

# Provincial Auditor's Report

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1995/96 - Volume 1



Manitoba



**Office of  
the Provincial Auditor**

12th Floor - 405 Broadway  
Winnipeg, Manitoba, CANADA  
R3C 3L6

The Honourable W. Yvon Dumont  
Lieutenant Governor of Manitoba  
Room 235, Legislative Building  
Winnipeg, Manitoba  
R3C 0V8

Dear Sir:

I have the honour to submit herewith Volume 1 of the Provincial Auditor's Report for 1995/96 to be laid before Members of the Legislative Assembly in accordance with the provisions of Section 13 of the Provincial Auditor's Act.

Respectfully submitted,

Jon W. Singleton, CA  
Provincial Auditor

Winnipeg, Manitoba  
September 1996

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# PROVINCIAL AUDITOR'S OFFICE

## VISION

Members of the Manitoba Legislative Assembly will have the right information to help them exercise good governance.

## MISSION

Our mission is to provide comprehensive auditing services to the Legislative Assembly of Manitoba.

## VALUES

In pursuing our mission, we:

- Recognize that human resources are the prime resource for providing quality service and that technical competence is essential for our success.
- Maintain a position independent from government administration and free of political influence.
- Focus our efforts on issues involving economy, efficiency, effectiveness and equity.
- Encourage the government to provide timely, full and fair disclosure of significant issues to the legislature within an effective accountability framework.
- Add credibility to accountability information by providing assurance reports on the reliability of management representations.
- Add value to government operations by identifying opportunities for improvements that can enhance the quality of administration and accountability of public resources.
- Strive for the highest standards of our profession and place great emphasis on career development, shared learning and professional fulfilment for our staff.

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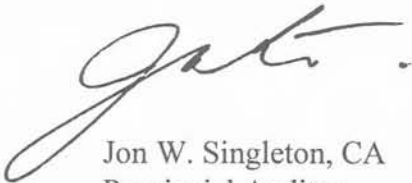
## INTRODUCTORY COMMENTS

I am pleased to submit the Report of the Office of the Provincial Auditor for the fiscal year ended March 31, 1996 (Volume 1) to the Members of the Legislative Assembly. This report includes those matters arising out of the Office's audit work that the Office believes warrant the attention of the Members, as is required by the Provincial Auditor's Act. Volume 2 reporting on the operations of the Provincial Auditor's Office will be issued subsequently.

This report includes comments relative to our audit of the Public Accounts for the year ended March 31, 1995, our cross-ministry report on the accountability framework for departments, our survey of program evaluation activity within departments, and several other projects related to specific departments. During the year we did not complete any inspection or special audits.

I would like to express appreciation for the cooperation received from all those contacted during our audits.

I assumed the position of Provincial Auditor on July 15, 1996 and, accordingly, the matters reflected in this report reflect the work of my predecessor, Ms. Carol Bellringer and the capable team of professionals in the Office. I would like to indicate at the outset my support for the recommendations contained in this report. The Office has a long tradition of encouraging improved public accountability in government operations and in working with all Members of the Legislative Assembly to bring about change for the better. I intend to continue this tradition.



Jon W. Singleton, CA  
Provincial Auditor  
September 1996

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## SUMMARY OF RECOMMENDATIONS

### PUBLIC ACCOUNTS FOR THE YEAR ENDED MARCH 31, 1995

- We recommend the government develop government-wide business plans on an annual basis, including an annual budget on the same basis as the summary financial statements for the Public Accounts of the Province of Manitoba, and including clearly defined expectations and performance targets.
- We recommend the government initiate appropriate amendments to the Financial Administration Act to ensure that government accounting policies utilized for Public Accounts comply with PSAAB standards.
- We recommend the government initiate and prioritize plans to produce an annual report on the government reporting entity as soon as possible after March 31 of each year. The annual report should be based on the financial information provided in the government's summary financial statements (Volume 3) and should include appropriate indicators of the financial condition of the government and appropriate results information on the performance and outcomes of government programs and initiatives.
- We again recommend the government amend its accounting policies to fully record employee pension liabilities and the related costs for current pensionable services, a practice which all other provinces follow.
- We recommend the government prepare individual financial statements for all accounting entities included in the summary financial statements and reproduce all such statements, other than the Consolidated Fund, in Volume 4 of the Public Accounts.
- We recommend the government coordinate the completion of Volumes 1, 2 and 3 of the Public Accounts so that these three volumes are released simultaneously.
- We recommend the government adopt a phased-in approach towards initiating inventory counts of all physical assets owned by the government, towards establishing central accounting policies and procedures for monitoring physical assets and towards disclosure of the costs and amortization of physical assets in the Public Accounts in compliance with PSAAB recommendations.

## ACCOUNTABILITY FRAMEWORK FOR DEPARTMENTS

- We recommend that processes be developed to provide the Legislative Assembly with assurance that the required accountability reports are monitored for compliance with legislated and policy requirements.
- We recommend that the government adopt new standards to guide the nature of accountability information being reported. We believe our criteria are a good base from which the government can establish improved accountability standards.

We further recommend that these new standards for estimates supplements and annual reports define the requirements for service appropriations.

- We recommend that annual reports for all department and service appropriations be referred to a standing committee of the Legislative Assembly.

## PUBLIC SCHOOLS PROGRAM ACCOUNTABILITY FRAMEWORK

- We recommend that the Department amend the Education Administration Act, the Public Schools Act and the Public Schools Finance Board Act to clearly set out the principles and elements of a public schools accountability framework.
- We recommend that the Department more clearly define in legislation, regulations and policies, the responsibilities and reporting relationships of the key stakeholders in the public schools accountability framework. In particular, we recommend clarification of the responsibility for developing, defining and mandating implementation of the provincial curriculum. Since the public schools education system comprises many stakeholders, we further recommend that the Department communicate in a separate policy document the revised roles, responsibilities and interrelationships of each stakeholder.
- We recommend that the Department:
  - fully integrate its public school program plans into the Estimates Supplement,
  - develop long-term objectives and related performance indicators for the public school program, as well as annual measurable expected results and related performance indicators,
  - disclose in its accountability documents the full revenues and expenditures of the public school program,

- comply with the Department of Finance Instructions on Estimates Supplements and Annual Reports.
- We recommend that the Department require detailed performance plans and reports from school boards. Plans should be integrated with the budgeting process. The Department should provide guidance on the purpose, format, content and timing of detailed performance plans and reports.

## **HIGHWAY PLANNING, STRATEGIC AND LONG-RANGE**

- We recommend that the Department incorporate into its future estimates supplements and annual reports:
  - completed elements of its strategic and long-range plans,
  - an analysis of its progress toward building an effective planning process.

## **AIR CHARTERS - FOREST FIRE MANAGEMENT**

- We recommend that the Department of Natural Resources expand the disclosure in their annual report to reflect total air charter costs incurred for the forest fire management program.

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# **PUBLIC ACCOUNTS FOR THE YEAR ENDED MARCH 31, 1995**

## **INTRODUCTION**

This section of our report provides comments on the Public Accounts of the Province of Manitoba for the year ended March 31, 1995.

In the following pages we summarize our views on several matters relative to government accountability. Specifically, we discuss:

- government-wide planning and summary budgets;
- the basis of government accounting policies utilized for the preparation and audit of the Public Accounts;
- the importance of the summary financial statements and supplementary information;
- our Auditor's Report on the summary financial statements and our qualification regarding unrecorded pension liabilities;
- the extent of further audit qualifications included in the Auditor's Reports on other components of the Public Accounts;
- the impact of timing differences between the release dates of Volume 1 and Volume 3; and
- other changes in accounting policies and financial disclosure.

## **GOVERNMENT-WIDE PLANNING AND SUMMARY BUDGETS**

Last year the Provincial Auditor suggested the government adopt a fully consolidated basis for the annual budget to enhance the planning and decision making processes and to facilitate assessments of overall government performance. The purpose or intent of fully consolidated or summary budgets is to provide planning information with the same scope and breadth as the results information represented by the summary financial statements. In our view this is a fundamental requirement for meaningful accountability.

We believe a consolidated or summary budget is essential for effective fiscal management of government affairs. A comprehensive budget that reflects all government strategies and priorities would serve to heighten accountability, transparency and understandability of government plans and results.

A summary budget, however, which is reflective of the entire government reporting entity, is only one element of an effective business plan for the government. We believe there is also need for the government to develop a comprehensive business plan that encompasses all components of the government reporting entity. The plans should provide overall long-range priorities and global objectives, strategies, expected results and outcomes. Such a plan would facilitate the development of departmental plans and enhance accountability as discussed in the section of this report entitled "Accountability Framework for Departments".

It is important that a government-wide business plan is developed or updated at the start of each fiscal year so that the government can demonstrate public accountability at the end of the year on the effectiveness with which it conducts its business. We believe this is a fundamental responsibility of the government.

Additionally, as indicated in the "Integrated Planning and Budgeting Process" of the government of Nova Scotia, November 1995:

"Improving accountability is a necessary first step for government and the people of Nova Scotia to decide if the necessary services are being provided in an efficient and effective manner; i.e., are the people of Nova Scotia receiving value-for-money.

The government as a whole must be accountable for:

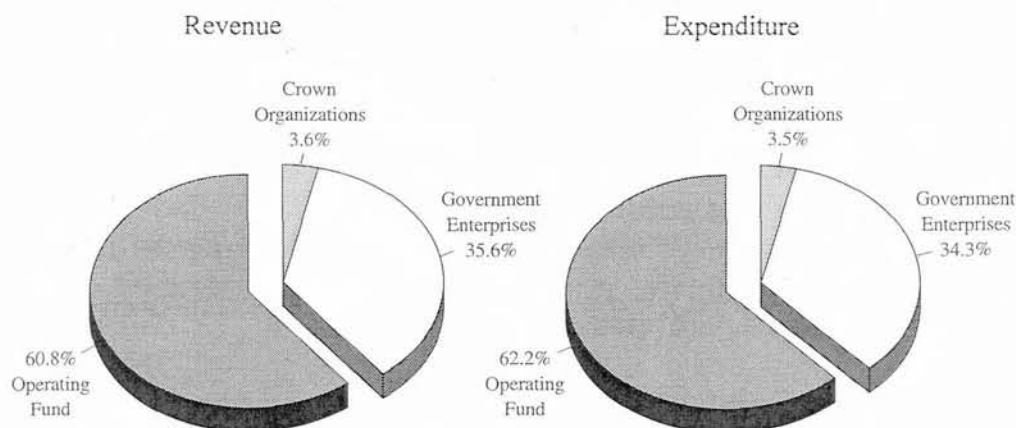
- Strategic direction/purpose - Is the province headed in the right direction and taking the appropriate actions to get there?
- Effective Management - Does the province have the leadership and ability to deliver against the strategic direction?
- Accountability for the delegated responsibility to management - Is the province making progress as originally expected?"

In order for users of financial statements to understand and assess trends and variances in government financial operations, it is important that summary financial statements provide a comparison of actual results with planned results. Such a comparison serves as a starting point for assessing the fiscal plan of the government.

The current government budget process, however, has been limited to transactions reflected through the Operating Fund. Although very significant, this fund is only one component of the full government reporting entity and it does not reflect the financial magnitude and impact of special funds and other government programs and activities that are administered by various crown organizations and enterprises. This may potentially limit the perceived growth of both government spending and deficits. Alberta has recently presented its 1997 fiscal year budget on a consolidated basis and, in our view, Manitoba should do the same.

Page 22 of the 1994/95 summary financial statements (Volume 3), lists 11 special funds, including the Fiscal Stabilization Fund and Manitoba Lotteries Fund, as well as 28 crown organizations and 26 government enterprises which are not reflected in the government's fiscal plan and annual budget. These entities account for significant levels of total government activity. As depicted in the chart below, significant financial expenditures and revenues, reflected on a gross accounting basis, take place outside of the Operating Fund.

### For Fiscal Year 1995



Source: Public Accounts of Manitoba

We recommend the government develop government-wide business plans on an annual basis, including an annual budget on the same basis as the summary financial statements for the Public Accounts of the Province of Manitoba, and including clearly defined expectations and performance targets.

#### *Comments of Officials*

*The Government has previously indicated that it does not agree with the concept of a budget that includes all the organizations reported in the Summary Financial Statements. The Crown Corporations included in that publication have the authority and responsibility through their board of directors to prepare their own budgets. These budgets are not submitted to the Government for approval. With reference to the business plan, work has begun on the*



*development of a business planning process, which will include performance measurements. Once this has been satisfactorily tested, it will be applied to all departmental programs.*

## ACCOUNTING POLICIES FOR PUBLIC ACCOUNTS

The mandate and authority for the preparation of Public Accounts is established by the Financial Administration Act. This responsibility is defined in section 9 which states:

“The minister shall prepare accounts, to be known as: “Public Accounts”, in respect of each fiscal year showing:

- (a) the state of the public debt;
- (b) the state of the Consolidated Fund; and
- (c) such other accounts and matters as are required to show what the liabilities and assets of the government are at the end of the fiscal year in respect of which the Public Accounts are prepared.”

The Financial Administration Act also includes a definition of the contents of Public Accounts in section 10, which states, in part:

“The Public Accounts for a fiscal year shall be prepared in accordance with accounting policies of the government stated in the Public Accounts and shall contain:

- (a) a statement of the expenditures and revenues ...;
- (b) a statement of such of the assets and liabilities of the government as, in the opinion of the minister, are required ...;
- (c) a statement of the changes in financial position ...;
- (d) a statement of accumulated deficit or surplus ...;
- (e) a statement of any change in the accounting policies ...;
- (f) such other statements as the minister deems necessary; and
- (g) a report of the Provincial Auditor concerning his examination of the Public Accounts.”

The mandate for auditing the Public Accounts is contained in the Provincial Auditor’s Act, in section 14, which states:

“The Provincial Auditor shall examine the several financial statements required to be included in the Public Accounts under the Financial Administration Act, and any other statements which the member of the Executive Council charged with the administration of the Financial Administration Act may present for



audit, and shall express his opinion as to whether they fairly present information in accordance with accounting policies of the government stated in the Public Accounts and on a basis consistent with that of the preceding year together with any reservations he may have with respect thereto.”

As noted in section 10 of the Financial Administration Act and section 14 of the Provincial Auditor's Act, the Public Accounts are required to be prepared on the basis of accounting policies defined by the government. Bill 55, which the government has recently introduced to amend The Financial Administration Act, maintains this requirement.

Accounting policies are fundamental to the measurement, valuation and recognition of economic events and activities. Appropriate accounting policies are those that result in fair disclosure of financial information. It is important that accounting policies be selected to meet this objective. There are a number of general considerations that should be involved in the selection of appropriate accounting policies, including prudence, substance over form and materiality. In other words, to ensure fair disclosure, accounting policies need to be unbiased, reflect the reality of transactions or events and be of significance to users of the financial statements.

Accordingly, over the years, the Minister of Finance and the Provincial Auditor have cooperated to ensure appropriate accounting policies are utilized. In our Report to the Legislative Assembly for 1994/95 (Volume 1), we recommended the government change the accounting policy regarding lottery revenues in the Operating Fund of the Public Accounts. We recommended changing the policy to the full accrual basis so that revenues are reported in the Operating Fund in the same year that those revenues are actually earned. The government has agreed to change this accounting policy effective April 1, 1996. We are pleased with the government's action.

Other initiatives regarding the evolution of accounting policies for the Public Sector are being generated through the Canadian Institute of Chartered Accountants (CICA). In March of 1981, the CICA established a separate committee, now known as the Public Sector Accounting and Auditing Board (PSAAB), to issue recommendations and guidance with respect to matters of accounting and auditing in the public sector.

The objective of PSAAB is to recommend standards to improve and harmonize financial reporting, accounting and auditing in the public sector. The government and Provincial Auditor rely on PSAAB standards to provide guidance for defining accounting policies for the Public Accounts, although these standards are not entrenched in legislation.

For the information of legislators and other users of public sector financial statements we have prepared a detailed summary of selected PSAAB standards as of April 1996 (see Exhibit 2). These are organized as follows:

- the objectives of government financial statements;
- the general standards of presentation;
- defining the financial reporting entity;
- disclosure of accounting policies.

These standards are now generally accepted within Canada and we believe should represent the basis for the accounting policies for the summary financial statements and other subsidiary components of the reporting entity for the Province of Manitoba. In our view the government has an opportunity to ensure the integrity of government accounting policies on a long-term basis by entrenching PSAAB standards within the framework of the Financial Administration Act.

We recommend the government initiate appropriate amendments to the Financial Administration Act to ensure that government accounting policies utilized for Public Accounts comply with PSAAB standards.

#### *Comments of Officials*

*Both the existing and the proposed new Financial Administration Act provide the authority for determination of accounting policies and practices to the Minister of Finance. This is consistent with the approach taken in other Provinces. The Government is guided by the work of PSAAB in formulating these policies. In fact, the accounting policies of the Province have been revised in accordance with many of the recommendations made by PSAAB. Nevertheless, the Minister of Finance is responsible for establishing the appropriate accounting framework for the Provincial Government in order to reflect the public policy established by the Government.*

## **SUMMARY FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

For the year ended March 31, 1995, the Public Accounts issued for the Province of Manitoba consist of four volumes. Volumes 1 and 2 include the financial statements and supplementary information for the Consolidated Fund. Volume 3 includes the summary financial statements which report on the financial condition and operating results of the entire government entity. Volume 4 includes the individual financial statements of funds, organizations, agencies and enterprises that comprise the government reporting entity.

The function of financial statements is the communication of information to users. Financial statements provide evidence of accountability and report information

required by legislators and other users to help them make judgements concerning government financial operations and management. To adequately serve these needs, information must possess certain basic qualities - relevance, reliability, clarity in presentation, timeliness and consistency between accounting periods. These qualities are essential and have long been the benchmarks for judging financial reports.

In order to provide quality information, government financial statements should reflect the full extent of government responsibility. Accordingly, as recommended by PSAAB, the Public Accounts should include information to account for not only the Operating Fund but also special funds, crown agencies and government enterprises which do not form part of the government's Consolidated or Operating Fund. Crown agencies and government enterprises are those organizations which are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature and which are owned or controlled by the government.

In our view, the summary financial statements, as contained in Volume 3 of the Public Accounts, complies with this standard. The summary financial statements (Volume 3) provide legislators, investors and other users of government financial statements with a comprehensive and understandable overview of the total financial affairs and resources for which the government is accountable.

Summary financial statements however cannot be expected to fulfill all of the users' needs served by a government's financial reporting system. They are not intended to replace the separate financial statements of individual government funds, agencies and corporations which constitute important accountability reports by their managements. Such separate financial statements however, do not give legislators, investors and other users a complete overview of government finances. Only summary financial statements can provide that overview.

Last year we recommended the government utilize the summary financial statements when publicly disclosing overall financial results and the overall financial position of the Province.

We continue to support that recommendation. However, in as much as the summary financial statement for the government reflect the aggregate level of debt and deficit for the government, such information by itself is not sufficient to help readers understand the financial health or condition of the government or the results of its programs.

Later in this report, we further discuss the merits and need for reporting results-oriented information. Readers should refer to our comments included under "Accountability Framework for Departments" and "Program Evaluation Activities Within Departments: A Survey".

Regarding the financial condition, we believe the government should be measured in terms of sustainability, flexibility and vulnerability, in the context of the economic and financial environment that affects the government.

Sustainability relates to the government's ability to meet existing debt commitments; flexibility relates to the government's ability to increase its financial resources; and vulnerability relates to the government's dependancy on funding sources beyond its control. When appropriate ratios or financial indicators are developed and compared either over a period of time or between jurisdictions, we believe readers will be in a much better position to understand the financial condition of the government.

Ratios such as debt to GDP and deficit to GDP would be good indicators of the government's ability to sustain its current debt load and deficit levels. Interest bite (debt charges as a percentage of revenue) and budgeted revenue to GDP are good indicators of the government's flexibility. Finally, the level of government transfer payments received as a percentage of total revenue will help readers assess the government's vulnerability.

Last year we promoted the use of financial indicators to help users understand the Province's financial condition and the relationships between government debt and deficit figures relative to other relevant economic factors. This continues to be a topic being studied by PSAAB and the Canadian Institute of Chartered Accountants.

We support the studies in this area and the use of financial indicators.

We further believe that users of government financial statements want financial information that extends beyond traditional financial statements, information such as:

- a government's ability to meet its financial obligations, both short and long-term;
- a government's financial ability to maintain the level and quality of its services and to finance new programs;
- future tax and other revenue requirements;
- government spending priorities;
- the impact of government financial activities on the economy; and
- the performance of government in the management of financial resources, programs and services.

In our view, an annual report on the government is the appropriate means for gathering and communicating sufficient results information to suitably address the needs of users of government reports.

We recommend the government initiate and prioritize plans to produce an annual report on the government reporting entity as soon as possible after March 31 of each year. The annual report should be based on the financial information provided in the government's summary financial statements (Volume 3) and should include appropriate indicators of the financial condition of the government and appropriate results information on the performance and outcomes of government programs and initiatives.

### *Comments of Officials*

*Manitoba has prepared Summary Financial Statements since 1987-88 and considers this a useful accountability document. Moreover, it has been the tradition to include some of the suggested financial indicators in the annual budget documents rather than in the Summary Statements. The Government agrees to review this recommendation on the basis that such a report would be pursued as long as the information that can be developed is meaningful and useful to the public and does not duplicate information provided in other reports.*

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

Our Auditor's Report on the summary financial statements of the Province of Manitoba for the year ended March 31, 1995 is included in Exhibit 1 for reference.

