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Chapter 1

Accounts and Financial Statements

The Auditor General Act, Section 10 Annual Report

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Highlights of this report

The Auditor General Act (the Act) requires us to report to the Assembly by December 31st in each year about the examinations and audits conducted under Section 9 of the Act. This section of the Act relates to audits of the Public Accounts and other financial statements included in the Province of Manitoba's (Province) Public Accounts. Section 10(2) of the Act requires us to indicate anything resulting from this work that we consider should be brought to the Assembly's attention.

We are pleased to report that for 2010/11, the Province has again received an unqualified audit opinion on its summary financial statements, which means that the summary statements present fairly, in all material respects, the financial position and results of operations in accordance with Canadian public sector accounting principles. We are also pleased to report most organizations consolidated into the summary financial statements received unqualified audit opinions. Having reliable financial statements is an important starting point in any discussion about understanding the current financial situation and in making policy decisions in the areas of budgeting and long-term fiscal planning.

To assist Legislators in understanding certain of the complexities of the summary financial statements, we have described the importance of public sector accounting standards, the financial reporting model for summary financial statements, defined net debt, total borrowings, the accumulated and annual surplus or deficit, the change in net debt and the cash position and cash flow.

We have included a discussion on the Province's inclusion of core government results in the summary financial statements. Core results do not include all of the necessary adjustments to completely and accurately report on what has transpired. We are recommending that the Province only report summary results. The summary financial statements in combination with the notes and schedules provide sufficient information on the financial position and operations of the Province. It is also sufficient to enable policy discussions about alternatives for budgeting and long term fiscal planning.

At the conclusion of each of our financial statement audits, we communicate matters for improvement to senior management of the Province or to senior management and the board of directors of the organization being audited. In the event that action has not been taken after a reasonable period of time or if the Legislature should be immediately informed of the matter, we include that information in this report. This year, we have included such information about:

- The requirement to recognize a liability for sick leave benefits
- The annual revaluation of environmental liabilities

- Overpayments to pensioners from the Civil Service Superannuation Fund
- Accruals for wage settlements in the Manitoba Health Services Insurance Plan
- The continuing operations of Leaf Rapids Town Property
- The application of incorrect discounts to some driver premiums at Manitoba Public Insurance
- Areas for improvement in the Information Technology environment.

1. Audit of the Summary Financial Statements

1.1 Auditor's report

Our auditor's report on the Province's summary financial statements as at March 31, 2011 represents an unqualified "clean" opinion. We issue an unqualified opinion when we find that the statements are prepared in accordance with Canadian accounting standards. That was the case for the summary financial statements as reported in the *Province of Manitoba Annual Report for the year ended March 31, 2011* (2011 Annual Report).

1.2 Provincial Comptroller's responsibility for the Summary Financial Statements

The Provincial Comptroller is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles (GAAP). In the case of governments (Canada, Provinces and Municipalities), GAAP is established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) after broad consultations with stakeholders. See section 2 of this report for more information on the accounting standards used by the Province.

To prepare financial statements in accordance with GAAP, the Provincial Comptroller is required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The Provincial Comptroller is responsible for preparing the summary financial statements, including related notes and schedules. The Provincial Comptroller is also responsible for internal controls, to the extent she deems them necessary to prepare summary financial statements that are free from material misstatement whether due to error or fraud. The Provincial Comptroller confirms this by signing the "statement of responsibility" preceding our audit report.

1.3 Our responsibility as auditor

Our responsibility is to audit the financial statements, form an opinion based on our audit and issue our auditor's report. We conduct our audits in accordance with Canadian generally accepted auditing standards (GAAS). See section 1.4 for information on recent changes to GAAS.

Some key points about our audit report on page 71 of the 2011 Annual Report follow.

Level of assurance: Our audit is designed to obtain reasonable—but not absolute—assurance that the summary financial statements are free of material misstatement. It is not practical to provide absolute assurance in a financial statement audit because it is not practical to test 100% of transactions (due to volume), internal control systems have inherent limitations (due to control override potential), and much audit evidence is persuasive rather than conclusive. Reasonable assurance means we have obtained sufficient and appropriate audit evidence to minimize audit risk to an acceptable level to support our conclusion that the statements are free of material misstatement. This is consistent with GAAS requirements.

Materiality: In our audit report, we give an opinion on whether the financial statements are materially misstated. We plan our audit work to detect material errors in the financial statements. Materiality means how significant a financial statement omission or misstatement can be in order to influence or change the decision of a person relying on those financial statements. We refer to guidance provided by GAAS and exercise our professional judgement in order to set an overall materiality level for the audit. We accumulate all errors or misstatements we noted during our audit and make an assessment of whether they would individually or in aggregate cause financial statement balances to be materially misstated, based on the materiality level for the audit or because of other qualitative considerations associated with the information irrespective of the magnitude of the error.

Audit procedures and evidence: Our audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the summary financial statements. The procedures selected depend on our judgement as auditor, including our assessment of risks of material misstatement of the summary financial statements, whether due to fraud or error. We considered internal controls relevant to the preparation of the summary financial statements in order to design our procedures, but not for the purpose of expressing an opinion on the effectiveness of the Province's internal control. Our audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the summary financial statements.

Opinion paragraph: We issued an unqualified audit opinion on the summary statements, concluding that they were fairly presented in accordance with GAAP, and free of material misstatement. We are not providing an opinion on the effectiveness of internal controls or whether management exercised its fiduciary responsibilities—these are not the focus of a financial statement audit. If we find any ways to improve controls or management practices during our audit, we discuss them with management and put them in a management letter. This is consistent with GAAS.

1.4 New Canadian Auditing Standards

Canadian Auditing Standards: As discussed above, we conduct our audits following GAAS as prescribed by the CICA. For audits of entities with fiscal years ending after December 14, 2010, the CICA has prescribed GAAS to be the new Canadian Auditing Standards (CAS). CAS were developed based on International Standards on Auditing developed by the International Auditing and Assurance Standard Board. Canadian standards changed to enable Canadian auditors to carry out consistent and comparable audits using standards that are accepted internationally. The adoption of international auditing standards eliminates the need for Canada to maintain its own separate set of standards. International standards have recently been upgraded and are high quality, clear and understandable. More than 100 countries have already adopted these standards or are in the process of doing so.

Effects on our audit approach: As a result of adopting CAS, some aspects of our audit approach changed for our audit of the summary financial statements. A significant change was required by the standard for Group Audits – CAS 600. This standard applies whenever an entity has a "component" which prepares its own financial information. In the case of our audit, all of the entities consolidated in the summary financial statements are considered components – there are over 150 separate components. CAS provides guidance to focus our audit work on the most significant components – these are the components where the highest risk of material misstatements exists. Through the improved documentation of the risks related to the components, we were able to identify the risks better and direct our efforts to the riskiest areas. Our communications with the auditors of the components increased as we worked together to ensure audit work done on the entity's financial statements would address risks identified through our Public Accounts audit.

Other effects from new CAS included a change to our audit report date and an increase in work performed on accounting balances that include estimates from management.

