

Second Session – Forty-Second Legislature
of the
Legislative Assembly of Manitoba
Standing Committee
on
Public Accounts

Chairperson
Mr. Jim Maloway
Constituency of Elmwood

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MANITOBA LEGISLATIVE ASSEMBLY
Forty-Second Legislature

Member	Constituency	Political Affiliation
ADAMS, Danielle	Thompson	NDP
ALTOMARE, Nello	Transcona	NDP
ASAGWARA, Uzoma	Union Station	NDP
BRAR, Diljeet	Burrows	NDP
BUSHIE, Ian	Keewatinook	NDP
CLARKE, Eileen, Hon.	Agassiz	PC
COX, Cathy, Hon.	Kildonan-River East	PC
CULLEN, Cliff, Hon.	Spruce Woods	PC
DRIEDGER, Myrna, Hon.	Roblin	PC
EICHLER, Ralph, Hon.	Lakeside	PC
EWASKO, Wayne	Lac du Bonnet	PC
FIELDING, Scott, Hon.	Kirkfield Park	PC
FONTAINE, Nahanni	St. Johns	NDP
FRIESEN, Cameron, Hon.	Morden-Winkler	PC
GERRARD, Jon, Hon.	River Heights	Lib.
GOERTZEN, Kelvin, Hon.	Steinbach	PC
GORDON, Audrey	Southdale	PC
GUENTER, Josh	Borderland	PC
GUILLEMARD, Sarah, Hon.	Fort Richmond	PC
HELWER, Reg, Hon.	Brandon West	PC
ISLEIFSON, Len	Brandon East	PC
JOHNSON, Derek	Interlake-Gimli	PC
JOHNSTON, Scott	Assiniboia	PC
KINEW, Wab	Fort Rouge	NDP
LAGASSÉ, Bob	Dawson Trail	PC
LAGIMODIERE, Alan	Selkirk	PC
LAMONT, Dougald	St. Boniface	Lib.
LAMOUREUX, Cindy	Tyndall Park	Lib.
LATHLIN, Amanda	The Pas-Kameesak	NDP
LINDSEY, Tom	Flin Flon	NDP
MALOWAY, Jim	Elmwood	NDP
MARCELINO, Malaya	Notre Dame	NDP
MARTIN, Shannon	McPhillips	PC
MOSES, Jamie	St. Vital	NDP
MICHALESKI, Brad	Dauphin	PC
MICKLEFIELD, Andrew	Rossmere	PC
MORLEY-LECOMTE, Janice	Seine River	PC
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NESBITT, Greg	Riding Mountain	PC
PALLISTER, Brian, Hon.	Fort Whyte	PC
PEDERSEN, Blaine, Hon.	Midland	PC
PIWNIUK, Doyle	Turtle Mountain	PC
REYES, Jon	Waverley	PC
SALA, Adrien	St. James	NDP
SANDHU, Mintu	The Maples	NDP
SCHULER, Ron, Hon.	Springfield-Ritchot	PC
SMITH, Andrew	Lagimodière	PC
SMITH, Bernadette	Point Douglas	NDP
SMOOK, Dennis	La Vérendrye	PC
SQUIRES, Rochelle, Hon.	Riel	PC
STEFANSON, Heather, Hon.	Tuxedo	PC
TEITSMA, James	Radisson	PC
WASYLIW, Mark	Fort Garry	NDP
WHARTON, Jeff, Hon.	Red River North	PC
WIEBE, Matt	Concordia	NDP
WISHART, Ian	Portage la Prairie	PC
WOWCHUK, Rick	Swan River	PC

**LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC ACCOUNTS**

Wednesday, August 5, 2020

TIME – 4 p.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Jim Maloway (Elmwood)

**VICE-CHAIRPERSON – Mr. Andrew Smith
(Lagimodière)**

ATTENDANCE – 11 QUORUM – 6

Members of the Committee present:

*Ms. Adams, Messrs. Johnston, Lamont, Lindsey,
Maloway, Michaleski, Ms. Morley-Lecomte,
Messrs. Smith, Teitsma, Wasyliw, Wishart*

Substitutions:

Ms. Adams for Ms. Naylor

APPEARING:

Mr. Tyson Shtykalo, Deputy Auditor General

WITNESSES:

*Hon. Scott Fielding, Minister of Finance
Mr. Richard Groen, Deputy Minister of Finance*

MATTERS UNDER CONSIDERATION:

*Auditor General's Report – Public Accounts
and Other Financial Statement Audits, dated
August 2018*

*Public Accounts for the fiscal year ending
March 31, 2018, Volumes 1, 2 and 3*

*Auditor General's Report – Understanding
our Audit Opinion on Manitoba's March 31,
2018 Summary Financial Statements, dated
September 2018*

*Public Accounts for the fiscal year ending
March 31, 2019, Volumes 1, 2 and 3*

*Auditor General's Report – Understanding
my Audit Opinion on Manitoba's March 31, 2019
Summary Financial Statements, dated
September 2019*

*Auditor General's Report – Public Accounts
and Other Financial Statements, dated
December 2019*

*Auditor General's Report – Follow-up of
Recommendations, dated March 2020*

*Public Accounts and Other Financial
Statement Audits*

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Mr. Vice-Chairperson: Good afternoon. Will the Standing Committee on Public Accounts please come to order.