For the sixth consecutive year, our audit opinion on the summary financial statements has been qualified for unrecorded pension liabilities and costs. As at March 31, 1995 the estimated unrecorded pension liability amounted to \$1.9 billion. Manitoba is now the only province in Canada that has not recorded this liability in its summary financial statements. (It should be noted, however, that Quebec does not prepare summary financial statements.) As a result, inter-provincial comparisons are not meaningful without adjusting Manitoba's Public Accounts for pension liabilities.

Liabilities are financial obligations to outside organizations and individuals as a result of transactions and events on or before the accounting date. They are the result of contracts, agreements and legislation in force at the accounting date that require the Province to repay borrowings or to pay for goods and services acquired or provided prior to the accounting date.

Employee pension obligations are legal obligations that are part of the negotiated compensation packages for employees of the government. The obligations cannot be



avoided by the Province nor can they be changed without the consent of employees and/or their unions.

Failure to record liabilities in the Province's summary financial statements may mean that they are not adequately taken into account when making decisions about what the government can or cannot afford to do. One of the great barriers to sound decision making is incomplete and fragmented financial information that fails to show all that a government owes. Recording liabilities is important for both accountability and decision making.

Users of the Public Accounts for Manitoba require comprehensive information to adequately assess the Province's overall financial condition, to predict the timing and level of future cash flows and borrowings and to determine the government's ability to meet its obligations. The risk of making poor decisions is much greater if the legislators, government managers and their advisors have incomplete or fragmented information that fails to show the full extent of government liabilities.

We again recommend the government amend its accounting policies to fully record employee pension liabilities and the related costs for current pensionable services in the summary financial statements, a practice which is followed by all other provinces that prepare summary financial statements.

#### *Comments of Officials*

*The information is accurately disclosed in the notes included in the summary financial statements and the reader is easily able to interpret the results. However, the Government continues to review the alternatives available for the resolution of this issue.*

## **AUDITOR'S REPORTS ON OTHER COMPONENTS OF THE PUBLIC ACCOUNTS**

In addition to our Auditor's Report on the summary financial statements, the Provincial Auditor as well as other independent auditors have provided separate individual audit opinions on other government entity components included in the Public Accounts for the year ended March 31, 1995. This section of our report summarizes the extent of audit opinion reservations included in various components of the Public Accounts.

Volume 1 includes our Auditor's Report on the Operating and Trust Funds, which are separate sets of accounts within the Consolidated Fund. Similar to our opinion on the

summary financial statements (Volume 3), this opinion has also been qualified for unrecorded pension liabilities.

Volume 4 includes separate financial statements for special funds, crown organizations and government enterprises that have been included in the summary financial statements for March 31, 1995.

## **Special Funds**

There are eleven special funds included in the summary financial statements but only seven special funds statements have been prepared and included in Volume 4. A separate audit opinion is provided for only one of those special funds statements. For March 31, 1995, the Provincial Auditor provided an unqualified opinion on the Fiscal Stabilization Fund. Accounting information for the remaining four special funds not reflected in Volume 4 can be found in the Trust Fund component of the Consolidated Fund (Volume 1). Separate financial statements have not been prepared for Holdback Accounts - Builders' Liens and Contractual, Land Titles Assurance Fund, Manitoba Law Reform Commission, and Victims Assistance Fund. Accordingly there are also no audit opinions regarding these funds.

There is a need to disclose a summary of transactions for each special fund, however, we are not suggesting that separate audit opinions are required for each special fund statement. These accounts fall within our audit scope for the Consolidated Fund, but the operating activities of these special funds have not been clearly segregated within the Trust section of Volume 1 of Public Accounts. As long as these special funds remain as separate entities outside of the Consolidated Fund, separate accounting disclosure is appropriate. Alternatively, these special funds could be integrated with departmental transactions if their special fund status was removed.

## **Crown Organizations**

Volume 4 includes the financial statements for 27 of the 28 crown organizations included in the summary financial statements. A separate financial statement for the Multi-Material Stewardship Board was not prepared for March 31, 1995 and consequently there is no audit opinion for this entity. Department of Finance officials have indicated that this entity was not operational as at March 31, 1995, although over \$1 million had been collected and set aside in trust on behalf of the Board. Page 2-8 of the Trust Fund accounts (Volume 1) reflects the transactions and balance held in trust on behalf of the Board.

Of the 27 crown organizations included, 14 were audited by the Provincial Auditor and 13 were audited by private sector auditors. Qualified opinions were issued as

follows:

- Deer Lodge Centre Inc. - financial statements do not include the accounts for the Prosthetic and Orthotic Services Division;
- Horse Racing Commission - unrecorded pension liabilities;
- Legal Aid Services Society of Manitoba - unrecorded pension liabilities;
- Special Operating Agencies Financing Authority - unrecorded pension liabilities; and
- Universities Grants Commission - unrecorded pension liabilities.

## Government Enterprises

Financial statements for all 26 government enterprises included in the summary financial statements have been reproduced in Volume 4 of the Public Accounts for March 31, 1995. Audit opinions on 14 of these enterprises were provided by the Provincial Auditor and 12 audit opinions were provided by private sectors auditors. Audit qualifications were issued as follows:

- Liquor Control Commission - capital assets are not amortized and unrecorded liabilities for pension costs, vacation pay, retirement allowances and workers compensation;
- Manitoba Agriculture Credit Corporation - unrecorded pension liabilities;
- Manitoba Centennial Centre Corporation - unrecorded pension liabilities; and
- Manitoba Crop Insurance Corporation - unrecorded pension liabilities.

The aggregate impact of unrecorded pension liabilities is included with our audit opinion reservation on the summary financial statements for the year ended March 31, 1995. Other audit opinion reservations were not considered material in relation to the summary financial statements for the government.

We recommend the government prepare individual financial statements for all accounting entities included in the summary financial statements and reproduce all such statements, other than the Consolidated Fund, in Volume 4 of the Public Accounts.

### *Comments of Officials*

*We concur with this recommendation and will implement it for the 1995-96 Public Accounts.*



## TIMING AND RELEASE OF PUBLIC ACCOUNTS

Last year the Provincial Auditor reported some improvement in the timing of releasing Public Accounts. The 1993/94 summary financial statements (Volume 3) were released on November 28, 1994 and the Consolidated Fund statements together with supplementary information (Volumes 1 and 2) were released on October 18, 1994. The Provincial Auditor also reported that further improvements were required to maximize the usefulness of the Public Accounts.

For the 1994/95 Public Accounts we are pleased to report further progress. The 1994/95 summary financial statements (Volume 3) were released on October 27, 1995 and the Consolidated Fund statements together with supplementary information (Volumes 1 and 2) were released on September 29, 1995.

These improvements are commendable, however, further advancements would be desirable. To achieve further significant advancements in the timing of Public Accounts, such as a June release date, major revisions to central accounting systems are needed. Major re-engineering efforts to modernize accounting systems can be expensive and will take considerable time to implement. We believe there are significant opportunities in this area through the "Better Methods" initiative currently underway in the government. We commend the government for its leadership with this initiative.

Regardless of how soon after the fiscal year end that the Public Accounts are generated, we are also concerned about the staggered dates between the release of Volume 3 and the release of Volumes 1 and 2. In prior years Volumes 1 and 2 have been released before Volume 3. Volume 3 includes the summary financial statements of the Province. These statements contain the most comprehensive accountability information for government activities. Volumes 1 and 2 include only the financial statements and supplementary information for the Consolidated Fund. By releasing the Consolidated Fund in advance of the summary financial statements, there is a risk that the importance of the summary financial statements, which in our opinion is the main accountability document of the government to the legislature, may be diminished. In our view this is inappropriate.

We recommend the government coordinate the completion of Volumes 1, 2 and 3 of the Public Accounts so that these three volumes are released simultaneously.

### *Comments of Officials*

*In order to accomplish this within the present accounting system the release dates of Volumes 1 and 2 would be delayed. Earlier preparation of Volume 3*

*will be considered as part of the requirements for the new accounting system when it is developed. However, it would not be appropriate to delay release of the financial results of the Consolidated Fund, which is used to deliver most of the Government's programs and represents the primary focus of investors and rating agencies.*

## **OTHER CHANGES IN ACCOUNTING POLICIES AND FINANCIAL DISCLOSURE**

In our report last year we discussed the importance of accrual accounting concepts.

We are pleased to note that the government amended its accounting policies for the year ended March 31, 1995 to properly record vacation pay liabilities and federal transfer payments for personal and corporate income taxes. Other amendments were also made to eliminate some detailed schedules and unnecessary notes from the Operating Fund financial statements to make them more "user friendly". We concur with the changes made.

We are also pleased that Finance officials, at a recent Public Accounts Committee meeting, agreed to provide a summary of reconciling items between reported deficit amounts in Volume 1 and Volume 3 of Public Accounts and to provide improved cross-referencing of significant amounts reported in the Public Accounts.

Also in our report last year we commented on the PSAAB research study in process regarding accounting for tangible capital assets in the public sector which has been in process for several years.

Currently most governments in Canada, including Manitoba, do not capitalize and amortize in their financial statements acquired tangible physical assets, such as buildings, roads, equipment, water systems, aircraft, computers, vehicles, dams and bridges. Costs of these assets are treated as expenditure in the year of acquisition, although they provide ongoing benefits over a period of time.

Tangible capital assets are a significant economic resource managed by governments and a key component in the delivery of many government services. In our view there are several benefits to adopting amortization policies for tangible capital assets.

Legislators, investors and the public are increasingly concerned about the cost of government services, and there is a growing acceptance that including information in government financial statements about the consumption of physical assets would help address the concern. PSAAB has proposed that the cost of tangible capital assets should be amortized over the period expected to benefit from their use.

Finally, recording physical assets in government financial statements would subject those assets to accounting controls and therefore further enhance the stewardship over all assets owned by the public.

Currently Manitoba does not maintain any central accounting or inventory records of capital assets owned by the government. Furthermore, our review of this area indicates that departmental records and practices are inconsistent and fragmented and there is no central reporting of capital assets. This is an important area, involving large dollar values, that requires improved accountability. We believe the start-up efforts to begin accounting for physical assets would be significant. Therefore any initiatives in this direction should be managed in stages, starting with those assets that are readily identifiable and easily measured.

We recommend the government adopt a phased-in approach towards initiating inventory counts of all physical assets owned by the government, towards establishing central accounting policies and procedures for monitoring physical assets and towards disclosure of the costs and amortization of physical assets in the Public Accounts in compliance with PSAAB recommendations.

*Comments of Officials*

*It should be noted these PSAAB recommendations are still draft and subject to review and change. However, we concur that it is timely to initiate a process to develop the information required for the disclosure of physical assets in the Public Accounts.*

\* \* \* \* \*



Office of  
the Provincial Auditor

12th Floor - 405 Broadway  
Winnipeg, Manitoba, CANADA  
R3C 3L6

## AUDITOR'S REPORT

### To the Legislative Assembly of Manitoba

In accordance with section 14 of The Provincial Auditor's Act, we have audited the consolidated statements of financial position and accumulated deficit of the Government of the Province of Manitoba as at March 31, 1995 and the consolidated statements of revenue and expenditure and changes in financial position for the year then ended. These summary financial statements are the responsibility of the Government of the Province of Manitoba. Our responsibility is to express an opinion on these summary financial statements based on our audit.

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

In accordance with the accounting policy stated in note 1C2b to the summary financial statements, the Government does not fully record its pension liabilities and the costs associated with the annual increase in the pension liabilities for entitlements earned by its employees, contributors to the Teachers' Retirement Allowances Fund and Members of the Legislative Assembly in its summary financial statements. This accounting policy is consistent with that of prior years, however, it does not result in fair presentation.

Note 9 to the summary financial statements advises that the unrecorded pension liabilities are estimated to be \$1.924 billion as at March 31, 1995. Had the Government recorded the pension liabilities in its summary financial statements, liabilities and accumulated deficit would be increased by an estimated \$1.924 billion as at March 31, 1995. Because a significant portion of this amount has been estimated using best available information, we are unable to determine the effect on expenditure and the annual deficit.

In our opinion, except for the failure to record pensions as described in the preceding paragraphs, these summary financial statements present fairly, in all material respects, the consolidated financial position of the Government of the Province of Manitoba as at March 31, 1995 and the consolidated results of its operations and changes in its financial position for the year then ended in accordance with the accounting policies stated in Note 1 to the summary financial statements.

As required by section 14 of the Provincial Auditor's Act, we report that, in our opinion, the stated accounting policies have been applied, except for the change to full accrual accounting for accounts receivable, vehicle registration revenue and vacation and overtime payable and the accounting policy changes made by the Manitoba Housing and Renewal Corporation as explained in Note 11 to the summary financial statements, on a basis consistent with that of the preceding year.

*Carol Bellringer*

Winnipeg, Manitoba  
October 23, 1995

Carol Bellringer, CA  
Provincial Auditor

## SELECTED PUBLIC SECTOR ACCOUNTING AND AUDITING BOARD (PSAAB) STANDARDS APRIL, 1996

### CONCEPTS & PRINCIPLES

#### Objectives of Government Financial Statements

- **Objective 1**

Financial statements should communicate reliable information relevant to the needs of those for whom the statements are prepared, in a manner that maximizes its usefulness. As a minimum, this requires information that is clearly presented, understandable, timely and consistent. [Nov. 1984] {PS 1400.23}

- **Objective 2**

Financial statements should provide an accounting of the full nature and extent of the financial affairs and resources for which the government is responsible including those related to the activities of government agencies and enterprises.[Nov. 1984] {PS 1400.29}

- **Objective 3**

Financial statements should demonstrate the accountability of a government for the financial affairs and resources entrusted to it.

- a. Financial statements should provide information useful in evaluating the government's performance in the management of financial affairs and resources.
- b. Financial statements should provide information useful in assessing whether financial resources were administered by the government in accordance with the limits established by the appropriate legislative authorities.[Nov. 1984] {PS 1400.34}

- **Objective 4**

Financial statements should account for the sources, allocation and use of the financial resources required by the government in the period.

- a. Financial statements should account for all government expenditures by nature and purpose, all revenues by source and type and the extent to which revenues were sufficient to meet expenditures.
- b. Financial statements should show how government financed its activities in the period and how it met its cash requirements. [Nov. 1984]{PS 1400.39}

- **Objective 5**

Financial statements should present information to display the state of a government's finances.

- a. Financial statements should present information to describe the government's financial condition at the end of the accounting period.
- b. Financial statements should provide information that is useful in evaluating the government's ability to finance its activities and to meet its liabilities and commitments. [Nov. 1984] {PS1400.48}

## GENERAL STANDARDS OF FINANCIAL STATEMENT PRESENTATION

### General Reporting Principles

- 1500.05 • The financial statements of a government should be clearly identified and should include or be accompanied by an acknowledgment of the government's responsibility for their preparation. [Nov. 1986]
- 1500.07 • Notes and schedules that are integral to the financial statements should be clearly identified. [Nov. 1986]
- 1500.10 • Financial statements should present any information required for the fair presentation of a government's financial condition and results of operations. [Nov. 1986]
- 1500.13 • Financial statements should be presented in such form and use such terminology and classification of items that significant information is readily understandable. [Nov. 1986]
- 1500.15 • Financial statements should present a comparison of current period amounts with those of the prior period(s). [Nov. 1986]
- 1500.17 • The bases for determining the reported amounts of assets and liabilities should be applied consistently and, where the bases are not self-evident, they should be disclosed. [Nov. 1986]
- 1500.19 • Financial statements should be issued on a timely basis. [Nov. 1986]
- 1500.21 • Where the financial statements are subject to an independent audit, the auditor's report should be appended to the statements. Unaudited financial statements should be clearly identified as such. [Nov. 1986]
- 1500.12 • Financial statements should present the substance of transactions and events. [Nov. 1986]
- 1500.28 • Notes and supporting schedules in financial statements should not be used as a substitute for proper accounting treatment. [Nov. 1986]

### STANDARDS OF DISCLOSURE

- 1500.32 • Financial statements should include a statement of financial position, a statement of

revenues and expenditures and a statement of changes in financial position.  
[Nov. 1986]

#### Reporting financial condition

- 1500.35 • The statement of financial position should account for the difference between a government's liabilities and financial assets at the end of the accounting period.  
[Nov. 1986]

#### Liabilities

- 1500.39 • The statement of financial position should report a government's liabilities at the end of the accounting period segregated by main classifications, such as:
- a. Accounts payable and accrued liabilities;
  - b. Employee pension obligations;
  - c. Borrowings; and
  - d. Loans and advances from other governments. [Nov. 1986]
- 1500.40 • Financial statements should disclose adequate information about the nature and terms of a government's liabilities. [Nov. 1986]

#### Financial assets

- 1500.48 • The statement of financial position should report a government's financial assets at the end of the accounting period segregated by main classifications, such as:
- a. Cash and temporary investments;
  - b. Revenues receivable;
  - c. Inventories for resale;
  - d. Loans and advances to other governments;
  - e. Other loans and advances; and
  - f. Investments. [Nov. 1986]
- 1500.53 • Valuation allowances should be used to reflect financial assets at their net recoverable or other appropriate value. [Nov. 1986]

#### Financial commitments

- 1500.56 • Financial statements should disclose information to describe a government's material financial commitments at the end of the accounting period. [Nov. 1986]

#### Contingencies

- 1500.60 • Financial statements should disclose information to describe a government's material contingencies at the end of the accounting period. [Nov. 1986]

#### Acquired physical assets

- 1500.65 • Financial statements should disclose information to describe a government's acquired physical assets on hand and available for use by the government at the end of the accounting period. [Nov. 1986]



**Reporting government financial activities**

- 1500.70 • The statement of revenues and expenditures should account for the difference between a government's revenues and expenditures of the accounting period adjusted for changes in valuation allowances in the accounting period. [Nov. 1986]

**Expenditures**

- 1500.72 • Expenditures should be accounted for in the period the goods and services are acquired and a liability is incurred, or transfer payments are due. [Nov. 1986]
- 1500.74 • The statement of revenues and expenditures should report a government's expenditures of the accounting period by function or major program. [Nov. 1986]
- 1500.76 • Financial statements should disclose a government's expenditures of the accounting period by object of expenditure. [Nov. 1986]
- 1500.79 • Financial statements should disclose the gross amounts of expenditures. [Nov. 1986]

**Revenues**

- 1500.81 • Revenues should be accounted for in the period in which the transactions or events occurred that gave rise to the revenues. Items not practicably measurable until cash is received would be accounted for at that time. [Nov. 1986]
- 1500.84 • The statement of revenues and expenditures should report a government's revenues of the accounting period segregated by significant types of revenues from taxes, non-tax sources and transfers from other governments. [Nov. 1986]
- 1500.86 • Financial statements should disclose the gross amounts of revenues. [Nov. 1986]
- 1500.89 • The statement of revenues and expenditures should report changes in valuation allowances in the accounting period. [Nov. 1986]

**Reporting changes in financial position**

- 1500.92 • The statement of changes in financial position should report how a government financed its activities in the period and how it met its cash requirements, including:
- (a) the changes in a government's cash and cash equivalents during the accounting period; and
  - (b) a government's total cash requirements during the accounting. [Nov. 1986]
- 1500.93 • The statement of changes in financial position should classify cash flows by operating, investing and financing activities. [Nov. 1986]
- 1500.94 • The statement of changes in financial position should report significant non-cash items. [Nov. 1986]



**Reporting Legislative Control and Financial Accountability****Comparison of planned and actual results**

- 1500.98 • Financial statements should present a comparison of the actual results with those originally forecast by the fiscal plan. [Nov. 1986]
- 1500.100 • Planned results should be presented on a basis consistent with that used for actual results. [Nov. 1986]

**Reporting on legislative authority**

- 1500.103 • Financial statements should present information to show where a government has exceeded its borrowing, investing or expenditure authority limits. [Nov. 1986]

**FINANCIAL REPORTING ENTITY  
FEDERAL, PROVINCIAL & TERRITORIAL GOVERNMENTS**

**Introduction**

- 1600.13 • The government reporting entity should comprise the organizations which are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature and which are owned or controlled by the government. [Nov. 1988]

**Accounting For Government Organizations**

- 1600.23 • Government financial statements should consolidate the financial statements of organizations comprising the government reporting entity, except for government enterprises, which should be accounted for by the modified equity method. [Nov. 1988]

**Accounting for Other Long-Term Investments**

- 1600.26 • Government financial statements should account for long-term investments in organizations that do not form part of the government reporting entity by the cost method. [Nov. 1988]

**Financial Statement Presentation and Disclosure**

- 1600.29 • Government financial statements should disclose, in a note or schedule, a listing (or reference to a listing) of organizations comprising the reporting entity, separately identifying those that are consolidated and those that are accounted for by the modified equity method. [Nov. 1988]
- 1600.33 • Government financial statements should disclose, in the notes or schedules, condensed supplementary financial information relative to government enterprises. Such financial information should be provided on:
- (a) the financial position and results of operations including:
- (i) total assets and liabilities segregated by main classification;
  - (ii) net assets or liabilities;

- (iii) total revenues and expenses; and
  - (iv) net income or loss for the period;
- (b) the nature and amount of any material adjustments of the net assets or the net income, as shown in the enterprises' financial statements, to arrive at the amount included in the government's statement of financial position and statement of revenues and expenditures;
  - (c) material transactions and balances with other organizations included in the government reporting entity; and
  - (d) material financial commitments and contingencies. [Nov. 1988]
- 1600.35 • Government financial statements should disclose, in a note or schedule, any restrictions on the use of the net assets of a government enterprise. [Nov. 1988]

#### **Trusts Under Administration**

- 1600.38 • Trusts administered by a government or government organization should be excluded from the government reporting entity. [Nov. 1988]
- 1600.40 • Government financial statements should disclose, in a note or schedule, a description of trusts under administration by a government or government organization, and a summary of trust balances. [Nov. 1988]

### **DISCLOSURE OF ACCOUNTING POLICIES**

#### **Disclosure**

- 2100.03 • A clear and concise description of all significant accounting policies of a reporting entity should be included as an integral part of its financial statements. [Sept. 1983]

#### **Content**

- 2100.09 • As a minimum, disclosure of information on accounting policies should identify and describe:
- (a) the reporting entity and, where applicable, the method of consolidation or combination;
  - (b) the basis of accounting used in the financial statements; and
  - (c) the specific accounting policies selected and applied to significant assets, liabilities, revenues and expenditures. [Sept. 1983]

#### **Presentation**

- 2100.11 • All significant accounting policies of a reporting entity should be disclosed in one place [Sept. 1983]

**Disclosing changes in accounting policy**

- 2100.14 • Whenever there is a change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods, the nature of the change, the reason for it and its effect on the financial statements of the current period should be disclosed in a separate note. [Sept. 1983]

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# ACCOUNTABILITY FRAMEWORK FOR DEPARTMENTS

## INTRODUCTION

Manitoba, like many other jurisdictions, is facing difficult challenges in the years ahead. The business of government has grown over the past decades to the point where it is involved in many aspects of a citizen's life. Factors such as fiscal restraint, deregulation, increased competition and the effects of an aging baby boom generation on program demands have put pressure on government to make tough decisions about which programs and services should be maintained as they are, which programs and services need to be altered to become more economical, efficient and effective in meeting legislative objectives and which programs and services should be abandoned. Governments, in virtually all jurisdictions, have been taking steps to improve accountability systems to ensure these activities are appropriately managed.