Changes to the Auditor's Report: In addition, there have been several changes to the Auditor's Report due to the implementation of CAS. It has changed to a 6 paragraph report (with 2 optional paragraphs), compared to the previous 3 paragraphs. The report is more explicit with regards to responsibilities of management and the auditor. The report may include 2 additional sections for "Emphasis of Matters" and "Other Matters":

Emphasis of matters paragraph (optional)

- Must relate to a matter already disclosed or presented in the notes to the financial statements

- Auditor believes the importance of the issue should be emphasized for users
- Not a qualification (does not affect the financial statement opinion) – the auditor must clearly indicate this.

Other matters paragraph (optional)

- For a matter other than those that are presented and disclosed in the financial statements
- In the auditor's judgment, the matter is relevant to the users' understanding of the audit
- An "other matter" is not a qualification (does not affect the financial statement opinion).

There were no emphasis of matters or other matters paragraphs in our audit report on the summary financial statements for the year ending March 31, 2011. We did include emphasis of matter paragraphs on our opinions for the other financial reports issued in conjunction with the Public Accounts (the audit of the Fiscal Stabilization Account, the Debt Retirement Account, and the Public Sector Compensation Disclosure Report). These emphasis of matter paragraphs drew attention to the basis of accounting used and highlighted the restricted use of these statements.

2. Understanding the Province's financial reporting

2.1 Why Public Sector Accounting Standards?

The Province follows the accounting standards set by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). PSAB has 12 board members who are appointed as individuals, not as representatives of governments. Task forces are created to address specific issues. The Board and task force members include government representatives (including Deputy and Assistant Deputy Ministers of Finance and Municipal Affairs, comptrollers, legislative auditors and budget directors) and municipal treasurers and auditors, but also include academics, bond-raters and other experts in government accounting and auditing.

The PSAB standards are a high quality set of accounting standards designed specifically to meet the needs of the users of government's financial statements. The accounting standards are set nationally and developed using a rigorous process that encourages input from all stakeholders. New standards or changes to existing standards are first proposed by the PSAB. Exposure drafts are then made public and stakeholders are invited to send comments on the proposed changes. Stakeholders include governments, auditors, and the users of government financial statements. This process creates fair, reasonable standards that will allow for consistent reporting of governments across Canada to allow for comparison and evaluation of results. The process helps to eliminate arbitrary selection of rules.

Before PSAB standards were used, there was more flexibility for governments to set financial reporting standards based on politically motivated reasons – having one set of national standards allows for unbiased standardized reporting.

2.2 What are the Summary Financial Statements?

The summary financial statements reflect the financial position and annual results of all organizations in the government reporting entity (GRE). The GRE consists of government departments, special funds and all organizations the Province controls. Public sector GAAP defines control as the power to govern the financial and operating policies of an organization. The list of organizations in the GRE is in Schedule 8, pages 108-111, of the *2011 Annual Report*. The organizations in the GRE include Government Business Enterprises (GBEs), public schools, government not-for-profit organizations, and other government organizations.

GBEs generate their revenues by selling goods or services. Their operations are self-sustaining—they do not rely on government funding. The GBEs are Manitoba Hydro-Electric Board (Hydro), Manitoba Public Insurance (MPI), Workers Compensation Board (WCB), Manitoba Liquor Control Commission (MLCC), and

Manitoba Lotteries Corporation (MLC). The accounting for GBEs is significantly different from all of the other organizations, reflecting their self-sustaining nature.

Under PSAB standards, a summary reporting model is the only appropriate reporting model for governments. PSAB provides the following discussion on the importance of a summary reporting model in its publication, *20 Questions About the Government Reporting Entity*:

> *"How a government chooses to deliver its services should not significantly alter the financial information it reports. It is a fact governments differ in the way they choose to provide some programs even though the actual programs are essentially similar in nature. For example, one government may choose to manage a licensing function through a department while another may choose to establish a separate board for that purpose.*
>
> *Although many government organizations prepare their own financial statements, individually those statements can provide only a fragmented view of the overall activities of their host government. Without summary financial statements, it is impossible to get a complete picture of the government's overall activity, whether for decision making purposes or for demonstrating accountability for the resources provided by, and managed on behalf of, the resource providers. One cannot determine if these individual organizations are actually part of that government.*
>
> *If an organization that should be part of government is accounted for outside a government's reporting boundaries:*
>
> - *The revenues and expenses of that activity will not be reported in the government's financial statements, therefore understating the total revenue-raising and costs of government programs.*
> - *Assets and liabilities attributable to the excluded organization will not appear in the government's financial statements, thereby understating the assets and liabilities.*
> - *Advances between the organization and the government will be treated as assets and liabilities by both, thereby overstating these amounts. Yet, in reality, the government is merely lending money to one of its component parts and will end up repaying itself. Similarly, if a person transfers money from one of his pockets to another, he is not better or worse off.*
>
> *A government's summary financial statements provide an accounting of the full nature and extent of its financial affairs and resources, including those of its agencies and enterprises. Summary financial statements are a*

key element of government financial reporting because governments use them to report on how they managed their financial affairs and resources at an overview level.

Summary financial statements recognize that, even though a government and its organizations may be separate legal or organizational entities, together they make up a single economic unit. Consolidation ensures that the financial statements reflect only transactions and balances with third parties. Providing consolidated information helps users gain an overall understanding of a government's assets and liabilities, revenues and expenses and cash flows."

2.3 Financial reporting model for summary financial statements

The reporting model for the summary financial statements prescribed by the Public Sector Accounting Standards Board includes five key elements: net debt, accumulated surplus or deficit, annual surplus or deficit, change in net debt for the year, and cash position and cash flow for the year. Each element helps users understand how the government managed its financial resources for the year, plus its year-end financial position. The following discussion refers to page numbers in the 2011 Annual Report.

Net debt is calculated as total liabilities less financial assets (financial assets are assets which can be used to pay off liabilities); Net debt represents the future revenue requirements needed to pay for existing liabilities (past transactions and events). Net debt is an important indicator of the government's financial condition. Net debt of $12,837 million (2010 - $11,810 million) is reported in the Consolidated Statement of Financial Position on page 73 of the *2011 Annual Report.*

It is important to distinguish net debt from total borrowings and borrowings as reported in the Consolidated Statement of Financial Position. Total borrowings represents all debt issued, including debt issued on behalf of Hydro and any debt the Province has bought back to hold as sinking fund investments. Schedule 4 on page 103 of the *2011 Annual Report*, illustrates how debt issued on behalf of Hydro and sinking fund investments are then deducted from total borrowings in determining borrowings for the Consolidated Statement of Financial Position. Debt issued for Hydro is also reflected in Schedule 3 to the summary financial statements shown on page 102 of the *2011 Annual Report*.

Figure 1 illustrates how borrowings, as reported on the Consolidated Statement of Financial Position, compares to total borrowings and distinguishes net debt from borrowings.

