounting Standards and Correction of an Error;

Note 3 – Financial Instrument Classification;

Note 4 - Portfolio Investments;

Note 12 - Risk Management and the Use of Derivative Financial Instruments;

Schedule 4 - Consolidated Statement of Public Debt

#### **Why this is a key audit matter.**

The adoption of the new accounting standard financial instruments and foreign currency has a significant impact on the consolidated financial statements. The measurement uncertainty involved in the determination of the fair value of derivatives is complex and requires management's judgement.

### **How the matter was addressed during the audit:**

- We obtained an understanding of systems and internal controls over the process of recording and the valuation of derivatives.
- We engaged an independent quantitative finance and risk management consultant to assist us in assessing the appropriateness of the Province's model in estimating the fair value of derivatives and to provide an independent valuation.
- We examined the Province's underlying data for its estimate of fair value of derivatives both at the date of adoption and year-end. We tested the completeness of derivatives recorded in the Province's financial statements
- We reviewed the Province's identification of other contract types to ensure any material embedded derivatives were identified were accurate and recorded.
- We tested management's calculations of gains and losses recorded on the statement of remeasurement gains and losses for accuracy and completeness.
- We reviewed all financial instruments-related disclosures for accuracy and completeness.



## Other information

The Province is responsible for the other information. The other information comprises the Province of Manitoba Annual Report and Public Accounts (the Annual Report), but does not include the Summary Financial Statements and our auditor's report thereon.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for qualified opinion* section above, we were unable to obtain sufficient appropriate evidence about the completeness and valuation of the asset retirement obligations. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

## Responsibilities of management and those charged with governance for the Summary Financial Statements

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

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

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

## *Auditor's responsibilities for the audit of the Summary Financial Statements*

Our objectives are to obtain reasonable assurance about whether the Summary Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a



guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Summary Financial Statements.

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

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

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





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

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

Winnipeg, Manitoba  
September 28, 2023

*Original signed by*

Tyson Shtykalo, CPA, CA  
Auditor General

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## » Vision

Government accountability and public administration excellence for Manitobans.

## » Mission

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

## » Values

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

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

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

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

### **Auditor General**

Tyson Shtykalo

### **Deputy Auditor General**

Natalie Bessette-Asumadu

### **Assistant Auditor General IT and Innovation**

Wade Bo-Maguire

### **Assistant Auditor General - Investigations & Strategic Projects**

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Yuki Diaz

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Graham Hickman

Emelia Jaworski

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Alyson Kuzie

Mark Lee

Danielle LeGras

Zsanett Magyar

Ria Manace

Julie Manchester

Ian Montefrio (IT Audit)

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Waterloo Design House

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



**Auditor General**  
MANITOBA

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