It is through the Budget and Estimates process that the government establishes its programs, policies and services. Members of the Legislative Assembly, particularly members of the opposition parties, on behalf of the public, challenge the government on its programs, policies and services and hold the

government accountable for its operations. It does so by examining broad public policy areas where the decisions of government often carry a high price tag, and, more recently, by questioning government as to the outcomes it seeks and results it has achieved. The existing system has evolved continually to enhance the quality of information available to government and legislators. However, the fundamental conclusion of this report is that the yardsticks have moved and that further significant improvements are required to the accountability framework.

To exercise effective governance Members of the Legislative Assembly require appropriate information on the overall priorities of the government and on the purpose, objectives, strategies, expected results and performance of government departments. They also require information that clearly links program revenues and expenditures to program performance. Information is required at the start of the fiscal

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We wish to thank those Members of the Legislative Assembly and senior government officials who participated in this review. Their views helped to shape the opinions expressed in this report. We would also like to acknowledge the public sector leaders in Manitoba, both elected and administrative, for their ongoing commitment to improving public accountability.

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year, followed by subsequent suitable accounting and adequate reporting at the end of the fiscal year. The better the information provided, the better the Legislative Assembly can exercise effective governance.

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“Members of governing bodies need support in discharging their due diligence, fiduciary and accountability responsibilities. This support requires a partnership of interest between executive management, members of the governing bodies and professionals.”

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1 Excerpt from Canadian Comprehensive Auditing Foundation publication on effective governance.

Management also requires appropriate information to help them manage their human and physical resources with due consideration for economy, efficiency, effectiveness and equity. While management needs more detailed information than their governing bodies, their information needs should be aligned. It is important that management and their governing bodies work cooperatively to ensure organizational objectives are clear and measurable and that the organization’s information system serves both their needs.

Accountability reporting should be a natural extension of the organization’s management processes. For accountability reporting to be effective, management must be willing to expose failures and governing bodies must react to these results in a manner that facilitates organizational change.

The government recently underlined its commitment to improving management and accountability. In the Throne Speech to open the Second Session of the Thirty-Sixth Legislature, the Lieutenant Governor stated:

“One of my government’s guiding principles has been a commitment to improving management and accountability. Innovation in the provision of public services by promoting ongoing program review, performance measurement, and customer service standards is occurring across all provincial departments and agencies.....

As we meet the challenge of preserving priority services, our province cannot stand still nor be afraid to change the way we do things. My government will continue to make needed changes and calls upon all members of this House, our partners in the public sector and all Manitobans to put forward ideas and solutions that will meet the needs of Manitobans now and into the 21st century.”

## AUDIT OBJECTIVE

We have conducted an audit to determine whether an effective accountability framework for departmental operations has been developed which provides the Members of the Legislative Assembly with sufficient, appropriate and timely

information to assist them in exercising effective governance over departmental operations.

We completed this audit in two phases. In Phase 1 we assessed whether key accountability reports were prepared and tabled on a timely basis. The results of this part of our audit were initially presented in Volume 1 of our 1994/95 Report (released December 1994). An update was presented in Volume 3 of our 1994/95 Report (released September 1995).

In Phase 2 we assessed whether members are provided with sufficient and appropriate information.

In this Report we present the results of Phase 2 and summarize and update our work regarding frequency, tabling and timing.

## SUMMARY CONCLUSIONS AND FINDINGS

In our opinion, the accountability framework for departmental operations requires significant further improvement to provide the Members of the Legislative Assembly with sufficient and appropriate information to assist them in exercising effective governance over departmental operations. With respect to timeliness we concluded that the annual reports for the 1994/95 fiscal year were generally tabled in a timely manner (a significant improvement over prior years), but that the estimates supplements for certain major departments for the 1994/95 fiscal year were not tabled in sufficient time to allow detailed analysis before the commencement of Committee of Supply. We noted that the government took the important initiative of moving up the deadline for tabling of the annual reports by two and a half months.

Certain of our detailed findings include:

- An accountability framework for departments is not entrenched in the Financial Administration Act. Bill 55 (The Financial Administration and Consequential Amendments Act), when passed will entrench certain elements of an accountability framework in legislation. Also, only certain aspects of an accountability framework are currently required by government policy.
- Required accountability reports are not sufficiently monitored for quality.
- Our audit criteria require the disclosure of considerable information that is not required by the Department of Finance Instructions for both the estimates supplements and the annual reports. We believe that our audit criteria better respond to contemporary public expectations on accountability.

- It is important to note that the existence of the estimates supplements, which few other jurisdictions produce, represents an important component of the accountability process. However, we found public information on the plans and performance of departments contained in departmental estimates supplements and annual reports is focused predominantly on inputs, activities and compliance with spending authorities. In many respects, departments are not complying with the general intent of the estimates supplements and annual report instructions.
- All departments, except for Legislative Assembly and Executive Council, prepare estimates supplements and annual reports. However, not all service appropriations prepare these reports.
- The timing of estimates supplements could be improved. Seven departments comprising 60% of voted expenditure did not table their estimates supplements a week or more in advance of debate.
- The timeliness of the tabling of departmental annual reports has improved considerably for the 1994/95 fiscal year.
- Tabled annual reports are not referred to a standing committee of the Legislative Assembly for review and approval.
- There is currently no requirement to audit or review departmental planning and performance reports. However, departments are not currently well positioned to develop auditable management representations related to such reports.

As a result of our audit we developed a number of recommendations aimed at improving the planning and performance information made regularly available to the Members of the Legislative Assembly and the public. We believe that better information on performance will ultimately lead to enhanced performance. Our recommendations are included in the body of this section of our report.

The costs associated with implementing new accountability reporting standards are not readily determinable. However, certain of our audit criteria could be implemented at little or no incremental cost by better utilizing existing resources. For example, linking revenues to the related program expenditures, better disclosure or integration of available planning and performance information, enhanced linkage of objectives to activities and to expected results, better disclosure of identifiable programs and better linkage of actual to expected results would enhance the current accountability information. Some information may have to be created and as such may require the development of a better framework for planning and performance measurement. This may necessitate greater investment initially and over time in government infrastructure. Information about the planned and actual results of a



government's performance is important to public sector managers and legislators because it allows independent assessments of whether the public is getting good value for money. This, we believe, contributes to better management of resources by motivating managers to shift from short-term decision making to a behaviour that weighs the long-term benefits of an action against all of the costs. We believe improved accountability reporting will provide returns over time, through better use of public resources, that far outweigh the costs.

We understand that considerable effort and time is required to implement an effective accountability framework and that there are many different approaches to implementation. In our opinion, the government should legislate an accountability framework in the short-term and pursue full implementation within a reasonable time frame. This would encourage departments to build action plans for improving planning, performance measurement and reporting processes within their planning documents. Implementing an effective accountability framework in the short-term re-enforces the government's commitment, as reflected in the Throne Speech, to open and accountable government.

## AUDIT SCOPE AND APPROACH

Our audit focused on two key accountability documents, the departmental estimates supplement and the departmental annual report, required by the Legislative Assembly.

### *Audit Criteria*

Table 1 discloses what we believe should be the main elements of an accountability framework for departments including service appropriations. Our detailed audit criteria are based on these main elements and are reproduced in Exhibit 1.

**Table 1**

<b>MAIN ELEMENTS OF AN ACCOUNTABILITY FRAMEWORK FOR DEPARTMENTS</b>
<b>Accountability is necessary when responsibility is assigned and authority is delegated.</b>
<b>LEGISLATION</b>
1. Legislation should set out the main elements of an accountability framework. These elements would include: <ul style="list-style-type: none"> <li>• responsibilities assigned,</li> <li>• nature of accountability information to be reported,</li> <li>• frequency, timing and tabling of accountability reports, and</li> <li>• audit requirements.</li> </ul>



<b>MAIN ELEMENTS OF AN ACCOUNTABILITY FRAMEWORK FOR DEPARTMENTS</b>
<p><b>RESPONSIBILITIES ASSIGNED</b></p> <p>2. The responsibilities and reporting relationships of key individuals within the department should be clearly established and documented.</p> <p>3. A central agency should be responsible for developing and maintaining accountability reporting policies and procedures which provide guidance on the purpose, form, format, content and timing of required accountability reports.</p> <p>4. An office or standing committee of the Legislative Assembly should monitor required accountability reports for compliance with legislated and policy requirements and report to the Legislative Assembly on the results of its monitoring.</p>
<p><b>NATURE OF ACCOUNTABILITY INFORMATION TO BE REPORTED</b></p> <p>5. A department should prepare planning and performance information. This information should be provided to the Legislative Assembly through scheduled specific purpose accountability reports.</p> <p>6. Planning information should include a description of what the department is all about and what it plans to achieve.</p> <p>7. Performance information should include a description of what the department has achieved in relation to its plans.</p> <p>8. Accountability information should be understandable.</p> <p>9. The cost of providing accountability information should not exceed the expected benefit.</p>
<p><b>FREQUENCY, TIMING AND TABLING OF ACCOUNTABILITY REPORTS</b></p> <p>10. Accountability reports should be made available to the Legislative Assembly and the public on a timely basis.</p> <p>11. Accountability reports should be tabled in the House and referred to an appropriate legislative committee for review and debate.</p>
<p><b>AUDIT REQUIREMENTS</b></p> <p>12. Published information should be subject to an appropriate level of audit or review.</p>

In developing our main elements for an accountability framework and our audit criteria, we consulted with legislative auditors in other jurisdictions; studied aspects of reforms underway in Alberta, British Columbia, Ontario, Nova Scotia, New Zealand, the United Kingdom, and the United States; conducted a review of the current literature, including the CCAF's effectiveness reporting framework; surveyed all MLAs; conducted detailed interviews with eight MLAs; reviewed Hansard for the 1994/95 Committee of Supply and Public Accounts Committee debates; interviewed eight senior government officials and solicited written comments from a further ten; and reviewed the existing reporting framework within the Province. As a result, we believe that our criteria build on the existing reporting framework, address the

information needs of MLAs in performing their governance responsibilities and are representative of initiatives undertaken by other jurisdictions in Canada and internationally. Exhibit 2 provides details regarding our interviews and surveys of MLAs, our review of Hansard and discussions with senior government officials.

Our audit was conducted in accordance with public sector auditing standards and, accordingly, included such tests and other procedures as we considered necessary in the circumstances.

We performed detailed reviews of the accountability reporting practices for 10 departments. The departments selected account for 87% of the total estimated expenditure for the 1995/96 fiscal year. We selected one sub-appropriation from each department for our examination of program reporting. The sub-appropriations we selected for review accounted for more than 35% of the total estimates of expenditure for the 1995/96 fiscal year. We also scanned the entire department reports to determine whether program reporting was of consistent quality between programs.

## **BACKGROUND INFORMATION**

We believe the information contained in this section provides necessary contextual material needed to understand our findings and recommendations. We have organized this material under the following headings:

- What We Mean by Accountability and Governance.
- The Existing Accountability Framework.

### **What We Mean By Accountability and Governance**

Accountability can be defined as the obligation of an individual or entity to answer for a responsibility assigned by a governing body. A strong overall accountability framework must ensure that there is a clear understanding between both parties regarding:

- who is responsible for what;
- the performance expectations of the governing bodies; and
- the reporting requirements.

The concept of governance is very much related to the concept of accountability. By governance we mean the responsibilities and action of governing bodies. While the organization to whom a responsibility has been assigned is accountable to the governing body, the governing body remains responsible for ensuring that the

assigned responsibilities are exercised in a manner consistent with their expectations. Governing bodies, in the public sector, are themselves accountable to the public. The exercise of effective governance requires an understanding by the governing bodies of their roles, responsibilities and accountabilities, of the critical success factors and strategic objectives of the reporting entity, and the information needed to form reasoned assessment of the reporting entity's purpose, objectives, strategies and performance in relation to its objectives. Effective governance must take into account the organization's strengths and weaknesses that have influenced the design of the accountability framework.

A strong overall accountability framework depends on the individual strengths in legislation, people, structure, and process. Such a framework would include:

- effective control systems;
- stable policy framework;
- attainable performance targets;
- effective accountability reporting; and
- a comprehensive audit framework.

The design of the accountability framework will differ between organizations and evolve over time because the framework will be influenced by:

- departmental culture;
- the abilities of the management team;
- the soundness of the performance targets;
- financial exposure; and
- personalities.

An effective accountability framework requires that the government be clear about both intended and actual results. Therefore, the framework must be integrated with a departmental performance management system that includes:

- clear objectives;
- effective strategies;
- aligned management systems;
- performance measurement and reporting; and
- real consequences for the success and failure of programs.

## **The Existing Accountability Framework**

A Legislator's and the public's primary sources of departmental fiscal operating information are the: Throne Speech, Budget, Estimates, Supplementary Information for Legislative Review (Estimates Supplement), Quarterly Financial Reports, Public

Accounts, and departmental annual reports. The Legislators and the public are also provided with summary comments and analysis of this information through the news media.

## DETAILED FINDINGS AND RECOMMENDATIONS

We have organized our findings and recommendations under the following headings consistent with our main elements of an accountability framework for departments:

- Legislation.
- Responsibilities Assigned.
- Nature of Accountability Information to be Reported.
- Frequency, Tabling and Timing.

## LEGISLATION

### *What we expected*

The main elements of a departmental accountability framework should be entrenched in legislation. These elements would include:

- responsibilities assigned,
- nature of accountability information to be reported,
- frequency, timing and tabling of accountability reports, and
- audit requirements.

Enshrining these elements in legislation validates the accountability process and enhances the likelihood that the process will be effectively implemented. In addition, the process of approving the legislation will provide all Members of the Legislative Assembly with an opportunity to influence the framework to ensure that it functions in everyone's best interests.

### *What we found*

In 1982 and 1985 Treasury Board approved government-wide policies stating that annual reports and estimates supplements, respectively, were mandatory for all departments. These government-wide policies are generally not supported by legislation.

The Financial Administration Act and the Executive Government Organization Act do not contain any departmental accountability requirements.

Bill 55 of the 2nd Session of the Thirty-sixth Legislature titled The Financial Administration and Consequential Amendments Act (first reading on May 16, 1996) assigns to Treasury Board the responsibility for the government's accountability framework. This includes "ensuring accountability of the government departments to the Legislature for the delivery of government programs..." The Bill also requires that estimates supplements be prepared and tabled by departments "...at the time, in the form and containing the information about the operation of the department ... required by Treasury Board." With respect to annual reports the Bill requires government departments to "... prepare a report on its operations in the fiscal year ..." and to table the report within six months of its fiscal year end if the House is in session or within 15 days of the opening of the next session of the House. We note however that the Bill does not require that departments include in their annual reports the information about the operations of the department required by Treasury Board. The Bill is silent regarding audit requirements for departmental reports.

We commend the government for their decision to amend The Financial Administration Act. We support these amendments and encourage the government to also include in a future revision of The Act specific expectations regarding the nature of accountability information to be reported and audit requirements. We believe our criteria are a good base from which the government could determine the nature of accountability to be reported.

## **RESPONSIBILITIES ASSIGNED**

### *What we expected*

We expected that a central agency would be responsible for developing and maintaining accountability reporting policies and procedures that provide guidance on the purpose, form, content and timing of required accountability reports.

An office or standing committee of the Legislative Assembly should monitor the required accountability reports for compliance with legislated and policy requirements and report to the Legislative Assembly on the results of its monitoring.

The responsibilities and reporting relationships of key individuals within the department should be clearly established and documented.

*What we found - Policies and Procedures*

The Department of Finance is assigned the responsibility to coordinate the estimates supplement and annual report initiatives and to develop instructions on format and content. The Department is also responsible to provide advice and information to departments pertaining to the Instructions for estimates supplements and annual reports, to provide feedback on the documents prepared and, on an ongoing basis, to consider such amendments to the Instructions that may contribute to the increased effectiveness of departmental reporting.

Significant revisions to the instructions regarding content were last made in November 1992 for estimates supplements and in April 1993 for annual reports.

The audit findings discussed in the following section indicate that revisions to the Instructions are now needed.

*What we found - Monitoring*

We found that the required accountability reports are not monitored by an office or standing committee of the Legislative Assembly or by a central agency for compliance with legislated and policy requirements. Monitoring the quality and timing of accountability reports would, in our view, better ensure compliance with established requirements. These requirements should incorporate the information needs of the Legislative Assembly.

We recommend that processes be developed to provide the Legislative Assembly with assurance that the required accountability reports are monitored for compliance with legislated and policy requirements.

*Comments of Officials*

*As is the case with all policy decisions of the Government, an expectation is established that Departments will accept the responsibility for and, indeed, ownership of the accountability structure developed within each Department. Department executives are able to request assistance from the recently centralized internal Audit Services Branch in the evaluation of their proposed framework and whether it meets the needs of good accountability reporting.*



## NATURE OF ACCOUNTABILITY INFORMATION TO BE REPORTED

### *What we expected*

We expected that each department and service appropriation would prepare planning and performance information and that this information would be understandable, cost-effective and provided to the Legislative Assembly through scheduled specific purpose accountability reports.

Specifically, we expected that planning information would include a description of what the department or service appropriation is all about and what it plans to achieve. We also expected that performance information would include a description of what the department or service appropriation has achieved in relation to its plans.

### *What we found*

As illustrated in Table 2, there is considerable information beyond that required by the Department of Finance Instructions for both the estimates supplement and the annual report that would enhance accountability. We note that the Department of Finance Instructions were developed several years ago and at that time reflected the level of accountability reporting that was considered the most appropriate. Demands on limited public resources have resulted in an increased interest in accountability reporting and for more transparency. We believe that contemporary public expectations of accountability are more comprehensive than current practices. As a result, in our view, the stated purposes of the estimates supplement and annual report documents, do not adequately address the information needs of today's governing bodies, including the Legislative Assembly, to ensure the effective governance of public resources.

**Table 2**

<b>Accountability Information Not Currently Required by the Department of Finance Instructions</b>
Government policies to be complied with.
The Department's long-term objectives.
Performance indicators for each long-term objective.
Results of a needs assessment, environmental review.
A program's key long-term objectives, the client group(s) and the delivery mechanism.
Outcome measures for programs, services and administrative functions.
Baseline performance levels, including service standards.



Accountability Information Not Currently Required by the Department of Finance Instructions
Program revenues.
Pro-forma financial statements.
Planned or in progress capital projects.
Factors affecting the Department's ability to achieve its objectives.
A representation on the extent of the Department's compliance with significant legislation and with government policy affecting the way in which the Department conducts its business.
Information on the efficiency with which the outputs were delivered, the extent of acceptance by the recipients and significant secondary impacts resulting from the program.
Progress toward long-term objectives.

We believe the purpose of the estimates supplements should be as follows:

**As Stated**

“provide Members of the House with supplementary information relevant to common questions raised in Committee of Supply, in order to facilitate legislative review of the printed main estimates. The information displayed in the Supplement provides a basis for the linkage between a department's Estimates and Annual Report in a manner that facilitates effective reporting and fosters departmental accountability at both the beginning and end of the fiscal year cycle.”