Figure 1: Borrowings and Net Debt (in $ millions)

	2009	2010	2011
Total Borrowings (includes Debt Issued on behalf of Hydro)	$ 23,324	$ 25,101	$ 26,273
(Less) Debt Issued on behalf of Hydro included in Total Borrowings	(7,836)	(8,289)	(8,467)
(Less) Debt Adjustments[1]	(597)	(701)	(686)
Borrowings as reported on the Statement of Financial Position	**$ 14,891**	**$ 16,111**	**$ 17,120**
Add Other Liabilities[2]	5,519	5,341	5,429
(Less) Total Financial Assets[3]	(8,942)	(9,642)	(9,712)
Net Debt	**$ 11,468**	**$ 11,810**	**$ 12,837**

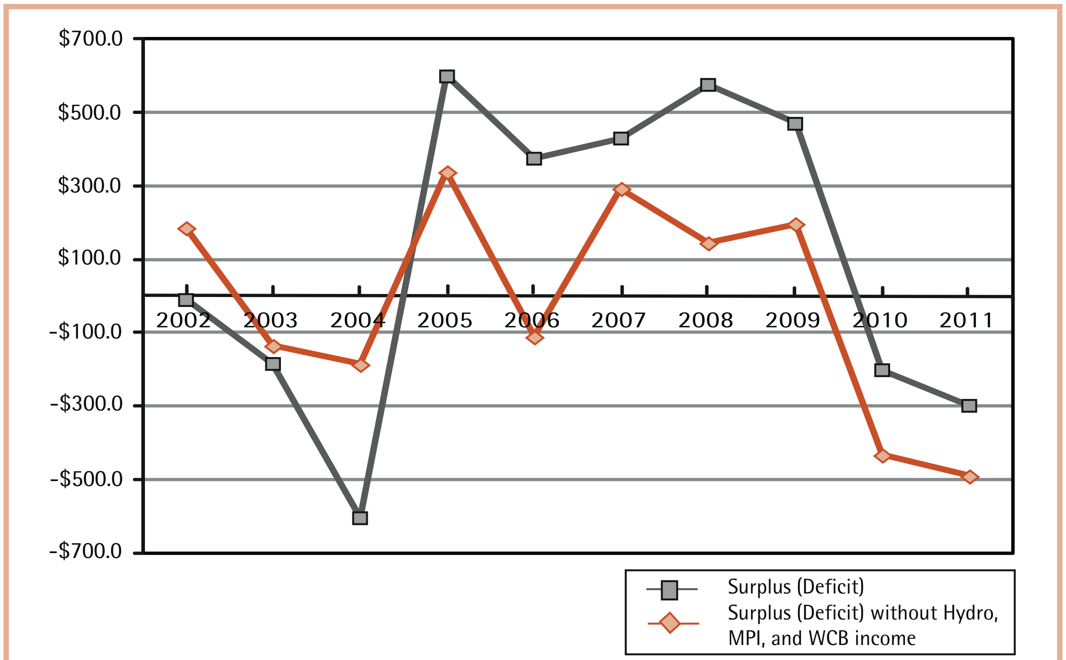
1. Debt adjustments include: unamortized debt issue costs; unamortized foreign currency fluctuations; unamortized gains/losses on derivative contracts; and, debentures issued by the Province that are subsequently repurchased (or held) by the Province as investments.
2. Other liabilities include: accounts payable, accrued charges, provisions, unearned revenue and pension liability as reported on the Statement of Financial Position.
3. Financial Assets are assets that could be used to discharge existing liabilities or finance future operations.

The accumulated surplus or deficit represents the difference between the government's total assets and total liabilities. Accumulated deficit reflects the government's entire net economic shortfall. It means that the government's liabilities are greater than their assets and that the government has been financing their annual operating deficits by borrowing. It also reflects the sum of all the annual surpluses and deficits ever reported by a government. The accumulated deficit - $4,503 million (2010 - $4,374 million) of the Province is shown on the Consolidated Statement of Financial Position on page 73 of the *2011 Annual Report*.

The annual surplus or deficit represents the difference between total revenues from operations during the year and total expenses (costs) incurred during the year. It indicates whether a government has raised sufficient revenues to pay for its expenses for that fiscal year. The expenses reported include the cost of using existing and new capital assets which is referred to as amortization expense. If revenues equal expenses then a government is considered to have maintained its net assets (there is no increase in the accumulated deficit). The annual deficit for 2010/11 is shown as a net loss for the year of $298 million (2010 - $200 million) on the Consolidated Statement of Revenue and Expense on page 74 of the *2011 Annual Report*.

The annual deficit includes the net income generated by GBEs as revenue. The net income recorded by GBEs is presented on schedule 3 on page 102 of the *2011 Annual Report*. The net income generated by MLCC and MLC is normally transferred to government departments to pay for public programs. However, the net income generated by Hydro, MPI, and WCB is normally retained by those entities to finance their future operations. As such, this revenue is not expected to be used to finance other current or future programs of the Province. Calculating the impact of removing this revenue from the annual deficit may provide useful information to users of the summary financial statements. A 10 year graph is provided below (**Figure 2**), illustrating the annual surplus (deficit) as reported in the Consolidated Statement of Revenue and Expense, and for comparative purposes, the annual surplus (deficit) is presented less the net income (loss) of Hydro, MPI and WCB.

Figure 2: Annual surplus (deficit)



Source: Province of Manitoba Summary Financial Statements 2002 - 2011

The change in net debt for the year represents the extent to which sufficient revenues were raised during the year to support government spending for both operating and capital purposes. The level of net capital spending may also be compared to the planned (budgeted) level of capital spending. An increase in net debt indicates that more future revenues will be required to pay for past transactions. The Consolidated Statement of Change in Net Debt is on page 76 of the *2011 Annual Report*.

The cash position and cash flow provides information on how the government has managed its cash during the year and its sources of cash flow and use of cash resources through operating, investing and financing activities. It also highlights net capital spending and how cash was used to acquire capital assets. The Consolidated Statement of Cash Flow is on page 77 of the *2011 Annual Report*.

2.4 Continuing the move away from reporting on core government

In 2005, the Province made a commitment to fully implement Summary Reporting for both budgeting and reporting purposes, including the requirements of GAAP. This commitment included changing the focus of its financial reporting from the Province's Operating Fund (core government) to reporting on the entire GRE on a basis compliant with PSAB standards.

For the next 3 years the Province continued to issue both core government financial statements and GRE summary financial statements. While core government financial statements were included, the Province attempted to put a greater prominence on the summary financial statements. In 2008/09, after a change in balanced budget legislation, the Public Accounts presented only the summary financial statements for the GRE.

However, to assist readers who had previously used core government financial statements, the Province included a schedule in the summary financial statements which reconciled the core government results to the summary results. The Province has continued to include this reconciliation. This year, the Province included Schedule 10 the Summary Financial Statements Consolidated Details Reconciliation to Core Government Results on page 114 of the *2011 Annual Report*.

The accounting policies used to record transactions in the core government are not in accordance with PSAB standards. Schedule 10 notes that

> *"...the Core Government is a component of the Government Reporting Entity and represents the revenues directly reported and the programs and services delivered by government departments. Core Government results are based upon specified accounting policies which vary from Canadian generally accepted accounting principles, in that the results for the year do not reflect the expenses related to the increase in the overall pension liability, do not consolidate the operations of all Crown organizations, include results of the Finance category of government business enterprises only and account for capital financing to health care facilities as a deferred charge. In addition, starting in 2008/09, certain loans and advances to Crown organizations, repaid through future appropriations, were reflected as assets of the Core Government. Public sector accounting*

standards would require these advances to be expensed as grants in the year issued."