**As Suggested by our Office**

To provide information to the Members of the Legislative Assembly and the public that will enable them to understand what the department is all about and to assess, critique and debate the resource allocation decisions made by the government and the public policy benefits and service standards to be achieved by the department through its programs, services and administrative functions.

We believe that the purpose of a departmental annual report should be as follows:

**As Stated**

“provide information to the Legislature and the public concerning the activities undertaken and the results achieved by a department during the fiscal year to which the report pertains.”

**As Suggested by our Office**

To provide information to the Members of the Legislative Assembly and the public that will enable them to understand what the department is all about, and will enable them to assess, critique and debate the adequacy of the performance levels achieved in relation to plans disclosed in the estimates supplements.

We compared the department's estimates supplement and annual report to our audit criteria in anticipation that some departments might disclose information beyond the

requirements of the Department of Finance Instructions.

Generally, we found that departments we selected only reported information that is specifically required by the Instructions. There were some exceptions. We found three departments that published strategic plans and referred to these plans in either their estimates supplements or annual reports.

With respect to the elements of our criteria that are reflected in the Instructions, in general, we found that the ten departments included in our sample were not complying with the intent of the instructions. Information contained in departmental estimates supplements and annual reports focused predominantly on inputs, activities and compliance with spending authorities. When information dealt with objectives, performance indicators, outputs and outcomes it was often vague and of limited value in assessing the performance of the department. In many cases the linkage between the stated program objectives, program activities and expected results was not clear.

In certain departmental reports we found that the quality of program information varied significantly between the program areas. We also found that the quality of reports varied between departments.

We appreciate that objectives and outcomes are not always easy to define or measure. In addition, it may be unrealistic to expect that all outcomes be measured and reported every year. However, we believe that by shifting the focus of accountability reports to outcomes, the government will be in a better position to determine whether it is achieving the objectives it has set, and the Legislative Assembly will be in a better position to critique policy decisions.

While the reports prepared by most of the ten departments in our sample did not noticeably change in quality (or content) from one year to the next, we noticed an improvement over the last three years in the reports produced by four departments. Most notable among these is the Department of Labour. The Department of Labour has developed a Program Performance Measurement and Reporting Framework to improve the accountability and performance of its programs and services. As a result, the Department has made significant improvements in the quality of the results-oriented information included in its annual report. The Department has also improved its method of displaying the linkage between its service areas, branches and Acts administered.

We understand that significant improvement is only achievable over time but we encourage departments to examine their reports to see what improvements can be made quickly and at little or no cost.

We recommend that the government adopt new standards to guide the nature of accountability information being reported. We believe our criteria are a good base from which the government can establish improved accountability standards.

We understand that work is currently underway on the development of a Manitoba framework for Performance Measurement and Accountability Planning. We have been advised that this framework will build on the government's commitment to performance measurement and business and strategic planning, and will stress the linkage of program expenditures to outcomes and results. This framework is intended to incorporate many of the criteria we have identified as a base for improved accountability standards.

We further recommend that these new standards for estimates supplements and annual reports define the requirements for service appropriations.

#### *Comments of Officials*

*As indicated in the Throne Speech quoted earlier in this report, the Government agrees with the need for an accountability framework and the conceptual components of such a framework. Significant progress has already been made towards establishment of this framework through the development of a system of estimates supplements and more timely annual reports. The current project underway for the development of a framework for performance measurement and accountability planning is another important step in the linkage of program expenditures to outcomes and results.*

*The development of a comprehensive accountability framework within departments is a significant investment in government administrative infrastructure and should prudently occur over a period of years. It involves the development of the requisite skills to ensure an effectively functioning system as well as, a corporate culture that is willing to question, examine and evaluate program performance. In respect of the latter, the Provincial Auditors survey of program evaluation activities within departments, which is described elsewhere in this Report, has recognized the commendable interest departmental managers have shown in evaluating their programs. In total, the processes already developed and those underway substantiate the Government's commitment to improving management and accountability across those programs and services for which the Government has responsibility.*

## FREQUENCY, TABLING AND TIMING

In Volumes 1 and 3 of our 1994/95 Report we presented the results of our audit work with respect to frequency, tabling and timing. In this report we summarize and update our findings and recommendations. We have organized our findings under the following headings:

- Tabling of Estimates Supplements,
- Tabling of Annual Reports, and
- Review by the Legislative Assembly.

### Tabling of Estimates Supplements

#### *What we expected*

We expected that all appropriations would prepare and table estimates supplements at least one week before they were scheduled to be debated in Committee of Supply.

#### *What we found*

For the 1994/95 fiscal year there were 25 departmental appropriations listed in the Printed Estimates of Expenditure of the Province of Manitoba. We found that estimates supplements were tabled for 23 appropriations. Members were not provided with estimates supplements for Legislative Assembly and Executive Council. These departments traditionally do not prepare estimates supplements.

For the 1994/95 fiscal year there were five service appropriations listed in the Printed Estimates of Expenditure. We found that estimates supplements were tabled for three service appropriations. Members were not provided with estimates supplements for Canada-Manitoba Enabling Vote and Other Appropriations.

For the appropriation entitled **Other Appropriations**, estimates supplements were prepared for two of its nine main appropriations. As a result, a total of 28 estimates supplements were tabled.

We believe that Members of the Legislative Assembly would be in a better position to ask informed questions about the above noted appropriations in legislative committee debate if estimates supplements were prepared and tabled for all appropriations.

With respect to timing, we found that seven departments, comprising 60% of voted government expenditures, did not table their estimates supplement a week or more in advance of debate. There is not a lot of time between the tabling of the Printed Estimates of Expenditure and the commencement of debate in the Committee of Supply. We understand that departments may experience greater difficulty in meeting the tabling requirements if they are among the first appropriations scheduled for debate.

Informed debate in Committee of Supply is facilitated by ensuring Members of the Legislative Assembly have access to estimates supplements for an adequate period prior to debate of the appropriation. The one week period suggested in the Department of Finance Instructions is reasonable but should be considered a minimum period of time.

## Tabling of Annual Reports

### *What we expected*

For reports relating to 1994/95, we expected that all appropriations would prepare and table annual reports by September 30, following the year end.

### *What we found*

The timeliness of the tabling of departmental annual reports has improved considerably in the past year. 21 of the 23 departments that traditionally table annual reports have tabled their reports within 6 months of the year end. This compares with only one department that tabled a report in the six months after the 1993/94 fiscal year.

For 1994/95 there were five service appropriations, two of them tabled an annual report by September 30. While the service appropriation entitled **Other Appropriations** did not table an annual report, two of its nine main appropriations tabled annual reports and three of the main appropriations were included in the Department of Finance annual report.

We believe Members of the Legislative Assembly would be in a better position to evaluate program results if all service appropriations were reflected in an annual report.

## Review by the Legislative Assembly

### *What we expected*

We expected that, once tabled, accountability reports would be referred to a legislative committee for review and debate. The issue of Legislative reform was specifically identified by MLAs as a crucial element in improving accountability and performance of government (Exhibit 1).

### *What we found*

We found that the detailed estimates of expenditure and the estimates supplements are referred by motion to the Committee of Supply, a committee of the whole House. The Committee of Supply enables the Assembly to debate the rationale for policy decisions (policy outcomes) and policy alternatives examined by the government; to debate the nature of departmental and program objectives (program outcomes, outputs, inputs and compliance) and the appropriateness (difficulty and validity) of related performance standards (targets); debate the appropriateness of the relationship between expected program results and the related costs; and debate the linkage between lessons learned in prior years and their application to planned activities. The responsible Ministers, with the assistance of their Deputy Ministers and other senior officials, explain the estimates detail and respond to questions.

Currently, tabled annual reports are available to the Members in preparing for Committee of Supply debate. However, the annual reports (for departmental or service appropriations) are not referred to a Standing Committee of the Legislative Assembly for review and approval. Referring annual reports to a Standing Committee would provide a better forum for Members of the Legislative Assembly to debate the continuing relevance of programs given the results achieved; to challenge the interpretation of statistics and surveys; to challenge the appropriateness of performance standards; to debate whether appropriate actions are planned to deal with performance shortfalls and to ensure continuing performance successes. We believe that a key element of accountability is having an appropriate forum to deal with accountability reports.

Accountability is not served simply because information is reported to the Legislative Assembly. The information must be actively used to assess the performance in relation to plans. Potentially, the most effective tool available to the Assembly in this respect is the legislative committee.



In reviewing Hansard, we found that the debate on estimates and the examination of performance are both performed within the Committee of Supply. This may have occurred because the annual reports are not specifically referred to a standing committee.

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“ If we don’t increase the *power* of the legislature to *act* . . . then there is *no role* for the Legislative Assembly in *accountability*, other than exposing information and hoping somebody *else* will do something.”

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Source: Mr. D. Schreck, MLA, Member of the Select Standing Committee on Public Accounts, 1995 Legislative Session: 4th Session, 35th Parliament of British Columbia.

In our view referring annual reports to an appropriate standing committee would help focus debate in Committee of Supply to government plans and focus debate in a standing committee to government performance.

We recommend that annual reports for all department and service appropriations be referred to a Standing Committee of the Legislative Assembly in a manner currently done for crown corporations.

#### *Comments of Officials*

*In view of the already significant workload of the Legislative Assembly, it is difficult to accept this recommendation as a practical approach to the review of approximately 25 annual reports prepared by Departments.*

*During the course of this audit report, the auditors observed that information provided through Departmental Annual Reports is used in the Committee of Supply during the debate of the Department’s Estimates. In our view, the correlation of reported results with proposed spending at the Committee of Supply is appropriate and meaningful and makes this a good forum for questions on the Annual Reports. The Committee of Supply in Manitoba devotes 240 hours to the review and debate of Estimates. This is a substantial number when compared to the other provincial governments, and exceeds the amount of time allocated by far larger provinces than Manitoba. There appears to be an opportunity to review Annual Reports in this forum by making the discussions more inclusive.*

\* \* \* \* \*



## AUDIT CRITERIA FOR AN ACCOUNTABILITY FRAMEWORK FOR DEPARTMENTAL OPERATIONS

Our audit criteria are organized by Main and Subsidiary criteria. The **Main criteria**, depicted in bold print, communicate the fundamental principle to be complied with. The Subsidiary criteria, depicted as a), b), c) etc., provide more specific guidance in interpreting the main criteria. The *italic text* in support of both the Main and Subsidiary criteria provides guidance with respect to the qualitative characteristics of the actions or information required by the criteria.

### ACCOUNTABILITY IS NECESSARY WHEN RESPONSIBILITY IS ASSIGNED AND AUTHORITY IS DELEGATED

#### Legislation

1. **Legislation should set out the main elements of an accountability framework. These elements would include:**
  - **responsibilities assigned,**
  - **nature of accountability information to be reported,**
  - **frequency, timing and tabling of accountability reports, and**
  - **audit requirements.**

#### Responsibilities Assigned

2. **The responsibilities and reporting relationships of key individuals within the department should be clearly established and documented.**
  - i. *The department should assign responsibility for the overall management of the communication effort (accountability reports) to an individual or group.*
  - ii. *The program managers should be responsible for ensuring their information systems generate the required accountability information.*
  - iii. *Key individuals should understand what they are responsible for.*

- 3. A central agency should be responsible for developing and maintaining accountability reporting policies and procedures which provide guidance on the purpose, form, format, content and timing of required accountability reports.**
- 4. An office or standing committee of the Legislative Assembly should monitor required accountability reports for compliance to legislated and policy requirements and report back to the Legislative Assembly on the results of its monitoring.**
  - i. By definition, an Office of the Legislative Assembly is independent of both program management and central agencies and as a result is in a position to report objectively on departmental compliance to legislated and policy requirements.*

### **Nature of Accountability Information to Be Reported**

- 5. A department should prepare planning and performance information. This information should be provided to the Legislative Assembly through scheduled specific purpose accountability reports.**
- 6. Planning information should include a description of what the department is all about and what it plans to achieve.**
  - a) The department should describe its mandate.
    - i. The department should clearly describe how its mandate derives from its legislative authorities.*
    - ii. Legislation which establishes the department's mandate should be listed.*
    - iii. Government policies which govern the way in which the department conducts its business should be listed.*
    - iv. Significant changes from prior years should be highlighted.*
  - b) The department should describe its role and mission.
    - i. The statement should describe the what and why of the department.*
    - ii. The statement should communicate long-term direction.*
    - iii. The statement should identify the major clients and the department's relationship to them (the client's needs).*
    - iv. Significant changes from prior years should be highlighted.*

- c) The department should discuss how environmental factors, both internal and external, have impacted its plans and performance.
- i. *Specific areas include:*
- *recognition of broad governmental policy and objectives;*
  - *a description and analysis of major environmental issues, opportunities and problems confronting the department;*
  - *a description and analysis of trends in the department's client groups and their needs, and*
  - *a description and analysis of major internal issues, opportunities and concerns facing the department.*
- d) The department should disclose its key long-term objectives and describe the linkage between its objectives and government-wide goals and objectives.
- i. *The key long-term objectives should be hierarchical and congruent so it is clear how the achievement of the long-term objectives will contribute to the role and mission.*
- ii. *Where applicable, the key long-term objectives should be justified by demonstrating a straight forward linkage with the environmental factors.*
- iii. *Key long-term objectives should be measurable.*
- iv. *Significant changes from prior years should be highlighted.*
- e) The department should describe the critical performance indicators for each of its key long-term objectives.
- i. *Critical performance indicators may be measures of physical outputs, social and economic effects (outcomes), milestones, or whatever else reflects the essential management focus of the department's key long-term objectives.*
- ii. *Significant changes from prior years should be highlighted.*
- f) The department should discuss its strategy for accomplishing its key long-term objectives. This would include a description of its organization structure and its significant programs, services and administrative functions.
- i. *Significance of a program, service or administrative function can be determined by evaluating:*

- *its importance in how the department achieves its objectives. Administrative functions may have more significance than their size or nature may indicate given their impact on the rest of the organization.*
  - *its financial magnitude,*
  - *its economic, social and environmental impact, and*
  - *the interest expressed in the material by MLA's or the public.*
  - ii. *There should be a direct relationship between a specific program and a long-term objective and its related performance indicator, i.e., why was the program established? Several programs may be established to accomplish one long-term objective.*
  - iii. *Descriptions of programs, services and administrative functions should include: role and mission statement, key long-term objectives which are measurable, services to be delivered, the client group, the workforce size, composition and pay and the delivery mechanisms.*
  - iv. *Significant changes from prior years should be highlighted.*
- g) For each significant program, service and administrative function the department should disclose the annual operational and financial expected results.
- i. *Annual operational expected results should:*
    - *be explicitly stated and not just inferred from the program or service description;*
    - *identify specific client groups;*
    - *be measurable. An expected result that uses a numeric indicator of success is preferred. However, not all expected results can be quantified. Expected results should be expressed in a manner that identifies the intended impact (outcome) of the program, service and administrative function on the related client group. Identifying only the intended activities or outputs is not sufficient.*
    - *identify the baseline (current situation) so that achievement of expected results can be demonstrated, and it becomes apparent whether the expected result is seeking a little or a lot of improvement;*
    - *have a target date identified;*
    - *be explicitly linked to the organization's mission, objectives and client situation.*
  - ii. *Annual financial expected results should:*
    - *be based on sound assumptions which are clearly stated and supported;*

- *be based on planned activity levels;*
  - *include revenues;*
  - *include expenditures calculated on the full cost basis;*
  - *include capital expenditures.*
- iii. *The department should provide explanations for significant differences between the current year expected results and the prior year expected results.*
- h) The department should disclose future-oriented financial statements covering a period of at least three years. The future-oriented financial statements should be prepared on the same basis as the annual financial statements and comply with the requirements of Section 4250 of the Canadian Institute of Chartered Accountants Handbook.
- i. *The department should prepare forecasts rather than projections.*
  - ii. *Assumptions should be clearly stated and supported.*
  - iii. *The future-oriented financial statements would include those activities that do not require annual legislative authority (i.e., statutory authorities, loan guarantees, etc.)*
  - iv. *The preparation of future-oriented financial statements should be based on the strategic plans to ensure that the future-oriented financial statements are developed in the context of corporate objectives and long-term perspectives.*
  - v. *Future-oriented information should be provided about capital projects. The information should include the total estimated cost, the expenditure to date, and the planned expenditure for the coming year.*
  - vi. *The department should disclose the estimated grants it plans to make to organizations or alternatively provide a reference to where these listings are made available.*
  - vii. *A listing of all less significant programs, with total revenue and expense figures, would be helpful in reconciling to the department's total revenues and expenses.*

**7. Performance information should include a description of what the department has achieved in relation to its plans.**

- a) The department should provide information about the extent of its compliance with significant legislation and with government policy affecting the way in which it conducts business.
- b) The department should provide a comparison of actual results achieved for each significant program, service and administrative function against the

annual operational and financial expected results and provide variance explanations.

- i. *Information on actual results should include:*
    - *the costs, quantity and quality of outputs;*
    - *the outcomes resulting from the outputs;*
    - *the efficiency with which the outputs were delivered;*
    - *the extent of acceptance of the services by the recipients; and*
    - *the significant secondary impacts resulting from the program.*
  - ii. *Accountability reports should discuss successes, failures and the related learning that has occurred.*
  - iii. *Accountability reports should provide key data listings that are organized in a manner that facilitates further analysis. Alternatively, the accountability reports could provide references to where these listings are made available.*
- c) The department should provide an assessment of how well it is progressing towards its long-term goals and objectives.
- i. *The assessment should include trend information on the critical performance indicators supported by management analysis, internal and external factors influencing results, and changes to current program activities.*
- d) The department should provide financial statements prepared in accordance with recommendations of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants or generally accepted accounting principles, as applicable.

## **8. Accountability information should be understandable.**

- a) The overall structure and layout of the report should enhance its general understandability.
  - i. *The accountability report should use short sentences and simple sentence structure, and provide information in a well-organized and logical sequence.*
  - ii. *The report should comply with central agency accountability guidelines.*
- b) The language in accountability reports should be readily understood by the general public.
  - i. *The report should use simple words with common meanings and explain technical terms, jargon and acronyms.*

- c) The level of detail should be proportional to the line of business size.
    - i. *Lines of business more significant to the reader should receive greater coverage.*
- 9. The cost of providing accountability information should not exceed the expected benefit.**

### **Frequency, Timing and Tabling of Accountability Reports**

- 10. Accountability reports should be made available to the Legislative Assembly and the public on a timely basis.**
- a) Planning reports should be tabled in the legislature at least one week prior to the debate/review of the reporting entity's estimates.
  - b) Performance reports should be tabled within six months of the fiscal year end.
- 11. Accountability reports should be tabled in the House and referred to an appropriate legislative committee for review and debate.**

### **Audit Requirements**

- 12. Published information should be subject to an appropriate level of audit or review.**



## SURVEY RESULTS

### MLA Interview and Survey Results

As a result of our interviews and surveys we heard many comments on the degree of satisfaction with the existing accountability documents. While we did not interview or receive survey responses from all MLAs, we believe that the following comments taken from the MLA interviews and surveys captures the overall level of satisfaction and level of usage. We include these comments in order to stress the urgent need to reform the accountability reporting process.

#### Usefulness of the Existing Estimates Supplement

MLAs interviewed and surveyed generally stated that the Estimates Supplement was a useful and valuable document, particularly for debate in Committee of Supply. However, the MLAs identified several deficiencies of the document, which include:

1. does not clearly identify year over year changes in appropriations,
2. not sufficiently detailed,
3. tends to be repetitive and full of garble,
4. some of the information is not decipherable,
5. expected results could be more measurable, and
6. lack of clearly stated objectives.

We believe our main elements of an accountability framework for departments and our more detailed audit criteria address these concerns.

#### Usefulness of the Existing Annual Reports

Many of the MLAs interviewed and surveyed indicated that the Annual Reports were not very useful. The deficiencies of the document, as conveyed to us by MLAs, include:

1. promotional in nature and do not say a lot,
2. financial results are not sufficiently detailed,
3. too many platitudes,
4. tend to be too wordy, should be more concise,
5. much is a repeat of what is in the Estimates Supplement,
6. lack of performance information that focuses on outcomes, and
7. non-financial information is very poor.

In addition to the deficiencies associated with the annual report, certain MLAs indicated that the usefulness of the document was further compromised by the lack of a forum to review, analyse and compare promises to what was delivered.

We believe our main elements of an accountability framework for departments and our more detailed audit criteria address these concerns.

### **Other Reporting Ideas Identified by MLAs but not Reflected in our Main Elements of an Accountability Framework for Departments**

We believe that the following ideas should be considered by the Department of Finance when it revisits the reporting framework. We have not incorporated these ideas in our main elements because they go beyond the minimum requirements for effective accountability reporting.

1. Accountability information should include a discussion of policy options.
2. Department officials should provide an annual oral report to a legislative committee on the highlights of the previous year followed by a session which would allow MLAs to question them.
3. Accountability reports should include one page program reports prepared and signed by the program manager.
4. Accountability reports should include the results of value for money audits, or cost-benefit analyses, on key programs which were performed by an independent third party.
5. Accountability reports should include a listing of programs which have been evaluated or audited.

### **Review of Hansard**

In order to better understand the information needs of MLAs, we reviewed Hansard of the latest Committee of Supply and Public Accounts Committee debates. We believed that this review would provide us with further insight as to the usefulness of the existing accountability documents.