As part of the consolidation process, all transactions in the core government are conformed to PSAB standards. As a result, the final amounts presented in the summary financial statements are in accordance with PSAB standards.

While Schedule 10 reconciles the core results to summary results, the core results do not comply with PSAB standards; therefore, we feel that the continued inclusion of core government results is misleading. Although Schedule 10 explains the limitations of core numbers, the adjustments necessary to reflect complete and accurate results are significant. Readers may make inappropriate decisions based on incomplete or misunderstood information presented as the core results.

Furthermore, we feel that the core government results are not representative of the government's performance – for example the Province can choose to move a program from a department to an agency or board and affect the core financial statement figures when there was no substantive change but only an administrative change. Reporting on a summary basis eliminates the transactions between the core government and agency and only reports the revenue and expense incurred by the agency.

Recommendation 1: We recommend that the Department of Finance remove Schedule 10 and all references to core government from the audited summary financial statements.

2.5 Framework of financial reporting for entity level and summary financial statements

The summary financial statements are prepared in accordance with PSAB standards.

As required by PSAB standards, the revenues, expenses, assets and liabilities of all organizations in the GRE (except GBEs) are fully consolidated into the government's summary financial statements.

GBEs are different from other organizations in the GRE because they are financially self-sustaining. This means they will experience annual profits and in some cases losses; but over the long-term, operate with the ability to maintain their operations and meet their liabilities without relying on government funding. GBE financial results are reflected in the summary financial statements on the modified equity basis of accounting.

Under the modified equity basis of accounting, GBE net income is reflected on a single line in the Consolidated Statement of Revenue and Expense (p.74 of the

2011 Annual Report) and GBE equity (assets minus liabilities) is reflected on a single line in the Consolidated Statement of Financial Position (p.73 of the *2011 Annual Report*). This accounting reflects the unique accountability relationship between the Province and the GBEs. A GBE is recorded as a financial asset of the Province because a GBE can generate surpluses that may be available for the Province to use.

Under the modified equity method (unlike the full consolidation method) transactions between GBEs and the rest of the GRE are not eliminated on consolidation. And GBE equity and net income are not restated to conform to the government's basis of accounting for inclusion in the summary financial statements.

The net income and financial position for each GBE is reflected in Schedule 3 to the summary financial statements (p.102 of the *2011 Annual Report*). The net income (loss) for each GBE is presented in **Figure 3**.

Figure 3: GBE Net Income (loss) (in $millions)

Government Business Entity	2010	2011
Hydro-Electric Board	$ 163	$ 150
Workers Compensation Board	(18)	64
Manitoba Public Insurance Corporation	86	(22)
Manitoba Liquor Control Commission	233	250
Manitoba Lotteries Corporation	306	332
	$ 772	$ 775

Source: Audited financial statement of each GBE

The majority of organizations in the GRE prepare their entity-level financial statements in accordance with the CICA Accounting Handbook which includes accounting standards for both profit-oriented enterprises and not-for-profit organizations. School divisions prepare their entity-level financial statements in accordance with PSAB standards. Each set of standards reflects the user needs at the entity level for this wide variety of organizations under the government's control. Within the next two fiscal years all the entities in the GRE, other than GBEs will be moving to PSAB Standards. However, government not-for-profit organizations will continue to apply some of the unique standards currently used by not-for-profit organizations.

When the summary financial statements are prepared, the information from each organization, except for GBEs, is converted to PSAB standards to show the overall results for the Government of Manitoba on one consistent basis. Meeting all of the users' needs with more than one set of standards in the public sector adds complexity to the preparation of both the entity level and summary financial statements. When the entities within the GRE move to PSAB standards, there will be more consistency between entity financial statements and the summary financial statements.

A significant change in accounting standards now underway is the move to International Financial Reporting Standards (IFRS) for publicly accountable enterprises in Canada, which will include GBEs. This change and its future impact on the summary financial statements are discussed in the next section of this report.

2.6 Financial reporting by organizations within the GRE

2.6.1 Changing standards

The accounting and auditing environment has been going through many changes in recent years to move towards a better model. As discussed in section 1, new Canadian Auditing Standards have been adopted based on international standards. Accounting standards and frameworks have also been changing in recent years. Outside of the public sector there are now two separate sets of standards for profit oriented companies to use. International Financial Reporting Standards (IFRS) are now used by publicly accountable entities. These standards have increased disclosure requirements and will allow for comparability of performance across national borders in this global economy. Non-publically accountable businesses in Canada are now using Accounting Standards for Private Enterprises (ASPE). These standards have less disclosure requirements to recognize the different position and needs of users of private companies' financial statements.

In the past, organizations within the GRE that were not considered not-for-profit organizations (NPO) used the same accounting standards as profit-oriented entities. The change in accounting standards in Canada now has triggered a change in required frameworks for entities under government control. In addition, reporting under PSAB will better highlight performance for these entities that will not have the same objectives as entities not under government control.

Entities within the GRE are now classified into one of three categories:

- **Government Business Enterprise** (GBE): An entity that sells goods or services to users outside of the government organization and is able to maintain its operations and extinguish its liabilities without assistance from the government.
- **Government Not-For-Profit Organization** (GNFPO): An organization that operates primarily for social, educational or other not-for-profit purposes, and that has counterparts outside the public sector.
- **Other Government Organization** (OGO): All other entities controlled by the government that are not considered GBEs or GNFPOs.

2.6.2 GBEs must adopt IFRS

As we have noted, Canadian accounting standards for publicly accountable enterprises are converging to meet International Financial Reporting Standards (IFRS). PSAB has decided that all GBEs are publicly accountable and must therefore adopt IFRS for their financial reporting periods starting January 1, 2011.

In Manitoba, all five GBEs have been preparing for the transition to IFRS. That includes assessing the main differences between IFRS and Canadian GAAP (which they currently follow), and identifying and analysing the specific accounting policies, financial disclosures, and underlying financial information to decide what changes will be required to meet the IFRS financial reporting requirements. All GBEs, except Hydro, will convert to IFRS for financial reporting periods beginning on or after January 1, 2011. Hydro will adopt IFRS on April 1, 2012 because it follows rate-regulated accounting policies. The CICA has given organizations that use rate-regulated accounting an extra year to move to IFRS because international standards are still evolving in this area.

Some main areas where IFRS is likely to impact financial reporting by GBEs are as follows:

Financial statement presentations: There will be changes in the format and appearance of financial statements presented under IFRS.

Expanded financial statement note disclosures: IFRS requires more note disclosure around financial statement items. It also requires more disclosure of areas where significant professional judgement has been exercised by management and significant assumptions used to prepare the financial statements.

Depreciation of property, plant and equipment (capital assets): IFRS requires component accounting while Canadian GAAP used to permit accounting and depreciation of the asset as a whole. In addition, IFRS requires overhead and administration costs to be expensed rather than capitalized as part of property, plant and equipment, which was permitted under Canadian GAAP.

Broader recognition criteria for liabilities: Under IFRS, in addition to recognizing legal liabilities, organizations have to assess if they have constructive liabilities— which should be recorded in the financial statements. A constructive liability exists when an organization may not have a legal liability, but may have created a valid expectation by third parties that it will pay to settle a past transaction or claim, so that it has lost its discretion to avoid settlement. Existing Canadian GAAP has the concept of constructive liabilities but has little guidance on this concept and such items are seldom recognized. Items that only needed to be disclosed in a note under Canadian GAAP might have to be recorded as an expense and a liability under IFRS.