We found that the debate on estimates and the examination of performance are both performed within the Committee of Supply. Presumably this has occurred because annual reports are not specifically referred to a standing committee. The debates in Committee of Supply that we examined focused predominantly on the following

types of questions:

- seeking more information or the tabling of additional documents,
- seeking information on the past year's results,
- requiring the Minister to defend or explain government policy,
- requiring the Minister to share the Department's vision to the future, and
- debating relatively minor issues which had little or no impact on departmental accountability for plans or performance.

In our view the focus of questions and debate in Committee of Supply indicates that the existing accountability documents may not provide the members with sufficient, appropriate and timely information.

Only the questions on policy are consistent with our expectations. The other questions indicate a general lack of information available to MLAs on what a department is about and what it has done.

## Discussions with Government Officials

We reviewed our draft audit criteria with senior officials from most government departments. The officials believed the criteria to be conceptually sound. The most problematic area for the officials was the disclosure of long-term plans.

Other problems identified were:

- disclosure of latest available actuals in the estimates supplement,
- disclosure of capital projects in the estimates supplement,
- the referral of the annual report to a standing committee of the House for review,
- difficulty of measuring program outcomes and impacts.

Officials identified a number of reasons why these items would be problematic. The human resources needed to provide these accountability reports was the most mentioned constraint. Other constraints identified were the political environment and the lack of information systems needed to support the framework envisioned.

With respect to the latter point, we believe it critical that the Integrated Management Information Strategy encompass the information requirements of the proposed reporting framework.

The officials also provided comments in general about the existing accountability reports and process. Included in the comments were opinions questioning the value of the current estimates supplement, the estimates process and the departmental annual report.

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# **PUBLIC SCHOOLS PROGRAM ACCOUNTABILITY FRAMEWORK**

## **INTRODUCTION**

A great deal of public debate is occurring in Manitoba and throughout Canada about the need for enhanced accountability from organizations and individuals responsible for our public schools. The public school program has many stakeholders, including legislators, the general public, students, parents, educators, school boards and the Department of Education & Training. These stakeholders need assurance that the public school program is operating in an efficient, effective, economic and equitable manner.

The public schools program in Manitoba is large and complex and consumes over a billion dollars of public resources annually. It is critical that an effective accountability framework be in place to ensure the public schools program is managed with due regard to efficiency, effectiveness, economy and equity. For these reasons, we conducted an audit of the accountability framework for public schools in Manitoba.

We are aware that the current public schools education renewal process is proposing certain changes to the existing accountability framework. We believe our findings and recommendations will be useful input to the current renewal process.

The section of this report entitled "Accountability Framework for Departments" sets out a suggested overall accountability framework for departmental operations which provides a context for this report on the Public Schools Program.

## **AUDIT OBJECTIVE**

The objective of our audit was to determine whether an effective public school program accountability framework has been developed which provides sufficient, appropriate and timely information to the Members of the Legislative Assembly and to the Department of Education & Training (the Department) to help these governing bodies exercise good governance over the public schools system.

## AUDIT SCOPE AND APPROACH

We developed what we believe are the main elements of an effective public school program accountability framework - Table 1. From these main elements, we developed our audit criteria which we used to evaluate the public schools program accountability framework. Main elements 7 and 8 have been excluded from our criteria because the Department's stage of development regarding an accountability framework did not warrant an evaluation of these elements.

We also consulted with Education Department officials to obtain their comments and suggestions regarding our public schools accountability framework criteria.

**Table 1**

<b>MAIN ELEMENTS FOR A PUBLIC SCHOOLS PROGRAM ACCOUNTABILITY FRAMEWORK</b>
<b>Accountability is necessary when responsibility is assigned and authority is delegated</b>
<b>LEGISLATION</b>
<p>1. Legislation should set out the principles and main elements of the public schools accountability framework. These elements should include:</p> <ul style="list-style-type: none"> <li>• program responsibilities,</li> <li>• nature of accountability information to be reported,</li> <li>• frequency and timing of accountability reports,</li> <li>• audit requirements.</li> </ul>
<b>PROGRAM RESPONSIBILITIES</b>
<p>2. The responsibilities and reporting relationships of key stakeholders within the public schools program should be clearly established and documented.</p>
<b>NATURE OF ACCOUNTABILITY INFORMATION TO BE REPORTED</b>
<p>3. The Department should be responsible for developing and maintaining accountability reporting policies and procedures which provide guidance on the purpose, format, content and timing of required accountability reports from school boards.</p> <p>4. School boards should prepare planning and performance information. This information should be provided to the Department through scheduled specific purpose reports.</p> <p>5. Planning information should include a description of what the public school program is all about and what it plans to achieve.</p> <p>6. Performance information should include a description of what the program has achieved in relation to its plans.</p> <p>7. Accountability information should be understandable.</p> <p>8. The cost of providing the information should not exceed the expected benefit.</p>

<b>MAIN ELEMENTS FOR A PUBLIC SCHOOLS PROGRAM ACCOUNTABILITY FRAMEWORK</b>
<p><b>FREQUENCY AND TIMING OF ACCOUNTABILITY REPORTS</b></p> <p>9. The Department should monitor required accountability reports from school boards for compliance with legislated and policy requirements.</p> <p>10. Accountability information should be made available to the Department and the public on a timely basis.</p>
<p><b>AUDIT REQUIREMENTS</b></p> <p>11. Published information should be subject to an appropriate level of audit.</p>

With respect to program responsibilities, we focused our audit on the roles and responsibilities of the Minister and school boards.

With respect to nature of accountability information to be reported, we limited our audit to the provision of planning and performance information from:

- the Department to the Legislative Assembly and;
- the school boards to the Department.

We conducted our audit during the period September 1995 to March 1996.

Our audit did not examine the accountability information provided by public schools to public school boards and to local school constituents.

Our audit was conducted in accordance with public sector accounting and auditing standards and, accordingly, included such tests and other procedures as we considered necessary in the circumstances.

## **SUMMARY CONCLUSIONS AND FINDINGS**

In our opinion an effective public school program accountability framework has not yet been developed in Manitoba, although important progress toward this is being made.

We commend the Department for its efforts at strengthening the public schools accountability framework by implementing initiatives contained in the January 1995 document *RENEWING EDUCATION: NEW DIRECTIONS - The Action Plan*. For instance, amendments to the Education Administration Act were made in 1995 to provide the Minister with greater authority in defining the roles of school principals.



Numerous other initiatives are also underway, including:

- revisions to legislation to more clearly outline the roles and responsibilities of the Minister, school boards, teacher, parents and students;
- developing assessment, evaluation and testing processes to measure student achievement in core subject areas;
- developing an integrated database to provide information on a wide range of performance indicators, including student performance, mobility and teacher workload.

Certain of our detailed findings include:

- The Education Administration Act, the Public Schools Act and the Public Schools Finance Board Act do not clearly set out the principles and elements of a public school accountability framework.
- Responsibilities and reporting relationships of the key stakeholders in the public schools accountability framework have not been sufficiently defined in legislation, regulations and policies.
- Departmental Estimates Supplements and Annual Reports focused predominantly on inputs, activities, and compliance with spending authorities. When information dealt with public school program objectives, performance indicators, outputs and outcomes, it was often vague or absent. In many cases, the linkage between the objectives, activities and expected results was not clear. It is important that there is a clear linkage between the budget process and the establishment of performance expectations to ensure good value for money is achieved.
- The requirements for planning information from school boards, and consequently the information provided, are generally limited to budgets and the necessary supporting statistics. As a result, sufficient and appropriate planning information was not available to the Department. However, until the department itself publishes sufficient and appropriate planning information on the public school program, the usefulness of any school board performance plan will be limited.
- The requirements for performance information from school boards, and consequently the information provided, are generally limited to financial statements and to compliance with financial signing authorities. However, the lack of specific public school program objectives and goals hampers the ability of school boards to develop and provide meaningful performance information.

- The Department has an appropriate system in place to ensure all school boards comply with the FRAME reporting requirements, including the frequency and timing of the submission of FRAME reports and auditors' reports.
- There is no requirement to audit or review departmental planning and performance reports. The Department is currently not well positioned to develop auditable management representations on its plans and performance.

An effective public schools accountability framework in itself will not solve all the issues in public schools education nor will it ensure accountability will be achieved. Yet, an improved public schools accountability framework is an essential foundation for success. It means involving each of the members of the education community in a cooperative partnership, working for the benefit of students. It is not an easy task for so many stakeholders with different perspectives, concerns and opinions, to arrive at a consensus on what the public school education program should achieve. All members of society have a stake in our public schools education system. To ensure a quality public schools education system, each individual partner must recognize their respective roles and accept their responsibilities to properly discharge their duties and obligations.

It is our belief that the recommendations in this audit report will be of assistance to the government and the public schools education community at large, in building a more open, accountable and improved public schools system in Manitoba. The recommendations are included in the body of this section of our report.

## **BACKGROUND**

This section of our report provides background information on:

- public school governance,
- funding and statistical information,
- financial information system,
- department operations,
- public school programs, and
- independent and home schools.

### **Public School Governance**

An overview of Manitoba's public school system is illustrated in Table 2. Public schools are governed by three primary statutes of the Manitoba Legislature - the Education Administration Act, the Public Schools Act and the Public Schools Finance Board Act. The Education Administration Act confers overall responsibility

for public school programs to the Minister of Education. The Minister of Education presides over the Department of Education and Training (the Department) and the Public Schools Finance Board (PSFB). The Public Schools Act provides for the creation of locally elected school boards and confers responsibility for the delivery of public school programs for students in kindergarten to high school graduation to local school boards. The Public Schools Finance Board Act provides for the establishment of the Board (PSFB) and confers responsibility for review and approval of the school board capital program to the PSFB. The Public Schools Act confers responsibility for review and approval of the school board operating program to the Minister. The PSFB maintains the Education Support Fund through which the government support (both operating and capital) is provided to school boards.

## **Funding and Statistical Information**

Table 3 provides an overview of the size of the public school program in Manitoba.

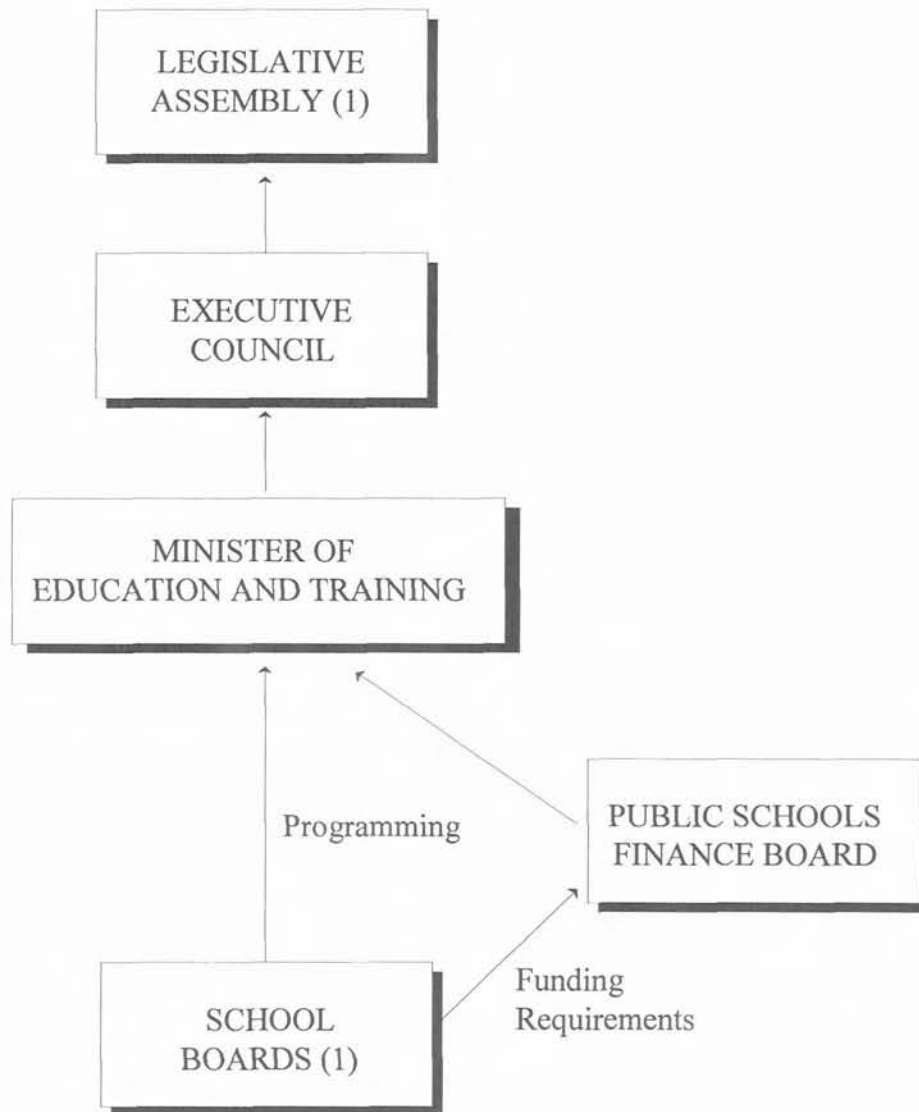
The public schools program receives most of its operating funds from the Provincial and Municipal governments (Table 4). The Provincial government funding is provided mainly through direct grants from the Consolidated Fund and the Education Support Levy. The Education Support Levy is a uniform levy on property assessments which is set each year by the Provincial government. This funding is administered by the Schools Finance Branch of the Department of Education and Training and the Public Schools Finance Board (PSFB). The financing of public schools is determined through base operating grants, various categories of operating grants and capital support program grants.

Municipal government funding is mainly provided by a special levy set each year by the local school board on property assessments within their school division boundaries. School boards set the levy annually to cover their operating expenditures which exceed the total of provincial funding and other revenue sources. The special levy is collected by municipalities on behalf of school boards and remitted directly by the municipalities to the school board, as required by the Public Schools Act and regulations.

Public school boards and the Public Schools Finance Board report on their operations with a June 30 year end whereas the Department reports on its operations on a March 31 year end.

Table 2

### MANITOBA'S CURRENT PUBLIC SCHOOLS ACCOUNTABILITY FRAMEWORK



(1) An elected body

Website Copy

**Table 3**

# of School Divisions and Districts	# of School Board Trustees	# of Schools	# of Enrolled Students	# of School Divisions and District Staff Full-Time Equivalent Staff	
57	478	704	194,687	Instructional	15,259
				Non-instructional	<u>6,155</u>
				Total	21,414

Source: FRAME statistical report as of September 30, 1994  
Enrolment and Transported Pupils Report as of September 30, 1994

**Table 4**

	Actual (\$000's)			Estimated June 30/95 (\$000's)
	June 30/92	June 30/93	June 30/94	
<b>Annual Operating Revenues:</b>				
<i>Revenues:</i>				
<i>Provincial Government:</i>				
<i>Direct grants from Consol. Fund</i>	\$ 512,631	\$ 535,520	\$ 522,498	\$ 501,876
<i>Prov. Education Support Levy (ESL)</i>	203,745	196,584	197,812	201,669
	<u>716,376</u>	<u>732,104</u>	<u>720,310</u>	<u>703,545</u>
<i>Municipal Government (School Bd. Special Levy)</i>	282,494	298,320	306,417	319,900
Federal Government	12,189	13,943	15,484	11,211
First Nation Bands	20,057	18,995	16,903	16,137
Private Organizations & Individuals	11,619	10,916	10,852	10,344
Other	13,350	13,348	14,845	10,936
<b>Totals</b>	<b>\$ 1,056,085</b>	<b>\$ 1,087,626</b>	<b>\$ 1,084,812</b>	<b>\$ 1,072,073</b>

Source: FRAME actual and estimates financial reports.

## Financial Information System

As required by the Public Schools Act and regulations, public school boards provide the department with financial (operating and capital) and statistical information using a standardized method of accounting and financial reporting known as FRAME (Financial Reporting and Accounting in Manitoba Education). Table 5 discloses the operating expenditures for the public school program for the year ended June 30, 1994 by the nine main Operating Fund expenditure functions and the expenditure objects within the FRAME system. Within each function, expenditures can be further analysed by either program or expenditure object. The Schools Finance Branch of the Department of Education and Training compiles the data received from school boards using the FRAME system and prepares two annual consolidated reports - one for

FRAME budget information and one for FRAME actual information.

**Table 5**

Annual Operating Expenditures:		Actual for year ended June 30, 1994 (\$000's)					
Function	Expenditure Object						
	Salaries	Employee Benefits	Services	Supplies & Materials	Debt	Other	Totals
Regular Instruction	\$ 537,824	\$ 32,655	\$ 8,811	\$ 36,480	\$	\$	\$ 615,770
Exceptional Instruction	117,627	8,984	5,918	2,903			135,432
Technology Education	18,336	1,082	241	4,097			23,756
Community Education & Services	7,553	514	1,021	605			9,693
Administration	25,301	3,140	9,410	2,330			40,182
Instructional & Pupil Support	47,134	3,348	5,605	8,512			64,599
Pupil Transportation	21,696	2,614	10,865	9,519		(9)	44,685
Operations & Maintenance	60,492	8,564	48,068	13,489			130,613
Fiscal					1,291	23,038	24,329
<b>TOTALS</b>	<b>\$ 835,963</b>	<b>\$ 60,902</b>	<b>\$ 89,939</b>	<b>\$ 77,936</b>	<b>\$ 1,291</b>	<b>\$ 23,029</b>	<b>\$ 1,089,060</b>

Source: FRAME actual financial report for year ended June 30, 1994

## Departmental Operations

The public school program involves significant resources within the Department. Table 6 illustrates the Department divisions, estimated Department expenditures and staff years. Although the staff in these divisions also have other responsibilities, their primary activities relate to the delivery of the public school program. Regarding public school programming, the branches within the School Programs Division are responsible for all public school English language subject programming. The Bureau de l'Education Francais (BEF) Division is responsible for all public school programming in Francais, French Immersion and Basic French. The Schools Finance Branch within the Administration and Finance Division is responsible for providing public school funding and ensuring appropriate accountability for funds provided to schools. The Schools Administration Branch within the Administration and Finance Division is responsible for the legislative and policy framework for schools, for certifying professional personnel in the public school system and ensuring a safe, efficient and economical pupil transportation system.



**Table 6**

Department Division	Estimated Department Expenditures March 31, 1996 (\$000's)	Estimated Staff Years
School Programs Division (6 branches including Div. Admin.)	\$ 17,454.1	217.80
Bureau de l'Education Francais (4 branches including Div. Admin.)	3,261.2	43.26
Adm. & Finance Division (2 branches)	3,447.9	49.52
<b>Totals</b>	<b>\$ 24,163.2</b>	<b>310.58</b>

### Public School Programs

Public school programs are defined in the departmental policy document issued in June 1995, *Foundations for Excellence* as:

“ a set of courses leading to one of four specific school program diplomas. Attaining one of the four school program diplomas requires satisfactory completion of the compulsory core subject areas plus selections from the complementary and supplementary subject areas. Manitoba Education and Training recognizes four school programs - English, Francais, French Immersion and Senior Years Technology Education.”

### Independent and Home Schools

In addition to the public school program, there are independent schools and home schools in Manitoba, as illustrated in Table 7. Independent schools are defined in the Education Administration Act as “ any school, other than a public school, which provides a curriculum and a standard of education equivalent to that provided by the public schools, but does not include a home school”. In order to receive provincial funding, independent schools must comply with the requirements set out in the Public Schools Act and regulations. The Public Schools Act also provides that parents can chose to educate their children at home. The Department does not provide any funding to students in home schools, but monitors the curricula used.



Table 7

	# of Schools	# of Students (as of Sept 30, 1995)	Provincial Funding June 30, 1995 (\$000's)
Independent Schools:			
Funded	55	11,678	\$ 24,312
Non-funded	<u>40</u>	<u>1,438</u>	<u>Nil</u>
Total	<u>95</u>	<u>13,116</u>	<u>24,312</u>
Home Schools	364	650	Nil

## DETAILED FINDINGS AND RECOMMENDATIONS

This section of our report is organized in accordance with the major sections of our audit criteria, namely:

- Legislation,
- Program responsibilities,
- Nature of accountability information to be reported, and
- Frequency and timing of accountability reports.

### Legislation

#### *What we expected*

We expected that legislation would set out the principles and the main elements of the public schools accountability framework. These elements would include:

- program responsibilities,
- nature of accountability information to be reported,
- frequency and timing of the accountability reports, and
- audit requirements.

#### *What we found*

The Education Administration Act, the Public Schools Act and the Public Schools Finance Board Act do not clearly set out the principles and elements of a public schools accountability framework.

We recommend that the Department amend the Education Administration Act, the Public Schools Act and the Public Schools Finance Board Act to clearly set out the principles and elements of a public schools accountability framework.

### *Comments of Officials*

*The Department has tabled Bill 33 - The Education Administration Amendment Act and Bill 47 - The Public Schools Amendment Act in the current session which will more clearly establish accountability for stakeholders in public education. Other initiatives undertaken such as the regulations governing the establishment of Advisory Councils for School Leadership serve to strengthen accountability between school boards and parents.*

## **Program Responsibilities**

### *What we expected*

We expected that the responsibilities of each of the major stakeholders in the public school program would be clearly defined and documented in Acts and regulations. The public school program involves many stakeholders. Therefore, we expected the Department would communicate the roles and responsibilities of each stakeholder, including how they are interrelated in a separate policy document. Clearly defined roles and responsibilities is critical if accountability is to be achieved. Each stakeholder must be clear on what their responsibilities and authorities are before we can expect them to account for how those responsibilities were discharged.

### *What we found*

The Education Administration Act, the Public Schools Act and the Public Schools Finance Board Act and their regulations assign very broad powers to the Minister over public schools education. The Public Schools Act assigns school boards with the responsibility for the delivery of public education to students in kindergarten through to high school graduation.

The Department recognizes the need to clarify roles and responsibilities within the public school program. The Department's policy document, RENEWING EDUCATION: NEW DIRECTIONS - The Action Plan, released in January 1995, proposes, in Action 5:

"to state the fundamental responsibilities and roles of teachers, school boards and the Minister. Legislative amendments to the roles and responsibilities of the

Minister, teachers and school boards are planned to be in place by the fall of 1996."

It is important to state clearly in legislation the fundamental roles and responsibilities of each of the major stakeholders. Because public schools education is a shared responsibility, it would also be helpful to describe and illustrate, in a formal policy document, how the roles and responsibilities of the stakeholders are interrelated.

Although responsibility for many of the public school program functions has been conferred to the Minister or to school boards through the above-named Acts and regulations, in particular, we noted that responsibility for the key function of defining, developing and mandating implementation of the provincial curriculum is not clearly set out in legislation. The need to clarify and better define this responsibility is outlined in the findings and recommendations of the 1993 Report of the Panel on Education Legislation Reform (the Panel). The Panel noted there is "confusion as to whether the Minister alone has the authority to develop and approve curricula or whether a school board also has these powers. The Panel noted that the Minister does not have the authority to require school boards to offer a specific course." In the past, Ministry policy allowed school boards considerable flexibility in the application of the provincial curriculum in order to promote local autonomy and responsibility. The lack of a uniform provincial curriculum within public schools has hampered the departments' ability to conduct system-wide comparisons and evaluations of the public school system.

The report of the Panel and the Manitoba School Division/Districts Boundaries Review Commission (the Boundaries Report) both point to the need to more clearly define roles and responsibilities within the public school program. We did not re-perform or audit the work of these independent studies because we did not think this would add value. Our own independent review of the public schools legislation, discussions with Department officials and reviews of the independent studies (the Panel and the Boundaries Reports) all support the need to clarify roles and responsibilities within the public school program.

We recommend that the Department more clearly define in legislation, regulations and policies, the responsibilities and reporting relationships of the key stakeholders in the public schools accountability framework. In particular, we recommend clarification of the responsibility for developing, defining and mandating implementation of the provincial curriculum. Since the public schools education system comprises many stakeholders, we further recommend that the Department communicate in a separate policy document the revised roles, responsibilities and interrelationships of each stakeholder.

### *Comments of Officials*

*The legislative changes introduced in Bill 33 and Bill 47 will provide the minister with the authority to establish and authorize programs and also the power to prescribe methods and procedures for assessment and evaluation purposes for achievement and effectiveness information that will be useful in increasing accountability. These legislative changes will also establish the rights and responsibilities of parents and pupils and mandate the sharing of budget and other pertinent information with parents and parent councils and the provision of program information to the public.*

*Initiatives undertaken with the implementation of New Directions, such as the Curricula Frameworks project, mandatory standards testing and the establishment of Advisory Councils for School Leadership will strengthen accountability. The Department has put in place a project management approach to the implementation of curricula changes and, as well, has established evaluation criteria and evaluation processes for all projects to ensure outcomes are measurable and measured. The province is also working with the other western provinces under a Western Consortium protocol regarding curriculum development for which a key element of the process is the issue of outcomes.*

*The Department sets a uniform provincial curriculum for all core subjects. Locally developed and optional courses are required to undergo a departmental approval process.*

## **Nature of Accountability Information To Be Reported**

We have organized our findings and recommendations under the following headings.

- Planning and Performance Information Provided by the Department to the Legislative Assembly, and
- Planning and Performance Information Provided by School Boards to the Department.

### **Planning and Performance Information Provided by the Department to the Legislative Assembly**

The Members of the Legislative Assembly require sufficient and appropriate planning and performance information from the Department in order to assess and debate the resource allocation decisions made by the government, and the expected and actual

public benefits achieved from the public school program. The Members should also be provided with information indicating the extent of compliance with significant legislation and significant program guidelines affecting the public school program.

*What we expected*

We expected that the Acts and regulations would clearly define the requirement for the submission of planning, performance and compliance information on the public school program to the Members of the Legislative Assembly. We expected that the specific essential content of the planning, performance and compliance information would be defined in departmental policies.

We also expected that the Department would comply with the intent of the Department of Finance Instructions when preparing information on the public school program to be published in the Estimates Supplement and Annual Report. The main elements of these instructions require departments to provide information on their role and mission, legislative authorities, program objectives (the what and why), descriptions of activities, expected results, staff years, estimated salaries and actual results.

*What we found*

We found that the Acts and regulations governing the reporting requirements for public school programs do not clearly outline the requirement for the Members of the Legislative Assembly to be provided with sufficient and appropriate planning and performance information. Nor do the Acts and regulations require the Minister to report the extent of compliance with significant legislation and significant program guidelines governing the public school program.

In summary, we found that departmental Estimates Supplements for 1994/95 and Annual Reports for 1991/92 to 1994/95 focused predominantly on inputs, activities, and compliance with spending authorities. When information dealt with program objectives, performance indicators, outputs and outcomes, it was often vague or absent. In many cases, the linkage between the stated objectives, activities and expected results was not clear. Comments on the specific elements of these reports follow.

***Role and Mission***

The role and mission statement is intended to describe the what and why of the Department, its long-term direction and its relationships to its major clients. The role and mission statement provided in the Departments' Estimates Supplement adequately described the general direction and the Department's responsibilities for and services related to the public school program.

However, the Department's Annual Reports did not disclose the Department's role and mission.

***Legislative Authority***

The statutory responsibilities of the Department were provided in both the Estimates Supplement and the Annual Reports.

***Objectives for the Public School Program***

We were unable to identify any specific objectives in either the Estimates Supplement or the Annual Reports that we examined for what the public school program was to accomplish. We found that the objectives published by most branches tended to be administrative in focus.

We note the Department published in January 1995 RENEWING EDUCATION: NEW DIRECTIONS - The Action Plan. While this document was not referred to in the 1994/95 Estimates Supplement, it was referred to in the 1994/95 Annual Report. We believe the Department should fully integrate the Action Plan into the Estimates Supplement.

***Description of Public School Program Activities***

We found that in the Estimates Supplement and the Annual Reports examined, the Department described activities relating to the public school program in terms of funding support (Support to Schools - School Grants) and program support (School Programs and BEF). Funding support activities were limited to how departmental funds were provided to school divisions. Program support activities included various services provided to schools in the delivery of the public school program. There was no attempt to link activities to each stated objective to enable the reader to determine how the activities related to the accomplishment of an objective. No information as to the importance of each activity was provided. As a result, a reader would be unable to determine which of these activities was the most crucial to the success of the public school program. In addition, obstacles to the successful completion of the activities were not mentioned. This could limit the reader's understanding of the environment in which the public school program was operating.

***Reporting of Expected and Actual Results***

With respect to public school program performance plans, the Department did not disclose measurable expected results in the Estimates Supplement. Expected results should reflect expectations (objectives) regarding outputs and related outcomes. In the School Information program section of the Estimates Supplement, the Department briefly discussed the development of the Education Information System (EIS) which



will track statistics on key indicators for identified outputs and outcomes of the public school program. Examples of the future key indicators described are: student mobility statistics, student achievement versus socio-economic factors and teacher workloads.

We recognize there are a large number of potential indicators of education success and quality, not just particular tests or report cards. Although the task of defining and obtaining consensus of the major stakeholders on what the key indicators should be is difficult, it is important that key indicators be identified for each public school program objective.

Because program objectives and key performance indicators for each objective have not yet been developed, the Department is unable to report on the actual performance of the public school program in relation to key indicators.

Regarding financial plans, we found that the Department could disclose more clearly the costs related to the public school program. Public school program costs were fragmented throughout the Estimates Supplement. For example, the Support to Schools program section of the Estimates Supplement did not disclose separately the proposed funding to public schools by direct grants from the Department's operating appropriations. Public school operating grants were combined with independent school operating grants and, therefore, the level of funding planned for public school programs was not clearly identifiable in the document.

In addition, the estimated total operating revenues and expenditures for the public school program were not disclosed in the document. Without this information, the reader is unable to obtain the complete "picture" of the public school program. Direct grants from the Consolidated Fund in 1994/95 only represented approximately 50% of annual school division revenues. Other significant sources of public school program funding are not described, such as the provincial Education Support Levy (ESL) and the Special Levy set by school boards on property assessments. The Department's FRAME budget report provides good information on the total budgeted revenues and expenditures of all public schools. However, summary information from this consolidated report was not disclosed nor mentioned as a reference to the reader of the Estimates Supplement.

### ***Staff Years and Estimated Salaries***

The estimated staff years and estimated salary and other expenditures for all departmental branches involved in the public school program were provided in both documents according to the Instructions.



We recommend that the Department:

- fully integrate its public school program plans into the Estimates Supplement,
- develop long-term objectives and related performance indicators for the public school program, as well as annual measurable expected results and related performance indicators,
- disclose in its accountability documents the full revenues and expenditures of the public school program,
- comply with the Department of Finance Instructions on Estimates Supplements and Annual Reports.

#### *Comments of Officials*

*The Department is in general agreement with these recommendations and will expand the reporting of information in the estimates supplement and annual reports.*

*Regarding performance indicators, the Department has undertaken an Education Indicators project to develop an information framework to assist in evaluating and monitoring the progress and effectiveness of the province's education and training systems. This project will have linkage to various national indicators projects such as the School Achievement Indicators Project and the Pan-Canadian Indicator Project. Also, the Education Information System (EIS) will provide the Department with a relational data base for K-S4 data related to schools, school divisions, subjects/courses, students, teachers and funding which will greatly enhance the department's capability in developing indicators.*

### **Planning and Performance Information Provided By School Boards to the Department**

The Department requires sufficient and appropriate planning and performance information from school boards because school boards are the delivery mechanism for the public school program. School board plans need to reflect and demonstrate how the school boards will address and meet public school program objectives and related performance measures as set by the Minister. The Department would use this information to ensure appropriate educational standards are maintained throughout the Province and that public education program objectives are being actively pursued.

Performance information should be used to review and assess:

- the performance of school boards in delivering public school programs;
- the financial accountability of the school boards for public school programs, and
- the extent of compliance with significant public school program legislation and program guidelines.

*What we expected*

We expected that the Education Administration Act or the Public Schools Act and regulations would assign responsibility to the Minister for developing and maintaining policies regarding the preparation of school board plans and performance reports.

We expected that the Public Schools Act and regulations would require school boards to prepare and submit plans and performance reports to departmental officials in compliance with departmental policies.

We expected that Department policies and procedures would provide guidance on the purpose, content, timing and format of school board plans and performance reports. Plans should include descriptions of the school board's mandate, its role and mission, environmental factors, its key long-term objectives, critical performance indicators for its long-term objectives, strategies for accomplishing its key long-term objectives, its annual operational and financial expected results and financial planning forecasts. Major elements of performance reports would include information about compliance with significant public school program legislation and department policies, the actual results achieved against the expected results, progress towards long-term goals and objectives and financial statements.

*What we found*

In summary, we found that the requirements for planning information are generally limited to financial budgets and the necessary supporting statistics. As a result, sufficient and appropriate performance planning information was not provided. However, until the Department itself publishes sufficient and appropriate planning information on the public school program, the usefulness of any school board performance plans or reports will be limited. As part of the education renewal process outlined in RENEWING EDUCATION: NEW DIRECTIONS - The Action Plan, guidelines are being developed to assist principals and other education partners in the preparation of school plans. We support this initiative because good school planning information should assist school boards in preparing quality planning information to meet the needs of the Department and its constituents.

Our detailed audit findings are presented below.

***Mandate, Role and Mission***

Departmental policies did not require that school boards define their mandate or their role and mission. Such statements would provide considerable insight on the unique characteristics of the school division and on how these characteristics impact on the delivery of the public school program in the school division.

***Key Long-Term Objectives, Key Performance Indicators, Strategies for Accomplishing Key Long-Term Objectives***

Departmental policies did not require that school boards define key long-term objectives and their linkage to the objectives of the public school program, the key performance indicators and related strategies. This can be attributed, as discussed earlier, to the fact that the Department itself has not prepared or articulated long-term objectives and key performance indicators for the public school program.

***Annual Expected Results***

The FRAME guidelines required an annual detailed estimate of total revenues and expenditures by school boards for their public education programs, services and administrative functions. To support these budgeted figures, considerable statistical and enrollment information was also required.

Departmental policies did not require that school boards define their annual expected results for each of their significant public education programs, services and administrative functions.

An exception to this is the information provided by school boards for special needs programming within their division. School boards provide good information on the what, who and why of special needs programming.

***Performance Reporting***

In summary, we found that the requirements for performance information are limited to financial statements and to compliance with financial signing authorities. As a result, sufficient and appropriate program performance information was not provided. However, the lack of specific public school program objectives and goals hampers the ability of school boards to develop and provide meaningful performance information.

We recommend that the Department require detailed performance plans and reports from school boards. Plans should be integrated with the budgeting process. The Department should provide guidance on the purpose, format, content and timing of detailed performance plans and reports.

#### *Comments of Officials*

*The Department will refer the recommendation to the FRAME Committee, a Committee of school business officials and Department staff that meet on a regular basis to discuss improvements to the reporting process. This will appropriately involve school divisions in the development of a detailed performance reporting process, integrated with the financial statement process.*

*The Department has already initiated enhancements to the performance reporting process through the Education Information System project, the Education Indicators project and through School Plans.*

## **Frequency and Timing of Accountability Reports**

### **Reporting By the Department to the Legislative Assembly**

The 1994/95 annual report was tabled six months after the year end in response to a Treasury Board directive for more timely reporting. Historically, the Department tabled annual reports more than a year after the fiscal year end. We commend the Department for this significant improvement in timely reporting.

### **Reporting By School Boards to the Department**

#### *What we expected*

We expected that the Public Schools Act and regulations would set out the timing for school boards to submit planning and performance reports to the Department.

We expected planning and performance reports would be available to the Department and the public on a timely basis.

We expected that the Department would monitor planning and performance reports from school boards for compliance with legislated and policy requirements.

*What we found*

We found that there were appropriate expectations for the timing of required reports. Specifically, we found that the Public Schools Act and regulations require public school boards to provide the Minister with:

- a detailed estimate of revenues and expenditures in the standard FRAME format by January 15 each year;
- an audited annual financial statement in the FRAME format by October 31 each year;
- any other reports or returns as the Minister deems advisable.

In addition, the Public Schools Finance Board Act requires public school boards to provide the Board with reports and returns as the Board requires.

With regard to timing and monitoring of school board reports, we found that the Department has an appropriate system in place to ensure all school boards comply with the FRAME reporting requirements, including the frequency and timing of the submission of FRAME reports.

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# PROGRAM EVALUATION ACTIVITIES WITHIN DEPARTMENTS: A SURVEY

## EXECUTIVE SUMMARY

We conducted a survey to answer the following question: “to what extent are managers in the Manitoba government evaluating their programs and services?”

We defined program evaluation as “the systematic and comprehensive investigation” of a program. The results of our survey are as follows:

- All departments surveyed (20) perform program evaluation activities. The extent of activity varies considerably between departments.
- There were 298 program evaluation projects identified over the two fiscal years 1993/94 and 1994/95. These projects reported a broad range of measurement activity.
- One in four projects were mentioned in the annual reports of the respective departments.

Program evaluation generates useful information which can enhance the quality of a department’s accountability reports. We applaud managers for their commitment to measurement, and encourage more extensive reporting of the results of their programs.

## THE PROGRAM EVALUATION SURVEY

### Introduction

Program evaluation is the systematic and comprehensive examination of programs and services in order to assess their level of performance and to improve their delivery. Evaluations may answer questions on the effectiveness, efficiency, economy, value and relevance of programs.

The Manitoba government has long endorsed program evaluation as a management tool. The January 1987 *Manitoba Management Practices Guide* establishes the government’s guidelines for evaluation (and four other management practices of



planning, organizing, reporting, and controlling) in a general framework for departmental management systems. The *Guide* states the primary purpose of evaluation is to help “managers make more informed decisions by giving them information on the effectiveness of past programs, projects, processes and activities”. The definition for program evaluation used in this project is drawn from the *Guide* (Figure 1). The definition is broad, including both formal evaluation activity as well as more general measurement strategies.

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Program Evaluation is the systematic and comprehensive investigation into the following questions:

- ▶ does the program make sense?
- ▶ what has happened as a result of the program
- ▶ has the program achieved what was expected?
- ▶ are there better ways of achieving results?

Source: Request to Departments, based on Management Guide, Manitoba Government

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## 1 Definition of Program Evaluation

We initiated this survey out of our continuing interest in the state of management practices in the Manitoba government. Our 1991 Report to the Legislative Assembly included the results of several audits of departmental management systems and practices. We compared management practices with the standards for management set out in *the Guide*. These audits highlighted the need for improvements in government-wide management practices, noting that this area... “generally requires significantly more attention”. In response to our concern, the Secretary to Treasury Board, in conjunction with the Provincial Comptroller, undertook an assessment of management practices in all departments in relation to the expectations outlined in the Management Practices Guide.

Recently program performance measurement, a measurement strategy complementary to program evaluation, has been promoted by several jurisdictions. The Federal government and seven provinces (British Columbia, Alberta, Ontario, New Brunswick, Nova Scotia, Quebec, P.E.I.) have various strategies being planned or in place to set levels of acceptable performance for their services, and to report against these expectations. The government of Manitoba in its recent Throne speech highlighted the importance of, and its commitment to, performance measurement (Figure 2).

Program performance measurement is a concept and a means to give governments the rough equivalent of the private sector’s bottom line. It is an integrated model which links a strategy for change with an understanding of the process of service delivery in order to assess the outcomes of providing

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“One of my government’s guiding principles has been a commitment to improving management and accountability. Innovation in the provision of public services by promoting ongoing program review, performance measurement and customer service standards is occurring across all provincial departments and agencies.”

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## 2 Excerpt from the Throne Speech, Manitoba Government, December, 1995



services. By requiring that levels of acceptable performance be established, measurements be taken, and progress on these targets be shared with the public, it expresses the organization's accountability to its stakeholders and clients. Our cross-ministry audit, "*Accountability Framework for Departments*" presumes the existence of program performance measures within a proposed 12 element accountability framework for Departments. Program evaluation complements the newer strategy of program performance measurement by providing a more in-depth examination of programs at a specific point in time.

Given new developments in program performance measurement in the public sector and the previous work on management practices, we decided it was timely to develop a profile of program evaluation activity in the Manitoba government.

## Objective of the Survey

The purpose of this survey was to assess the extent to which managers in the Manitoba government are evaluating their programs and services.

The findings present a descriptive and preliminary profile of measurement activity in the Departments. No audit was undertaken. Consequently, no audit opinion is expressed concerning the findings of this project. While we have not verified the accuracy of the representations made to us in the survey responses, we believe that the good faith of the public sector entities involved, and the 100% response rate we received underpin the validity of the survey results.

## Scope

Twenty government Departments were included in this project; crown corporations and agencies were excluded. The project was undertaken over a two month period (November and December, 1995).

All Departments surveyed provided us with information on their program evaluation activity for two fiscal years (1993/94 and 1994/95). The request memo defined the scope within which Departments should report, and requested that Departments provide the following information:

- brief description of program evaluation project/activity;
- form of report;
- staffing (in-house resources, external consultants, internal audit);
- cost of project, estimated, including staff and direct costs;
- date of reporting: interim (if applicable) and final.

Our survey results are subject to a number of limitations.

- **Broad definition:** There was significant variation in the types of projects reported by Departments. Consequently, a variety of measurement activity was reported.
- **Inconsistent reporting:** Departments did not consistently provide the requested information. They provided information on both planned and actual projects, internal and external projects, time lines were not clear, and resources were often not quantified.

## Survey Results

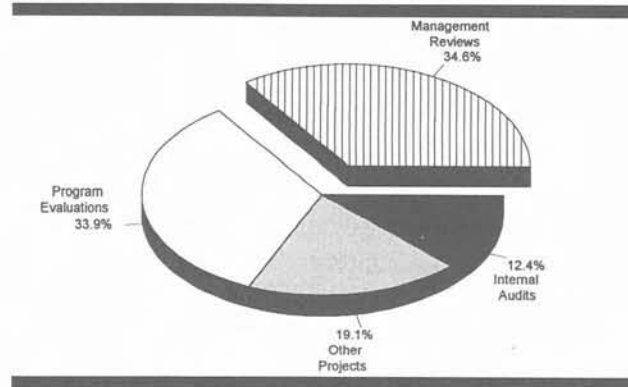
**Overall**, for the two subject years, the 20 Departments surveyed all reported program evaluation and measurement activity. There were 298 projects identified.