Rate-regulated accounting: Canadian GAAP currently permits organizations whose rates to customers are regulated to account for transactions and events differently than organizations who are not subject to rate regulation. Rate regulated organizations can record regulatory assets and liabilities which otherwise would not meet the GAAP definition of assets and liabilities. The intent is to recognize that an organization's costs of delivering a regulated service product will be recovered not only through current, but also future, rate increases.

Hydro currently uses rate-regulated accounting. The prices charged for the sale of electricity and natural gas within Manitoba are subject to review and approval by the Public Utilities Board of Manitoba. The rate-setting process is designed such that rates charged to electricity and natural gas customers recover costs incurred by Hydro in providing electricity and gas service. Accordingly, Hydro applies various accounting policies that differ from enterprises that do not operate in a rate-regulated environment. These accounting policies allow deferral of certain costs and credits that will be recovered or refunded in future rates. Otherwise, these costs and credits would have been included in calculating net income in the year that the cost or credit was incurred. Hydro calls these deferred costs and credits "regulatory assets" or "regulatory liabilities". At March 31, 2011, Hydro had $309 million of regulatory assets.

IFRS does not permit the use of regulatory accounting, but the International Accounting Standards Board (IASB) is now reconsidering this position. Consequently, the CICA has given rate-regulated enterprises a one-year extension to adopt IFRS. As a result, Hydro will adopt IFRS for the fiscal year starting April 1, 2012. At this time it is uncertain what position if any the IASB will take to address accounting for rate-regulated activities.

Impact of IFRS on summary financial statements

As previously noted, GBEs' financial results and financial position are not conformed to the government's accounting policies but the summary financial statements pick up their net equity and annual net income. Any changes which result from GBEs' conversion to IFRS will flow through and be reflected in the Province's annual results and financial position.

2.6.3 GNFPOs moving to PSAB standards

PSAB has decided that all government organizations other than GBEs will converge to PSAB standards for their external financial reporting.

PSAB has approved including existing not-for-profit accounting standards from the CICA Handbook in the public sector accounting handbook. These accounting standards cover transactions and events most common to not-for-profit organizations such as accounting for revenue from contributions for capital and operating purposes. For all other business transactions, GNFPOs will use the rest of the public sector accounting handbook for guidance.

GNFPOs may consequently account for things differently than other not-for-profit organizations that do not use PSAB standards for financial reporting. For example post retirement benefits and pension costs may be accounted for differently.

In Manitoba, GNFPOs have to adopt PSAB standards for the fiscal year beginning April 1, 2012.

2.6.4 OGOs moving to PSAB standards

All government organizations other than GBEs and GNFPOs are called "other government organizations" (OGOs). For the most part, they will follow PSAB standards, unless IFRS better meets an organization's financial reporting needs. OGOs must adopt public sector accounting standards for fiscal years beginning on or after January 1, 2011.

The Department of Finance has been working with government organizations to help them validate their current classification as government not-for-profits or other government organizations and to assist them with the transition.

2.7 Presentation of pension obligations in pension plan financial statements

The Province's liabilities for pensions are recorded in the summary financial statements but the pension plans themselves are not considered to be part of the GRE. Manitoba public sector pension plans issue financial statements using Canadian Institute of Chartered Accountants (CICA) accounting standards for pension plans as their basis for external financial reporting. These accounting standards are changing. The CICA approved the new Section 4600 - Pension Plans effective for years beginning on or after January 1, 2011.

The most significant change will be the requirement that the Statement of Financial Position include both the net assets available for benefits and the pension obligation associated with the plan (both the employer's and the pension plan's portion). The difference (surplus or deficit) between net assets and the pension obligation will also be required to be reported on the Statement of Financial Position. Previously, the pension obligation and surplus or deficit was only reported in the notes to the financial statements.

2.8 Changes in The Civil Service Superannuation Act

Amendments to *The Pension Benefits Act* and *Pension Benefit Regulation* came into effect on May 31, 2011. The Pension Commission required that all pension plans make amendments to meet the new requirements and that the amendments must be filed by December 31, 2011. Accordingly, *The Civil Service Superannuation Act* (Act) was amended to address the inconsistencies between the Act and amendments to The *Pension Benefits Act* and to enact other changes. One of the other changes to the Act was to remove the specific requirement for the Auditor General to audit the financial statements of the Civil Service Superannuation Fund. The Act expands this to allow any independent auditor to audit the financial statements of the Civil Service Superannuation Fund.

2.9 Other sources of information on the Province's finances

In addition to the summary financial statements, there are several other information sources produced by the Department of Finance. These include:

- Financial Statement Discussion and Analysis
    - Financial Highlights from the summary financial statements
    - Financial Condition of the Government – a review of financial indicators as recommended by the PSAB. Indicators are looked at in three categories: Sustainability, Flexibility, and Vulnerability. Using indicators as recommended by the PSAB allows for comparability across provinces. We noted this year that the Province does not look at any indicators that use borrowings, or total liabilities in their analysis and instead relies on indicators that look at net debt (total liabilities less financial assets). PSAB does recommend several sustainability indicators that use total liabilities as the base, but the Province has chosen to use other indicators for sustainability. In addition, some other provinces look at additional indicators other than those recommended by PSAB and will look at things such as borrowings per capita and borrowings as a percentage of GDP. These indicators might be a useful addition to the Province's current analysis.
    - Variance analysis and assessment of significant trends – for revenues, expenses and account balances

  The Financial Statement Discussion and Analysis is released as part of the Annual Report included in Volume 1 of the Public Accounts along with the summary financial statements.

- Volume 3 of the Public Accounts
  - a reconciliation of core government results to summary financial statement results (unaudited)
  - the details of selected core government account balances information (unaudited)
  - the details of core government revenue and expenses (unaudited)
  - financial information provided under *The Financial Administration Act* and other legislation (includes reports that are audited and unaudited).

We have noted that the contents of Volume 3 have not changed significantly since the Province moved to a summary financial reporting model. The information included in Volume 3 may no longer be the most relevant information the Province could be producing. For instance the details of core government account balances do not reconcile to the account balances included in the summary financial statements. While we recognize the value in comparing the core actual figures to those in the budget voted on by the Legislature, the amount of core information provided may be excessive and in other cases insufficient. It may be more appropriate to include details of information on a summary level to help users better understand the balances in the summary financial statements.

In addition, some of the reports required under legislation may no longer be relevant now that the focus of the financial reporting is on a summary basis.

Recommendation 2: We recommend that the Department of Finance revise the information included in Volume 3 to provide relevant information to users that is consistent with the summary financial statements.