We classified the projects consistent with the **types of evaluation** activity defined in the *Management Practices Guide*. Where possible, the pre-established categories reported by Departments were used. However, we did exercise some judgement in classifying the reported projects into the following categories (source: *Management Practices Guide*):

- **program evaluation:** The periodic and objective review and assessment of a program to determine, in current circumstances, the adequacy and relevance of its objectives, its design and its results, both intended and unintended.
- **internal audit:** The systematic, independent review and appraisal of all departmental operations and systems to advise management on internal management policies, practices and controls. Internal audit assesses the economy and efficiency of departmental operations.
- **managerial review:** the periodic assessment by the manager of his or her own areas of responsibility including strategic (long-term) and operational (short-term) outlooks. Its purpose is to highlight past activities and to analyse what went well and what could have been done better.
- **other:** a residual category.

Of the 298 reported projects (Figure 3):

- 33.9% (101) were program evaluations;
- 12.4% (37) were internal audits;
- 34.6% (103) were management reviews;
- 19.1% (57) took other forms such as client surveys, annual reports, quality control, and one Department (Labour) reported a performance measurement framework.



3 Types of Program Evaluation Activity in the Manitoba Government for fiscal 93/94 and 94/95.

The **types and volume** of evaluation activity reported varied considerably from one department to another. The volume of projects ranged from 2 to 61 across the departments. We note the variation in the capacity of departments to undertake evaluation. Specifically, we note that five departments have formal evaluation units.

The vast majority of the projects were at **levels of the organization** below the sub-appropriation level: 6.6% (20) of the projects dealt with sub-appropriation level units of activities, whereas 93.4% (292) of the projects were for a unit of organization or activity below the sub-appropriation level. As a result we were unable to estimate the program dollars subject to program evaluation.

We believe program evaluation generates useful information which can enhance the quality of a departments accountability reporting. As a result, we examined the extent to which the evaluation projects were **reported in the respective department's annual report**. In so doing, we recognize that the majority of the projects were for managerial purposes. Nonetheless, advising the legislature and the public that managers in the public sector made use of evaluation and measurement strategies could only serve to reinforce an appreciation of the due care and diligence of public sector.

We considered that a program evaluation project was reported in an annual report if it was simply mentioned; the results did not need to be reported. Because many of the projects were in process, our analysis was restricted to the 155 projects for which reporting was possible. Of the 155 projects, 41 or 26.5% were mentioned in the department's annual report. We encourage departments to more extensively report to the Legislative Assembly the result of their program evaluation activity.

## Conclusions

There is considerable program evaluation activity ongoing in the Manitoba government. As we did not perform an audit of the program evaluation activity or of the reports generated, we are not in a position to comment on the adequacy, appropriateness or sufficiency of this activity. However, we applaud departmental managers for their interest in, and obvious commitment to, evaluating their programs.

We encourage the move to an ongoing and dynamic measurement process. Program performance measurement does so by requiring all department managers to define their programs and services, to select indicators which would tell them of their progress, to establish levels of acceptable performance (targets of performance and standards of service for the clients), and to report annually on achievements and plans for improvements. Within that approach, program evaluation has a continuing role -- of more penetrating, in-depth analysis when required. We encourage departments to include information in their annual reports on their measurement activity as an expression of their ongoing accountability to the public.

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## **HIGHWAY PLANNING, STRATEGIC AND LONG-RANGE**

### **INTRODUCTION**

Decisions about highways have important economic, social and environmental impacts. It is apparent that demands for highways far exceeds available funding. The large inventory of roads and the large number of multi-million dollar, multi-year projects also make highways a complex system to manage. Good management of these assets means assigning appropriate priorities to the needs of the various parts of the system, while at the same time balancing the level and timing of new construction, rehabilitation and maintenance to minimize lifetime costs. Deciding which needs deserve priority is a difficult task with major value for money consequences.

To exercise effective governance Members of the Legislative Assembly require appropriate information on the overall priorities of the government and on the purpose, objectives, strategies, expected results and performance of government departments. The better the information provided, the better the Legislative Assembly can exercise effective governance. The Minister responsible for highways and the Department's management also require reliable information from which to make informed decisions. Without good planning, the Minister and the Department's management run the risk of making inappropriate decisions.

### **AUDIT OBJECTIVES**

Our audit objectives were:

- To determine whether the Department has prepared comprehensive strategic and long-range plans. An appropriate planning process increases the likelihood that the Department will achieve good value-for-money from its expenditures on highways.
- To determine whether the Department provides sufficient, appropriate and timely strategic and long-range planning information to the Members of the Legislative Assembly to assist them in exercising effective governance over highway construction, rehabilitation and maintenance.

## AUDIT APPROACH

We developed audit criteria against which to assess the processes and information that the Department uses to plan highway construction, rehabilitation and maintenance to achieve good value-for-money. These criteria are consistent with the management practices detailed in the Management Practices Guide of the Province of Manitoba. We confirmed these criteria with a recognized independent authority in transportation planning. Tables 3 and 4 present the criteria for strategic and long-range planning.

We conducted our audit from February to July 1995.

We performed our audit in accordance with public sector auditing standards and accordingly our audit included such tests and other procedures as we considered necessary in the circumstances.

## SUMMARY CONCLUSION AND RECOMMENDATION

The Department does not have comprehensive strategic and long-range plans. However, the Department has begun to develop and implement elements of a strategic planning process, and currently undertakes several activities and has initiated other actions that are supportive of long-range planning.

We appreciate that strategic and long-range planning can be costly activities in terms of the use of existing human resources, the use of outside consultants, and the development of processes to generate needed information on which planning decisions can be based. However, we believe that planning is a fundamental management function. Without strategic and long-range plans and processes, the Ministry is increasing the risk that appropriate value-for-money will not be achieved from its expenditures on highways. Accordingly, lifetime costs of highways may not be minimized, the benefit/cost ratio of highways projects may not be maximized and decisions may be made which are of a short-range focus without considering long-range consequences.

Because the Department has begun strategic and long-range planning initiatives, we have limited our commentary to an assessment of the appropriateness of management's actions and plans to strengthen strategic and long-range planning. In general, we have concluded that management's actions and plans have the potential to enable the department to meet appropriate criteria for strategic and long-range planning as set out in Tables 3 and 4 over time. These Tables also reflect our assessment of the extent to which each of the criteria are presently met.

We recommend that the Department incorporate into its future estimates supplements and annual reports:

- completed elements of its strategic and long-range plans, and
- an analysis of its progress toward building an effective planning process.

### *Comments of Officials*

*The Department essentially concurs with the major findings set out in the audit report. These findings will provide further impetus to the Department's efforts to adequately resource essential long-range planning activities and tools, including the public participation processes currently under development, and an asset management system.*

*We are appreciative of the report's acknowledgment of the steps taken by the Department to develop and implement a strategic planning process, and of the activities undertaken and actions initiated that are supportive of long-range planning.*

*The Department will incorporate into its future estimates supplements and annual reports, information respecting completed elements of its strategic and long-range plans and, until such time as an effective planning process is fully established, information on its progress toward building that process.*

## **BACKGROUND**

We believe the information contained in this section provides necessary contextual material needed to understand our findings and conclusions. We have organized this material under the following headings:

- Mandate
- Infrastructure Works
- Supply and Demand Model
- Description of Department's Present Strategic Planning Process

### **Mandate**

The Department of Highways and Transportation of the Province of Manitoba is the department responsible for transportation in the province. Transportation includes all



modes and through various Provincial Acts and Regulations, the Department has developed policies and ongoing programs for delivery to the citizens of Manitoba. Federal legislation also governs transportation, in particular rail, air, and the marine modes. Therefore, the main focus of Manitoba Department of Highways and Transportation is the highway mode. The Department has identified its role and mission as stated in Table 1.

**Table 1**

ROLE AND MISSION
<p>The principal role of the Department of Highways and Transportation is to provide the citizens of Manitoba with safe, efficient and environmentally compatible transportation systems which contribute to the sustainable economic growth and social well-being of the Province.</p> <p>The overall responsibilities of the Minister and the Department include:</p> <ul style="list-style-type: none"> <li>● planning and designing highway systems based on a comprehensive and integrated approach to the economy and environment.</li> <li>● constructing and maintaining the highway infrastructure to a standard that provides for the safe, efficient and convenient movement of people, goods and services.</li> <li>● developing and enforcing regulations pertaining to the use of the provincial highway network to achieve travel safety and protection of road infrastructure.</li> <li>● promoting the safe operation of all types of vehicles on and off the road network through delivery of driver licencing, vehicle registration and safety programs.</li> <li>● providing residents of northern and remote communities with safe and efficient air and marine services by operating ferries and airstrips in remote communities.</li> <li>● developing policy options on provincial and inter-jurisdictional transportation issues.</li> <li>● assisting municipal and local governments to develop and maintain local transportation infrastructure through the provision of grants and other support services.</li> <li>● administering transportation-related regulations through appropriate boards and committees.</li> </ul>

Source: Supplementary Information for Legislative Review, 1996-97 Departmental Expenditure Estimates.

### Infrastructure Works

The provincial highway system in Manitoba consists of approximately 18,000 kms of roadway (11,800 kms of surfaced roads and 6,200 kms of gravel roads) and has an approximate value of \$5 billion on a replacement cost basis.

Table 2 provides historical information on staff years and expenditure estimates.

**Table 2**

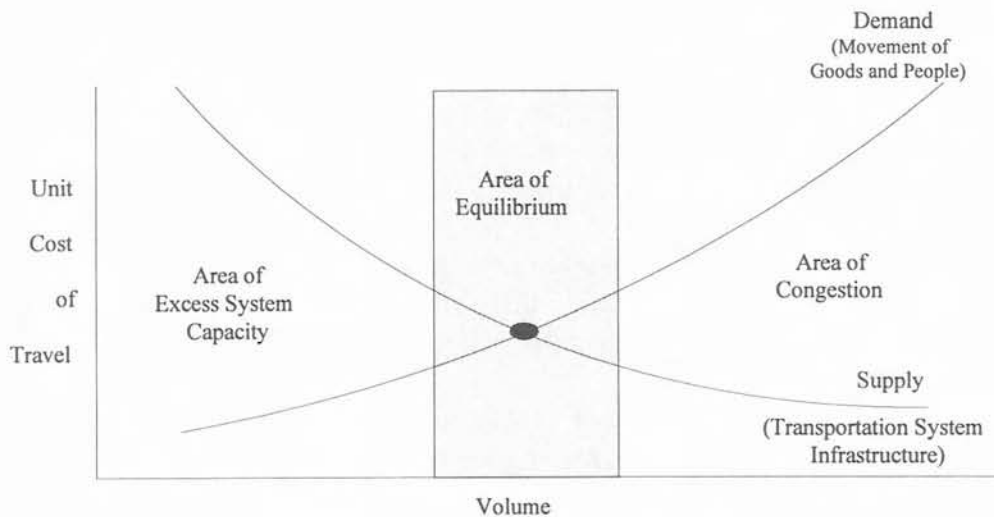
	Estimates of Expenditures				Actual Expenditures	
	1996/97		1995/96		1994/95	
	Staff Years	\$(000's)	Staff Years	\$(000's)	Staff Years	\$(000's)
Administration and Finance	84.00	\$ 5,340.0	92.00	\$ 5,492.7	91.00	\$ 5,141.1
Highways and Transportation Programs	877.36	54,507.1	891.36	55,307.1	869.36	53,353.2
Infrastructure Works:						
Operating		54,312.9		53,472.8		52,400.5
Capital		107,960.0		111,012.1		116,359.0
Total Infrastructure Works	1,254.14	162,272.9	1,263.14	164,484.9	1,256.00	168,759.5
<b>Total Appropriations for Highways and Transportation</b>	<b>2,215.50</b>	<b>\$222,120.0</b>	<b>2,246.50</b>	<b>\$225,284.7</b>	<b>2,216.36</b>	<b>\$227,253.8</b>

Source: Supplementary Information for Legislative Review, 1996-97 Departmental Expenditure Estimates.

## Supply and Demand Model

The planning, design, construction, maintenance and operation of a transportation system is very complex and requires the commitment of substantial human and financial resources. A transportation system may be viewed in a conceptual sense as a supply/demand model striving for equilibrium or value-for-money, as depicted below.

### Conceptual Supply/Demand Model



A transportation system is made up of many road, air and rail networks (Supply) in order to accommodate the movement of people and goods (Demand).

If the demand for travel exceeds what a transportation system can supply, the system becomes congested reducing its efficiency and increasing the cost of travel (road, vehicle and driver cost). If the system has excess capacity the system is also inefficient and results in a higher cost of travel.

Finding and maintaining the area of equilibrium within the system is not easy. The location of the supply and demand curves, and thus the location of the area of equilibrium is affected by the cost of travel that system users are willing to pay. Demands for transportation change, and so does the supply of transportation infrastructure and service. The challenge is to ensure that plans and processes put in place to manage the system are effective in optimizing the system.

## **Description of Department's Present Strategic Planning Process**

Manitoba Highways and Transportation's strategic planning process is still evolving. Management has outlined the following strategic planning process in four sequential phases.

The first phase, **Exploratory**, is generally information gathering to provide the context for strategic planning. It is to include both internal and external information and will be developed using the thoughts of Department managers augmented by the results from the environmental scanning exercise and internal and external customer surveys.

The second phase, **Visioning**, is intended to "*paint a new picture of what we want the department to look like.*" It will also include the assessment of the Department's purpose, mission and values against current realities and the future. Critical issues or Areas of Strategic Focus will also be decided in this phase. The core of the Visioning phase, the development of a Department vision, will be undertaken by the Executive Committee, with assistance from the consultant.

The third phase is the **Action** phase which will attempt to develop action plans for each of the areas of strategic focus. Interdivisional task teams will take on the majority of work associated with the development of these action plans.

The fourth phase is **Implementation**. It is during this proposed phase that the action plans will be executed. This phase may also include further planning to adapt to last minute changes in the internal or external environment.

## AUDIT FINDINGS - STRATEGIC PLANNING

The practice of strategic planning does not have a single prescribed or even generally accepted methodology nor consistent terminology. However, at the conceptual level, there are generally accepted components necessary to meet the following standard definition of strategic planning by Peter Drucker.

“.. the task of thinking through the mission of the business, that is, of asking the question, ‘What is our business, and what should it be?’ This leads to the setting of objectives, the development of strategies and plans, and the making of today's decisions for tomorrow's results.”

The Department is developing a strategic planning process. The Department has yet to complete its first strategic planning cycle and therefore has not produced a strategic plan and fully developed processes. Table 3 provides an overview of the results of our audit of strategic planning.

The Department's actions in organizing and resourcing the groups responsible for the development and implementation of a strategic plan, the use of external consultants to facilitate the process and the Department's involvement of its senior management, staff and external stakeholders in this process all indicate the Department's commitment to strengthening its strategic planning processes.

**Table 3**

Summary of Strategic Planning Audit Findings			
Criterion/Sub-Criterion	Fully Satisfied	Partially Satisfied	Not Satisfied
1. Does the Department have a strategic plan which: a) is documented, comprehensive, understood and broadly communicated, and b) clearly states the Department's vision (the vision should be linked to government priorities and be consistent with the Department's mandate)?		✓ ✓	
2. Is the strategic planning process comprehensive, including issues related to the entire Department and all modes of transportation?	✓		
3. Does the strategic planning process involve all major stakeholders?	✓		
4. Is the strategic planning process based on a future-oriented information base? Are strategic insights documented?		✓	
5. Is there a process for updating the strategic plan?			✓

Summary of Strategic Planning Audit Findings			
Criterion/Sub-Criterion	Fully Satisfied	Partially Satisfied	Not Satisfied
6. Is there a process to formally evaluate the proposed strategic plan and the process used to create it?			✓

We have organized our detailed audit findings of strategic planning by audit criterion included in Table 3.

**Completion of Strategic Plan (Criterion 1)**

The Department does not have a documented strategic plan. However, a schedule for the development of a strategic plan has been prepared. In addition we found that the Department has implemented some organizational changes to facilitate the planning effort. For example, the Department formed the Transportation Policy, Planning and Development Division to consolidate and strengthen the policy, planning and development functions. The Corporate and Legislative Services Branch, under this new Division, was created to launch and support Departmental strategic planning. In the fall of 1994 the Department formed a Strategic Planning Working Group, which reports to a Steering Committee, comprised of Executive Committee members. In December 1994, after initial discussions with Department representatives and other agencies, the Department developed terms of reference and called for proposals from consultants to facilitate the strategic planning process. In February 1995, the successful consultant began work on the project. The Transportation Systems Planning and Development Branch under the new Division was assigned responsibility for highways infrastructure and systems planning.

The process to create a strategic plan has just begun to produce results. In June 1996, the Department reaffirmed its mission statement and completed its vision and guiding principles. Other results are discussed in the sections that follow.

Regarding communication of strategic plans, we found that a formal plan and process had not been developed. However, we found that both written and verbal communication between senior management and staff has occurred and that proposals to continue this process have been prepared. Plans to involve customers are nearing completion.

**Comprehensive Strategic Planning Process/  
Involvement of Major Stakeholders (Criteria 2 and 3)**

The Department’s strategic planning process is aimed at fostering a broad departmental view, driven by the senior management of the Department. The process

is structured to cover all modes, recognizing that unlike air and rail, the provincial government has direct responsibility for roads. The structure involves all groups in the Department at a number of levels. For example the Strategic Planning Working Group, assigned responsibility for developing and actioning a process, has representatives from all divisions. The process involves outside stakeholders. This will help to broaden the Department's perspective and ensure all issues are dealt with. The public and key stakeholders, as system users, have different perspectives regarding the roadway system. The sum of these perspectives will add depth and breadth to the Department's understanding. Input from the public and key stakeholders provides a reality check for Department actions or inactions.

#### **Future-Oriented Information Base (Criterion 4)**

We found that the Department does not have a comprehensive information database from which a strategic plan would be based. Such an information database would primarily include information from internal and external stakeholder survey results as well as the more usual environmental scans. Officials indicate that in October to December 1995 the Department conducted focus groups with key stakeholders. Officials also indicate that the Department has determined areas of strategic focus and is currently developing action plans for these areas. Officials further indicate that the Department has completed a thorough environmental scan and documented its findings. These are positive actions towards developing a future-oriented information base.

#### **Processes for Updating (Criterion 5)**

Although our discussions with Department representatives indicate a long-term commitment to strategic planning and indicate that the current strategic planning process is defined to be cyclical, the Department has not yet prepared a schedule of strategic planning activities beyond the first cycle.

Strategic planning and the ability of an organization to look to the future requires practice and experience. Repeating the strategic planning cycle improves the results. Department employees and key stakeholders must be assured that the process will provide a constant forum for developing direction. Most organizations take three to five years to successfully implement and integrate strategic planning.

#### **Evaluative Mechanisms (Criterion 6)**

The Department has not yet developed a framework to formally evaluate the proposed plan and the process used to create it.

Although it is not the intent of strategic planning to predict the future, results achieved should be compared with the actions proposed. Scheduling and content of



process activities should be compared to the actual timing and results of those activities. Adjusting activities or their timing increases the value of strategic plans by ensuring better results and more effective use of resources.

## **AUDIT FINDINGS - LONG-RANGE PLANNING**

As with strategic planning, long-range planning does not have a prescribed or generally accepted methodology. Some transportation planners see a long-range plan as a map showing the existing and future road system network and a list of prioritized projects set out over a long-range time frame. Others see a document that is more oriented toward describing policies and objectives that is to be used in assessing transportation improvements or developments. In our view, a long-range plan should include policies, objectives and a list of prioritized projects.

Although Manitoba Highways and Transportation does not have a fully developed long-range planning process, it does undertake several activities that are supportive of long-range needs. Table 4 provides an overview of the results of our audit of long-range planning.

The following actions indicate the Department's efforts to improve long-range planning:

- The Department has initiated organizational changes, as discussed earlier.
- The Department has negotiated an agreement with the University of Manitoba to collect and analyze traffic data.
- The Department's consideration of the environment and cost estimating for highway alternatives at the project level.
- Completion of the Manitoba Highway Classification Study.

Considering the strategic planning initiative presently underway within the Department, there is now an excellent opportunity for the Department to address what a long-range plan should entail and define a formal process to undertake long-range planning.



Table 4

Summary of Long-Range Planning Audit Findings			
Criterion/Sub-criterion	Fully Satisfied	Partially Satisfied	Not Satisfied
1. Does the Department have a long-range plan which: a) is documented and communicated, b) has clear objectives that are consistent with the Department's mandate and strategic plan, c) is based on an accurate description of the existing infrastructure state, usage and capacity, and d) reflects realistic time-sequencing?			✓
2. Does the planning process consider all transportation modes [road (car, truck, bus), rail, ferry, air], their interrelationships and consider the effectiveness of inter-modal links?	✓		
3. Have technically sound and objective analytical processes been utilised for identifying needs, generating alternatives and determining priorities? These processes should include identifying benefits, risks and uncertainties, and evaluating economic, social and environmental impacts.		✓	
4. Does the Department use a least lifetime cost approach to planning?			✓
5. Does the planning process require reasonably accurate and complete cost projections for sound decision-making among alternatives?	✓		
6. Has a process for continually updating the plan been developed?			✓
7. Has a process to evaluate actual results against the plan been developed to enable the Department to take corrective action when the plan is not met in a cost-effective manner?			✓
8. Does the Department conduct ongoing research to validate technical models and analysis?		✓	

We have organized our detailed audit findings of long-range planning by audit criterion included in Table 4.

### **Completion of Long-Range Plan (Criterion 1)**

The Department does not have a documented long-range plan nor does it have a fully developed process. Identifying key result areas, target completion dates and individuals responsible for each task would better facilitate and coordinate actions and document progress towards the development of a long-range plan.

Officials indicate that the Transportation Systems Planning & Development Branch has prepared draft long-range planning objectives for discussion. They also indicate that this draft will be reviewed by senior management to ensure consistency with the Department's mandate and strategic plan and to reflect the concerns of customers.

The Department has historically undertaken special studies that endeavour to look at future needs. A study undertaken in 1960 "Manitoba Highways, Planning for Tomorrow", was the first such study. In 1985 the Department updated the study and produced and published a report titled "Manitoba Highways Classification Study". A "Road Classification Review - 1995" is underway spearheaded by the Systems Planning Branch.

The 1985 and 1995 studies are probably the best examples of comprehensive long-range planning activities undertaken by the Department. These studies established a hierarchical road system for Manitoba. They also included the establishment and updating of road standards or cross-section widths, threshold volumes for these standards, right-of-way requirements and access and development control standards.

The main information bases used by the Department which are relevant to long-range planning are the Highway Inventory and Needs Assessment System, and the annual Manitoba Traffic Count Statistics Reports.

Regarding the Highway Inventory and Needs Assessment System, the Department has recognized that certain areas of its information base are deficient, in particular with respect to highway surface conditions (pavements), capacity and levels of service. We have been advised that the Department is evaluating various "asset" management systems and that one will be implemented. The main information system presently in use was developed in the late 1960's. Although the Department has updated the system, some procedures are not current such as those that the Department uses in the highway capacity and level of service analysis methodology.

In our opinion, the present information system requires extensive revision or replacement to achieve a much more comprehensive database which can be accessed easily and used for analysis with a variety of available PC software.

The Manitoba Traffic Count Statistics Report used by the Department is a means of

measuring how much a road is used. The degree of usage is important in determining the road's performance and in deciding if and when the Department should undertake certain improvements.

In August 1994, the Department signed a three year agreement with the University of Manitoba to provide traffic data analysis support services. It is important that the Department continue to work with the University of Manitoba to identify its basic traffic data needs and to develop a system that is more responsive and accessible.

Officials concur with the need for improved technical support for long-range planning, and indicate that the computer systems plan for the 1996/97 fiscal year includes the acquisition of appropriate software.

Officials also indicate that the development of an integrated, comprehensive database is a high priority. Officials believe this database will provide one of the tools required to carry out the needs analysis task effectively and to support the proposed Asset Management System.

### **Modes of Transportation (Criterion 2)**

We concluded that the Department is structured to consider all transportation modes in its planning efforts. It has undertaken significant activities to evaluate the impacts of mode shift and to encourage development of a multi-modal distribution centre in Winnipeg. The Department can effect direct changes in the case of highways, but can only support other modes that are under Federal jurisdiction (i.e., air, rail and water) or controlled by the private sector, and minimize any impediments over which they may have control to achieve greater inter-modal efficiencies.

### **Analytical Processes (Criterion 3)**

In the context of a long-range planning process, we concluded that the Department generally does not identify benefits, analyze risks and uncertainties, nor evaluate economic, social and environmental impacts in identifying needs, generating and assessing alternatives and determining priorities. Although engineering alternatives are considered, we were unable to find studies where non-engineering solutions, such as speed limits, driver age, vehicle dimensions, signage and driver education programs had been considered.

We note that the Department has established processes at the project level for major activities, such as location studies and bridge projects, to address economic, social and environmental issues, and to meet the requirements of the Manitoba Environment Act.

Officials agree that the existing method of identifying needs is outdated and state that

they are currently pursuing the development of an Asset Management System, to replace the present Needs Study Program. Officials believe that the new system will be an essential tool in identifying rehabilitation and maintenance needs on the existing Provincial highway network, and appropriately allocating limited resources between rehabilitation and maintenance work.

Officials also agree with the need to consider possible non-engineering solutions and have interpreted these to include policies and strategies that will increase the efficiency of the transportation system and lower the demand for upgrading (e.g., control of strip development adjacent to highways). Officials advised, however, that effective application of such policies to particular cases often requires substantial political support in the consideration of trade-offs.

Officials agree with the need to assess expected benefits, but state that the Department currently does not have the resources to fully carry it out. They indicate that the Transportation System Planning & Development Branch (TSPDB) is currently researching and preparing a discussion paper on a process to optimize investments in the provincial transportation system, and that the Department is currently pursuing means of accessing necessary information electronically that will assist in overcoming the resource constraints.

Officials agree with the need to conduct benefit/cost analyses and state that they are currently addressing this issue. Officials advise TSPDB has acquired the MicroBENCOST computer program for use in carrying out benefit/cost analyses. Officials further advise that benefit cost analysis is expected to form a major part of any future process to optimize transportation infrastructure investments.

#### **Least Lifetime Costs (Criterion 4)**

Based on our interviews of Department management and staff and our examination of the documents and information that they provided to us, we conclude that the Department has not reflected a least lifetime cost approach in its long-range planning.

Least Lifetime Cost refers to the least cost that may be achieved/incurred over the lifetime of a facility for a combination of capital costs (construction and rehabilitation) and the annual maintenance costs. Different types of construction, rehabilitation and required maintenance yield different lifetime costs.

The Department needs to perform analysis or background work to determine the benefits that a project may bring and the changes in both the "costs" and "benefits" should the project be advanced or delayed. Using congestion or level of service as an example, if a highway is twinned before significant congestion occurs, there will be excess capacity which results in less than optimum value for money. If the project is delayed until extreme congestion occurs, then any additional congestion costs also

results in less than optimum value-for-money.

Officials agree with the benefits of applying a least lifetime costing methodology and have indicated that the planned Asset Management System and the MicroBENCOST system will be capable of completing least lifetime costing on a project by project basis.

#### **Complete Costing of Alternatives (Criterion 5)**

We examined the costing information for two projects namely the PTH 59/PTH 100 Functional Planning Study and the Lynn Lake/Flin Flon Route Location Study.

Both of these studies included an assessment of a number of alternatives. In our opinion, they reflected sufficiently accurate and complete costing for the construction cost.

#### **Process for Updating (Criterion 6)**

The Department does not have a long-range plan and therefore there is no process for updating the long-range plan. However, there is a process for updating the capital program on an annual basis.

The highway classification studies are the best examples of longer-range planning activities conducted by the Department. The first study was in 1960, updated in 1985 and is again being updated in 1995. The time interval between the studies has been approximately 15 and 10 years respectively. There is no formal process in place for updating studies. In our opinion, reviews of the long-range plan should be conducted more frequently than 10 or 15 years. We suggest a minimum time interval of five years for updating the plan. A shorter interval would be appropriate if significant changes had occurred such as in the information base, in the availability of analysis tools (new methodology or results of research) or in the undertaking of new initiatives (e.g., Winnipeg as a multi-modal distribution centre).

#### **Evaluation of Results (Criterion 7)**

There is no apparent process for evaluating results against plans and studies.

#### **Technical Models and Research (Criterion 8)**

For long-range planning purposes, the Department does limited research to develop or validate technical models or other planning related analysis. Officials indicate that the Department has undertaken research to calibrate the recently acquired MicroBENCOST computer program and has validated this technical model to carry out benefit/cost analyses. Also, research is conducted in the area of pavement

systems.

We believe that there is a need and opportunity for the Department to conduct research work in the area of design level of service and selection of the design hour volume, and to keep apprised of research work being undertaken in developing methodologies for evaluating risks and uncertainties.

Officials agree with the need to keep apprised of research work being undertaken for evaluating risks and uncertainties. They state that staff currently endeavour to do this, but are constrained by time and resource considerations. They advise that the Transportation System Planning & Development Branch plans to develop its own library as resources permit to facilitate access to research literature, and is currently planning a connection to the Internet that will permit access to the libraries of various research organizations.

With respect to the area of design level of service and selection of the design hour volume, officials indicate that subject to approval of adequate funding, the Department will conduct research related to these areas and other issues as part of its long-range planning process.

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## CROP INSURANCE ADJUSTOR'S AUDIT PROCESSES

### MANITOBA CROP INSURANCE CORPORATION

### **Background Information**

Gathering and maintaining accurate producer yield data is a critical aspect of the Crop Insurance (CI) Program and of the Gross Revenue Insurance Plan (GRIP). Producers report this data to the Corporation on an annual basis. Therefore, if the integrity of both the CI Program and the GRIP Program is to be maintained, it is important that adequate procedures exist to verify the accuracy of producer reported crop yields. **Exhibit 1** provides further information on the importance of yield verification.

Provinces participating in the Gross Revenue Insurance Plan (GRIP) are required to measure individual producer yields to verify coverage levels, individual productivity index, long-term average yields, and to calculate indemnity payments. Since there are very large numbers of producers enrolled in the program (Manitoba has in excess of 12,000 producers enrolled), the GRIP Agreement does permit provinces who do not feel it is practical to measure the production of every individual farmer, to use alternative methods to verify yield information. The Department of Agriculture and the Manitoba Crop Insurance Corporation (MCIC) have elected to use the producers' signed declarations of production as set out in their Harvested Production Reports (HPRs) and Detailed Production Statements (CI504s), plus a statistically valid sample of random audits to verify the accuracy of the yield information. This approach has been accepted by the Federal Government as a valid alternative to measuring every individual producer's yields.

The role of the adjustor in yield verification is an important one. The adjustors work directly with the producers, and check the reported production in detail for each producer selected for audit. The adjustors work is also subject to random review and checking by scrutineers located in the various agricultural regional offices. Personnel at the Corporation's head office also review the audit findings and will recheck any with large or unusual variances.

MCIC has developed an "Adjustor's Procedure Manual - Audits" which specifically sets out the procedures to be used by its adjustors in doing the random audits of the producer yield information. All adjustors have been provided with a copy of this manual. As well, the Corporation holds annual training sessions on this material for all adjustors involved in the random audits of the producer yield information.



The yield information obtained from the producers' HPRs and CI504s has been the basis for CI indemnity payments in excess of \$140 million and GRIP indemnity payments in excess of \$300 million over the last two crop years alone. For the 1994 crop year, MCIC conducted on-farm yield verification audits on 170 producers.

## **Audit Objectives and Approach**

We conducted our audit to evaluate the appropriateness of the Corporation's on-farm yield verification audit processes and to determine if these processes comply with the requirements in the GRIP Agreement.

Our specific audit objectives were to determine whether:

- The role and responsibilities of the Corporation's adjustors in conducting yield verification audits are clearly defined;
- The Corporation's training programs are designed to provide reasonable assurance that the role and responsibilities of the Corporation's adjustors in conducting yield verification audits are clearly communicated and understood by those involved;
- The procedures set out in the Corporation's Adjustor's Procedure Manual - Audits:
  - conform with the terms of the GRIP Agreement, and
  - contribute to the assessment of the accuracy of producer yield information and declarations submitted;
- The yield verification audits are properly planned by the Corporation's adjustors and conducted in accordance with the procedures and practices set out in the Adjustor's Procedure Manual - Audits; and
- Appropriate actions are taken by the Corporation on the findings from the yield verification audits reported by the adjustors.

Our audit work was conducted in accordance with the legislative mandate, policies and practices of the Provincial Auditor's Office. These policies and practices encompass the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.

## **Audit Conclusions**

As a result of our audit, we are able to conclude that the Corporation's on-farm yield verification processes were appropriate and comply with the yield verification requirements in the GRIP Agreement, and that each of the specific audit objectives noted above were met.

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## EXHIBIT 1

## IMPORTANCE OF YIELD VERIFICATION

It is important that the Corporation have procedures in place to verify the accuracy of producer reported crop yields under the GRIP and CI programs because:

REVENUE INSURANCE	CROP INSURANCE
<p>Historical yield information is used to determine a producer's target revenue. Target revenue is calculated for each producer as <b>(LTAY x support price x seeded acres)</b>.</p> <p>Current year yields are used to calculate a producer's market revenue (<b>actual yield x Prairie average market price</b>).</p> <p>Indemnity payments under the GRIP program are triggered when a producer's actual market revenue falls below target revenue.</p>	<p>Historical yield information is used to determine the guaranteed production level (or <b>LTAY</b>) for a producer. Insurance is then offered at coverage levels ranging from 70% - 80% of <b>LTAY</b>.</p> <p>Current year yields are used to determine whether an insurance indemnity is payable to a producer and to calculate the amount.</p> <p>Indemnity payments are made whenever a producer's <b>actual yield</b> for a crop year falls below the producer's guaranteed production level (at 70% - 80% coverage level) as a result of an insured peril.</p>

## Definitions:

**LTAY** - (also called "probable yield") is the **Long Term Average Yield** of a crop for a producer as determined by the Corporation. The average yield for a crop in each risk area is determined on the basis of the most recently available records during a period of not more than 25 years.

**Support Price** - means the **Indexed Moving Average Price (IMAP)** for each eligible crop times coverage level of 70%. The IMAP is computed on a 15-year basis.

# AIR CHARTERS - FOREST FIRE MANAGEMENT

## INTRODUCTION

In 1994/95, air charter costs for forest fire management amounted to \$7.8 million whereas for the first seven months of 1995/96, these costs amounted to \$12.5 million. Air charter costs for forest fire management are influenced significantly by the hazard level of fires. For example, a wildfire in a main forest-harvesting area would be considered as high priority and require immediate action whereas a fire in a remote or unsettled area would be considered low priority and may not require any action. Statistics from the 1994 and 1995 fire seasons reflect the cost implications of varying priority levels of fires and the actions taken.

**Table 1**

	1994	1995 (7 months)
# of Fires	555	662
# of Hectares burned	1,428,754	803,298
Actioned or Limited Actioned Fires	431	597
%	78%	90%
# of Hectares burned	272,352	596,220
%	19%	74%
No Action Fires	124	65
%	22%	10%
# of Hectares burned	1,156,402	207,078
%	81%	26%
Air Charter Cost	\$7.8 million	\$12.5 million

## OBJECTIVE AND SCOPE

We conducted our audit to assess the effectiveness of the management of air charter costs related to the forest fire management program. Specifically, our audit was designed around the following expectations or audit criteria:

- air charter services should be appropriately planned in order to minimize costs;
- air charter costs should be appropriately monitored and reported; and
- air charter costs should be processed in compliance with established guidelines.

Our audit focused on the management of air charter costs incurred within the fire program section of the Department of Natural Resources which is responsible for forest fire management. The fire program section reports to Headquarters Operations which coordinates the delivery of forest fire emergency response for the Department of Natural Resources.

Our audit was conducted in accordance with public sector auditing standards and included such tests and procedures as we considered necessary in the circumstances.

## CONCLUSION

Based on our audit, we concluded that air charter costs relative to the forest fire management program are effectively managed, except for the annual reporting of the full extent of air charter costs. Our detailed findings are provided in the following section. Our comments under MONITORING AND REPORTING, describe the nature of fragmented reporting of air charter costs and provide our recommendation to improve the disclosure and reporting of this information in the annual report for the Department of Natural Resources under the forest fire management program.

## FINDINGS

### Planning for Air Charter Services

We identified planning as a key element in managing air charter costs because effective planning can heighten emergency readiness and response capabilities. Successful initial attacks on wildfires can minimize the size of the fire, the loss of valuable merchantable timber and private property and suppression costs. Deployment of both air and ground support is based on the fire hazard levels with resources focused in the areas where the potential for damage is the greatest. Accordingly, resources can be mobilized around main forest-harvesting areas on a priority basis.

To effectively manage air charter costs during the fire season, we expected the Department to have an emergency response plan including an inventory of qualified carriers with negotiated rates as well as pre-arranged and documented contract terms with various carriers.

Because the helicopter is the primary method of transportation used by the program to rapidly deploy crews and equipment to fire sites we expected that air charter costs for helicopters would be minimized by tendering for long-term contracts in advance and by maximizing the use of long-term contracts rather than casual hires.

The department also makes significant use of fixed-wing aircraft from MGAD. Because of the limited availability in Manitoba of fixed-wing aircraft on a casual hire basis, we expected the fire program section to maximize utilization of MGAD aircraft for fire suppression.

We found that the procurement of air support is planned prior to the start of the fire season. The Department's plan includes the hiring of long-term contract helicopters, casual aircraft, MGAD aircraft and other provincial governments' aircraft as needed.

For the 1995 fire season, the fire program section had pre-arranged five long-term helicopter contracts. Four contracts were for medium lift helicopters and the fifth was for a light lift helicopter. Table 2 provides our analysis of the rate structures under these contracts. Based on normal usage, this analysis indicates that the contracted cost per hour is consistently less than the range of rates for casual hire.

Contract rates are based on a flat fee for availability, regardless of utilization, plus an hourly rate for actual service time. Normal usage is defined in the original contract approvals. Normal usage for light lift helicopters is 500 hours and for medium lift helicopters is 300 hours.

**Table 2**

COMPANY #	HELICOPTER TYPE	CONTRACT RATES (includes availability)	NORMAL USAGE (Hours)	COST PER HOUR	RANGE OF RATES FOR CASUAL HIRE (per hour)
1	Bell 206	\$212,000	500	\$424	\$605 - \$695
2	Bell 204	\$376,500	300	\$1,255	\$1,350 - \$1,625
3	Bell 204	\$355,000	300	\$1,183	\$1,350 - \$1,625
4	Bell 205	\$391,500	300	\$1,305	\$1,350 - \$1,625
5	Bell 205	\$394,000	300	\$1,314	\$1,350 - \$1,625

Regarding the utilization of long-term contracts for helicopters and MGAD for fixed wing aircraft, we found that the average hours flown, during the 1995 fire season per aircraft for both helicopters and fixed wing aircraft, was greater than for casually hired aircraft as illustrated in Table 3 below.



Table 3

AIRCRAFT	FLYING HOURS	NO. OF AIRCRAFT	AVERAGE HRS/AIRCRAFT
<b>Airtankers</b>			
MGAD - CL 215's	1,341.4	5	268
Casual - CL 215's	256.9	11	23
<b>Birddogs</b>			
MGAD	594.3	3	198
Casual	85	3	28
<b>Other Fixed Wing</b>			
MGAD	1,008.3	3	336
Casual	1,653.6	61	27
<b>Helicopters</b>			
Contract - Light Lift	513.3	1	513
Casual - Light Lift	5,603.7	39	144
Contract - Medium Lift	1,496.9	4	374
Casual - Medium & Other	2,020.4	14	144

## Monitoring and Reporting

To assess the appropriateness of the monitoring and reporting of air charter costs, we expected to find reports analyzing the costs and utilization patterns of air charters. We expected to see that all air charter costs for forest fire management were incorporated in the monthly reporting to the Minister of Natural Resources and fully disclosed in the Department's annual report to the Legislature. We expected costs to be reflected in aggregate, with separate disclosure of any recoveries from other appropriations shown as deductions from total costs.

We found that the Department maintains a fire information system which tracks air charter costs and utilization data. The system monitors all aircraft used in forest fire management by type of aircraft, by hours flown, by cost, by contract or casual hire company and by fire. The system is capable of producing customized reports as needed regarding air charter costs and utilization.

Due to the flexibility of the system, various types of reports were prepared for management over the course of the 1995 fire season. Monthly reports on aircraft utilization and costs were provided to senior management. On a monthly basis or sometimes more frequently, the Department reported to Treasury Board on forest fire management activities. Information was provided on the number of fires in the Province, the number of hectares burned, the cost to date of resources used in forest fire management and the Department's forecast for the balance of the fiscal year.

Air charter costs are also monitored using a "Contract or Agreement Record" to track payments against approved contracts and other Treasury Board approvals.

Because of the appropriation structure and coding of payments for the forest fire management program, disclosure of air charter costs for the 1994/95 fiscal year has been split between two departmental annual reports. All forest fire management costs were initially paid by the Department of Natural Resources but only fixed contract costs were charged against their own appropriation. Variable contract costs and casual hire costs were charged to Emergency Expenditures included within the "Other Appropriations" section of the government accounts.

As a result the fixed air charter costs are reflected in the annual report of the Department of Natural Resources and the variable and casual costs are reflected in the annual report of the Department of Government Services. Consequently, the total costs for air charter services for forest fire management are not reflected in either of these reports. The reporting has become fragmented with disclosure in two different locations.

We recommend that the Department of Natural Resources expand the disclosure in their annual report to reflect total air charter costs incurred for the forest fire management program.

#### *Comments of Officials*

*The Department concurs that total forest fire management costs, including spending from Government Services appropriation 27-5M, Emergency Expenditures should be included in the annual report of the Department. Accordingly, full disclosure will be included in future annual reports.*

## **Compliance with Established Guidelines**

Based on our testing in this area, we are satisfied that the Department of Natural Resources has complied with the financial and administrative guidelines established in the General Manual of Administration and the Financial Administration Manual with respect to the procurement and payment of air charter costs.

We tested for compliance with the following guidelines:

- Budgetary authority should be obtained before funds are committed.

- Contract tendering, approval and management guidelines should be followed.
- Certification that goods and services have been received should be documented.
- Payments should be supported with original invoices that have been verified.
- Payments should be correctly coded to the applicable appropriation and expenditure code.
- Payments should be approved by authorized officers with delegated payment authority.
- Untendered contracts over \$1,000 should be reported to the Minister of Finance.

All 25 payments selected complied with the above guidelines.

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