- Unaudited Quarterly Reports

For the first three quarters of each fiscal year the Province releases an unaudited quarterly report. These quarterly reports contain:

  - A forecast to the year-end based on the most current information compared to original budgeted figures for the summary reporting entity. The summary information is at a high level and only includes totals for Total Revenue and Total Expenditures and does not breakdown the forecast on a more detailed level
  - The actual year-to-date results compared to those forecasted by the budget and to the prior period comparative results for the

summary reporting entity. These results are reported in more detail breaking down total revenues and expenses to the same categories as in the financial statements

- Information on the Province's capital asset and infrastructure spending, borrowings, guarantees and obligations, and special accounts
- Detailed schedules of core government revenue and expenditures – the level of detail is greater than that included in the summary financial statements. The schedules present actual, estimated, and prior year comparative figures.

• Financial Management Strategy Report on Outcomes

This is a report issued no later than September 30 each year. This includes the report on the outcomes of the Financial Management Strategy (FMS) which is included each year in the provincial budget. As disclosed in the Report on Outcomes for the year ended March 31, 2011, the annual FMS sets out the government's priorities for financial management, one or more measurable outcomes for each priority area, and objectives for each measurable outcome for the current year and for the future. The Report on Outcomes follows up on these outcomes and reports on the Province's performance.

3. Matters arising from our audits

3.1 Sick leave liability

During our audit of the summary financial statements we noted that the Province does not record a liability for their non-vesting sick time benefits. The Province provides sick time benefits for employees which accumulates on a bi-weekly basis as employees provide service to a maximum accumulated benefit of 208 days. The benefit is non-vesting meaning if it is not used before an employee leaves the employment of the Province there is no further obligation on the Province's behalf.

Sections PS3255.15 - .20 of the PSAB Handbook, require that a liability be recognized for post-employment benefits and other compensated absences. This includes a liability for sick time benefits that accumulate but do not vest, which is the nature of the majority of the Province of Manitoba sick time benefits. To date the Province has not reflected a liability for these benefits in the summary financial statements. The Province's argument for not recognizing a liability is that the value of this liability would be immaterial because of the low usage rate of accumulated sick leave beyond what is earned in the same year.

However the Province has not evaluated the amount of this liability using a reliable method. It cannot be determined whether this liability is immaterial (and therefore appropriately excluded from the financial statements) unless a reasonable valuation is made.

> **Recommendation 3:** We recommend that the Province perform a valuation of the non-vested sick time liability to determine whether the current accounting treatment of this item is reasonable.

3.2 Environmental liabilities

The Province records an environmental liability in the summary financial statements. This liability is for contaminated sites where the Government is obligated or likely to become obligated to incur remediation costs due to reasons of public health and safety, contractual arrangements, or compliance with environmental standards. The liability is based upon expected remediation costs determined on a site by site basis measured as incremental direct costs reduced by estimated recoveries from third parties, and discounted where possible to reflect the time value of money.

We identified several issues in regards to the valuation of the environmental liabilities during our audit. First, we noted that environmental liabilities were not being re-valued annually to reflect the time value of money. When liabilities are recorded, they are discounted to their present value. However, each year they should be re-valued to reflect the passage of time (and therefore an increase to the liability). Our second observation was that liabilities for sites estimated by the Province do not include a margin of error in the calculation. Some liabilities for sites were estimated by third party professionals and their estimates included a margin of error. We also noted that there are other factors which can impact the valuation over time, such as improvements in technology or new information on the condition of the site.

Recommendation 4: We recommend that the Province revalue its environmental liabilities each year to reflect known changes in the liability including the impact of the passage of time, interest rates and an appropriate margin of error.

3.3 Non compliance with legislation – Civil Service Superannuation Fund

During the year ended December 31, 2009, senior management of the Civil Service Superannuation Fund (the Fund) became aware that there was a potential issue regarding the calculation of pension payments for a specific number of pensioners. The Fund halted the payment of additional pension payment amounts for those persons potentially affected until the issue could be investigated and resolved.

During the year ended December 31, 2010, the Fund concluded that, due to a misinterpretation of a section of *The Civil Service Superannuation Act* by the Fund, 44 pensioners had been overpaid pensions over a period from 2002 to 2009. The total amount of the overpayment was approximately $450,000. The overpayment affected plan members who had reached the 70% maximum pension earnings following the 2000 amendment of *The Civil Service Superannuation Act*.

The Board of the Fund decided not to attempt to recover the overpaid amounts. The Fund has corrected the error on a go forward basis.

3.4 Wage accruals documentation and review – Manitoba Health Services Insurance Plan

Manitoba Health Services Insurance Plan (the Plan) provides funding to Regional Health Authorities (RHAs). As part of the process in determining the funding to RHAs, the Plan estimates the amount of funds owing to the RHAs for wage settlements for the various unions. The settlements for wage standardization and other negotiated benefits have become increasingly more complex and challenging to administer. This is further intensified by the prolonged periods between the time the settlements are negotiated and the funds are paid out.

Web Version

This has resulted in challenges for the Plan in maintaining adequate and timely information that supports the completeness and accuracy of payments made for wage settlements.

During the year ended March 31, 2011, we noted an over accrual of $5 million for wage settlements payable to RHAs due to errors in applying payments already made against calculation of the payable. We also noted an over accrual of $7 million for wage settlements payable to RHAs due to a disagreement on the methodology for determining the accrual. Neither of the adjustments were made in the Plan or the summary financial statements.

3.5 Continuing operations – Leaf Rapids Town Properties Ltd.

The closure of the Ruttan Mine in May 2002 created doubt that Leaf Rapids Town Properties Ltd. can operate as a going concern and be able to realize its assets and discharge its liabilities in the normal course of business.

The company was able to acquire funding from the Province of Manitoba over a four year span starting in the March 31, 2008 fiscal year that secured the financial viability of the company for the time being. However, this is not a long term solution to the continuing operations of the company and further action is now required.

3.6 Incorrect discounts applied to some driver premiums – Manitoba Public Insurance

MPI under charged premiums to 3,274 people by incorrectly applying a discount in the assignment of the new Driver Safety Ratings (DSR) between August and October 2010.

Subsequently, MPI decided not to seek recovery of the unpaid fees from customers affected, but did correct the error on a going forward basis. The total forgone revenue to MPI was approximately $482,000.

3.7 Information technology

To support many of our direct annual financial statement audit opinions, we gain an understanding of controls significant to financial reporting. Computer programs and applications operate in a computer environment. The controls over the computer environment are called Information Technology General Computer Controls (ITGCs). A well-controlled computer environment provides assurance that the programs and applications are functioning properly.

Observations within internal Information Technology (IT) management letters are driven by our ITGC work in support of the annual financial statement audits. Here are some significant exceptions we noted within our IT management letters.

The exceptions noted below are only from financial statement audits performed directly by our office, not from audits within the Government Reporting Entity performed by agent and external auditors.

3.7.1 Formal IT risk assessment process

Many risks faced by organizations relate to information held in or processed by IT systems. Understanding these risks through an IT risk assessment, an organization can use safeguards to reduce them to an acceptable level. Ultimately, responsibility for IT risk management lies with the system, business process, and data owners. Such owners and relevant stakeholders should agree on levels of IT risks, mitigation strategies, and accepted residual risks.

IT related risks often include security, confidentiality, data and system processing integrity and availability. Generally, IT risk assessments cover the following:

- Technology (hardware and software)
- Security of assets (physical and logical)
- Policies, standards, guidelines and procedures
- Legal and regulatory requirements (data retention, privacy requirements)
- Loss of key personnel.

IT risk management should be fully integrated with overall, organization-level, risk management processes. Without a formal IT risk assessment process, an organization may be unaware of existing risks and may not have effective mitigating strategies.

While we report the following exceptions noted in our financial statement audits, we urge all organizations within the GRE to consider the need to implement comprehensive IT risk assessment processes.

Manitoba Health Services Insurance Plan

The Manitoba Health Services Insurance Plan (MHSIP) is managed by the Department of Health to administer Provincial drug programs, payments to medical practitioners, and other health related services, including the Regional Health Authorities. While IT processes within the Province have been consolidated under the Department of Innovation, Energy and Mines through Business Transformation and Technology (BTT), Manitoba Health remains separate. The Information Systems Branch (ISB) manages and supports IT within the Department of Health.

The Department of Health lacks a formal IT risk assessment process.

University of Manitoba

IT processes at the University of Manitoba (U of M) are managed internally by Information Services and Technology. U of M Internal Audit Services, facilitated by a third party, conducted an IT risk assessment in 2009.

The review identified and prioritized areas of risk based on likelihood of occurrence and potential impact on University objectives. However, the assessment did not consider or define risk mitigating controls and strategies.

University of Winnipeg and University College of the North

IT processes at the University of Winnipeg (U of W) and University College of the North (UCN) are both managed internally within their respective organizations. Both Universities lack formal IT risk assessment processes.

Public Accounts

In our 2010 Report to the Legislature, we noted that BTT lacks a formal IT risk assessment process.

BTT contracted a third party to facilitate the development and implementation of an IT risk assessment process in April 2010. During the year, BTT's Senior Management Committee approved the IT risk assessment process and began utilizing the process in some areas. Although we consider the prior year's recommendation as implemented, we did not assess the documented risk details and mitigation strategies.

Recommendation 5: We recommend that MHSIP, U of M, U of W and UCN implement a comprehensive IT risk assessment process.

3.7.2 Formal IT security policy

An IT security policy is an essential part of a successful IT security program. The single greatest threat to information security is the lack of awareness and understanding of the risks in the IT environment. Senior management approval, end-user education, and a general awareness of IT security policies and standards are essential to the success of IT security practices. IT security should be a joint responsibility between IT service providers and business stakeholders.

An IT security policy should support efficient and effective security practices in order to maintain the integrity of systems and data. The policy should include a statement of direction from an appropriate authority, supporting the goals and principles of IT security. This policy should outline the minimum security requirements for protecting the confidentiality, integrity, and availability of IT systems and the data they hold. It should clearly define roles and responsibilities for IT security.

We have the following observations:

Public Accounts

In our 2010 Report to the Legislature, we noted that even though BTT provides supporting IT security policies, standards, guidelines and procedures, many of these documents are outdated or in draft form. This year, the Province approved an IT policy framework for creating and maintaining such documents. However, similar to the prior year, the Province has not yet implemented a formal, comprehensive IT security policy.

Manitoba Health Services Insurance Plan

The Department of Health and the ISB have formally documented some IT security policies and standards; however, they lack a formal, comprehensive IT security policy.

Recommendation 6: We recommend that the Province and Department of Health implement formal, comprehensive IT security policies for their respective areas.

Recommendation 7: We recommend that the Province analyze their IT security policies, standards, guidelines and procedures for completeness and appropriateness.

3.7.3 Disaster recovery planning

Disaster recovery planning pertains to documented processes, policies and procedures used in recovering, and continuing, technology infrastructure critical to an organization. Disaster recovery planning is a subset of business continuity planning that plans to keep certain aspects of critical organizational processes functioning during disruptive events.

Continuity of business operations is highly dependent on the uninterrupted flow of information. Without a formal Disaster Recovery Plan and required resources for recovery, organizations may not be able to continue critical business processes supported by automated systems. Furthermore, uncoordinated recovery efforts between business areas and IT service providers could extend system outages.

Disaster Recovery Plans are owned and driven by key business stakeholders and should be interconnected with documented Business Continuity Plans. Once formalized, continuity plans should be reviewed and tested regularly.

Recovery procedures go beyond data processing hardware and software as organizations need adequate manual procedures to process transactions until computer processing can be restored. However, manual processes, as established through Business Continuity Plans, may not be sustainable for long periods of time as services become increasingly dependent on automated systems and processes.

The Province uses SAP for a significant amount of financial reporting data. More importantly, many critical payments are processed directly from SAP. The Province has not yet developed a formal Disaster Recovery Plan for SAP and if the system were to become unavailable, critical payments may be disrupted. We did not review any business continuity processes that may support critical payments.

Recommendation 8: We recommend that the Province implement a formal Disaster Recovery Plan for SAP.

3.8 Comparing 2010/11 actual year-end results to the budget and 3rd quarter forecast

The 3rd quarter financial report, released by the Province on April 12, 2011, included a forecast of the 2010/11 results compared to the original 2010/11 budget. This forecast estimated a $452 million net loss for the year, an improvement over the original budgeted net loss of $545 million. This is in contrast to the 2009/10 fiscal year where the original budget estimated $48 million in net income and the third quarter report was revised to an estimate of a $555 million loss.

In **Figure 4**, we compare both the original budget and 3rd quarter forecast to the actual results from the audited summary financial statements.

Figure 4: Net income – budgeted, forecasted, actual (millions)

	Budget 2011	3rd Quarter Forecast 2011	Year End Actual 2011
Revenue	12,719	13,130	13,205
Expense	13,264	13,597	13,503
Net Income (Loss)	**(545)**	**(467)**	**(298)**

The actual loss for the year was $247 million better than the loss projected in the budget. The $247 million difference between the original budget and actual results was due to revenues exceeding the budget by $486 million offset by expenses exceeding the budget by $239 million.

Actual revenue exceeded the budgeted amounts for income taxes ($255 million), other taxes ($21 million), fees and other revenue ($190 million), income from GBEs ($76 million), and investment income ($22 million). Federal transfers and shared cost revenue was $78 million less than the budgeted amount.

Actual expenses exceeded the budgeted amounts for health and healthy living ($35 million), family services and consumer affairs ($37 million), community economic development ($153 million), justice and other expenses ($86 million) and debt servicing ($6 million). Education expenses were $78 million less than the budgeted amount.

When the 3rd quarter forecast was prepared, it reflected the year to date actual results and the projected revenues and expenses for the balance of the fiscal year. The total difference between the third quarter forecasted results and the actual for 2011 was $169 million. In 2010, the difference was $354 million. We noted in our 2010 report that the forecast to actual variance could have been reduced if there had been closer scrutiny of information in preparing the 3rd quarter forecast. While we did not analyze the detailed contribution to the 2011 difference, we observed there has been closer scrutiny of the information received by the Department of Finance from the outside organizations.

4. Follow up of prior years' recommendations

Each year, in our report to the Legislative Assembly on the Audit of Public Accounts, we provide recommendations to the Government where we identify opportunities for improvement in financial management and reporting processes.

The status of implementation for our prior years' recommendations is presented in **Figure 5.**

Figure 5: Status of prior years' recommendations

Report	Recommendation	Status
Audit of the Public Accounts for the year ended March 31, 2010	We recommended that the Province implement a comprehensive IT risk assessment process.	Implemented/Resolved A third party facilitated the development and implementation of an IT risk assessment process for Business Transformation and Technology under the Department of Innovation, Energy & Mines for central government.
	We recommended that the Province implement a long-range IT strategic plan.	Work in progress
	We recommended that Business Transformation and Technology, in collaboration with relevant business stakeholders, implement a comprehensive IT security policy.	Work in progress
	We recommended that the Department of Finance review public quarterly reporting requirements for organizations in the GRE and prepare a plan to resolve any inconsistencies.	Work in progress
	We recommended that the Department of Finance review the requirement for the release of 4th quarter reports under The Crown Corporations Public Review and Accountability Act to determine if it is still appropriate.	Work in progress

cont'd.

Figure 5: Status of prior years' recommendations

Report	Recommendation	Status
	We recommended that the Province determine what steps are necessary for an earlier release date of the Public Accounts.	Work in progress
	We recommended that the Department of Finance do a cross-government review to assess the extent to which the Province currently requires supplementary audit reports and work with departments to revise the requirements to be consistent with GAAS while meeting departmental needs.	Work in progress
Audit of the Public Accounts for the year ended March 31, 2007	We recommended that the Provincial Comptroller's Office in collaboration with the CIO's Office ensure that a government wide disaster recovery plan is developed and tested to ensure that critical business functions can be continued by recovering computer processing capabilities in the case of an event which disrupts computer servicing services or facilities.	Work in progress

Response of officials and summary of recommendations

Recommendation 1: We recommend that the Province remove Schedule 10 and all references to core government from the audited summary financial statements.

Response – Finance: The Province recognizes the importance of reporting on a summary basis, and agreed with the Auditor General in 2005 to move to Summary Reporting in order to provide readers with a full view of all entities within the government reporting entity. As noted in the Auditor General's discussion in Section 2.4, since 2008/09 the government has presented a single set of summary financial statement for the Government Reporting Entity. Also noted in the discussion is the inclusion of a single schedule (Schedule 10) that helps interested readers compare the results of core government to the estimates presented and approved by the provincial legislature. The note disclosure for Schedule 10 makes clear how the presentation of information differs from PSAB standards. Core government operations represents a significant portion of the summary statements and, like the performance of government business enterprises, is a key component of the overall results in any given fiscal year. It is also the information government most frequently receives questions about from the general public when the Public Accounts are released. In addition, under *The Balanced Budget, Fiscal Management and Taxpayer Accountability Act*, the Province is required to report to the public on core government expenditures and revenues compared to the main estimates of expenditure and revenue tabled in the Legislative Assembly, and believes it is critical to continue to provide this information within Public Accounts. Therefore, the Province is willing to meet with the OAG to discuss other presentation options to ensure that the public has no misunderstandings of the significance of the information presented in Schedule 10.

Recommendation 2: We recommend that the Department of Finance revise the information included in Volume 3 to provide relevant information to users that is consistent with the summary financial statements.

Response – Finance: Financial statement users are comprised of groups with a variety of interests and views. The Province agrees that some users find supplementary information on the summary financial statements very useful. But over the years, many users have continuously expressed their desire for detailed information on the balances of the core government.

Of particular significance are the details of the comparison between the actual core results and the budget voted by their elected representatives.

The Department of Finance agrees to take this recommendation under advisement and will also review the practices of other Canadian jurisdictions to determine what changes are appropriate to Volume 3.

Recommendation 3: We recommend that the Province perform a valuation of the non-vested sick time liability to determine whether the current accounting treatment of this item is reasonable.

Response - Finance: The Province agrees with the Auditor General's recommendation. A valuation of the non-vested sick time liability will be performed to determine whether a liability should be accrued in the summary financial statements and the financial statements of the individual entities.

Recommendation 4: We recommend that the Province revalue its environmental liabilities each year to reflect known changes in the liability including the impact of the passage of time, interest rates and an appropriate margin of error.

Response - Finance: The Province agrees with the Auditor General's recommendation. The Province's policy for environmental liabilities is documented in the *Financial Administration Manual* (FAM). The FAM states that environmental liabilities which are discounted to net present value should be re-evaluated each year to reflect the changes for the passage of time. In addition, the year end closing procedures instruct the Departments to use the year end environmental liability checklist to re-evaluate existing liabilities which are discounted to net present value.

Where a range of reasonable estimates are possible, the FAM recommends Departments to use a mid range estimate unless an alternate estimate is viewed as more appropriate.

The Department of Finance will examine what steps can be taken in the future to ensure that Departments properly value their environmental liabilities.

Recommendation 5: We recommend that MHSIP, U of M, U of W and UCN implement a comprehensive IT risk assessment process.

> ***Response - Health:*** MHSIP – the Department of Health has met with the Business Transformation and Technology (BTT) division of Innovation, Energy and Mines, who have begun a similar process on behalf of the centralized IT structure of Government. The intent is to utilize the same external consultant and approach to this initiative in Health to ensure consistency of process and results. Staff within Health has met with BTT and the consultant to review the requirements and are expecting a proposal from the consultant to conduct a similar engagement with Health shortly.
>
> ***Response - Advanced Education and Literacy:*** University of Manitoba, University of Winnipeg and University College of the North – security, confidentiality, system integrity and availability of the IT systems are important considerations to ensure that students and staff can use these systems in a safe and efficient manner. To strengthen the security and reliability of the IT system, the report has recommended that the Universities implement a comprehensive IT risk assessment process. The Council on Post-Secondary Education will encourage the Universities to identify the issues and develop a plan to carry out this important recommendation.

Recommendation 6: We recommend that the Province and the Department of Health implement formal, comprehensive IT security policies for their respective areas.

> ***Response - Innovation, Energy and Mines:*** Business, Transformation and Technology (BTT) recently assigned a full time policy analyst to address BTT policies and is currently reviewing existing policies and directives with a view to develop a gap analysis. BTT's policy analyst will be developing an overall ICT security policy for the consideration of the governance authorities.
>
> ***Response - Health:*** MHSIP – the Department of Health has begun the development of its IT Security policy, and several components have already been drafted and are under internal review.

Recommendation 7: We recommend that the Province analyze their IT security policies, standards, guidelines and procedures for completeness and appropriateness.

> ***Response - Innovation, Energy and Mines:*** Business, Transformation and Technology (BTT) recently assigned a full time policy analyst to address BTT policies and is currently reviewing existing policies and directives with a view to develop a gap analysis. BTT's policy analyst will be developing an overall ICT security policy for the consideration of the governance authorities.

Recommendation 8: We recommend that the Province implement a formal Disaster Recovery Plan for SAP.

> ***Response - Innovation, Energy and Mines:*** BTT completed its centralization of Manitoba's computer environment, Control, Aggregate and Transform (CAT), this past year and has undertaken consultations with several areas of government to determine the best approach for Disaster Recovery Planning on a go forward basis. Awareness sessions were completed this past summer and BTT will now be working with Departments in regards to their DRP requirements. This is a multiyear initiative due to complexities and costs.
>
> BTT has tried to balance audit recommendations with day-to-day pressures of service delivery and more recently the floods throughout Manitoba which put pressures on our Business Continuity and Disaster Recovery planning efforts.