This meeting has been called to consider the following reports: Auditor General's Report, Public Accounts and Other Financial Statement Audits, dated August 2018; Public Accounts for the fiscal year ending March 31st, 2018, Volumes 1, 2 and 3; Auditor General's Report—Understanding our Audit Opinion on Manitoba's March 31st, 2018 Summary Financial Statements, dated September 2018; Public Accounts for the fiscal year ending March 31st, 2019, Volumes 1, 2 and 3; Auditor General's Report—understanding our audit opinion on Manitoba's March 31st, 2019 Summary Financial Statements, dated September 2019; Auditor General's Report—Public Accounts and Other Financial Statements, dated December 2019; Auditor General's Report—Follow-up of Recommendations, dated March 2020, Public Accounts and other financial statements.

Committee Substitution

Mr. Vice-Chairperson: For the committee's information, pursuant to rule 104(2), I would like to note the following substitution for this afternoon's meeting: Ms. Adams for Ms. Naylor.

* * *

Mr. Vice-Chairperson: Before we get started, are there any suggestions from the committee as to how long we should sit this afternoon?

Mr. Tom Lindsey (Flin Flon): I would suggest 6 o'clock and then revisit at that time.

Mr. Vice-Chairperson: Do we have an agreement?

Do we have an agreement to sit until 6 o'clock or until—and review? *[Agreed]*

Are there any suggestions as to which order we should consider the reports?

An Honourable Member: Global.

Mr. Vice-Chairperson: It's been suggested global.

Do we have an agreement? *[Agreed]*

Does the Deputy Auditor General, Tyson Shtykalo, wish to make an opening statement?

Sorry, Mr. Shtykalo.

Mr. Tyson Shtykalo (Deputy Auditor General): I would first like to introduce the staff members who are with me today. Seated behind me is Natalie Bessette-Asumadu, who is the director responsible for all financial statement audits in our office. Next to Natalie is Shane Charron, who is the principal in charge of our audit of the Province's summary financial statements.

Mr. Chair, it is important that public sector financial statements comply with both the letter and the spirit of the applicable accounting standards. Financial statements prepared in accordance with public sector accounting standards provide the Legislative Assembly with meaningful, comparable and consistent financial information.

At the conclusion of every financial statement audit, an auditor issues an opinion on whether the financial statements are fairly presented. An unqualified, or a clean, opinion is issued when the auditor is satisfied that the financial statements present fairly in all material respects the financial position and results of the entity being audited.

However, in 2019, for the second year in a row, our office issued a qualified opinion on the Province's summary financial statements. A qualified opinion signals to users that they need to be cautious when relying on the financial statements.

When we say in a qualified opinion that certain aspects don't comply with standards, know that as an independent office of the Assembly, our audit opinions are supported by a rigorous, evidence-based process and represent an objective and unbiased audit, which adheres strictly to Canadian auditing standards developed by the Chartered Professional Accountants of Canada.

A qualified opinion is not issued lightly and should be taken seriously by users of the summary financial statements. In our two—in our September 2019 special report to the Assembly, which is one of the reports before you today, we explain the issues that are the basis for our qualified audit opinion on the summary financial statements.

The qualification was based on two issues: the first related to the exclusion of WCB as part of the government reporting entity, and the second was with respect to the exclusion of assets held in MASC insurance trusts.

In December 2019, we issued our annual report on financial statement audits conducted by our office, which covers both the Public Accounts audit and all other financial statement audits we either performed directly or perform using an agent.

Reporting on our findings from these financial statement audits and providing recommendations is one way our office adds value to the Legislative Assembly. This report identifies certain aspects of the government's financial reporting, which add complexity to understanding the summary financial statements

Our report clarifies three areas that are key to maximizing the understanding of the financial statements.

First, the fiscal stabilization account, or rainy day fund, and understanding what it is and what it is not. Transfers in and out of this fund have no impact on the Province's summary financial statements, neither on the annual results, nor on the net debt and accumulated deficit.

Second, the Province's use of trusts and other structures to segregate funds and providing some insight into how these different structures are accounted for in the Province's Public Accounts.

And third, discussion of the change in accounting policies at RHAs in 2019, as directed by the Province. While the changes resulted in changes to the RHAs' financial statements, there is no impact on the summary reporting in the Public Account.

Our office will continue to work in a proactive and collaborative manner with the Department of Finance in assessing the appropriateness of proposed accounting treatments to ensure continued or enhanced transparency and accountability within the areas in question, and that accounting standards are well understood and applied.

Thank you, Mr. Chair.

Mr. Vice-Chairperson: Well, thank you.

Does the Deputy Minister, Richard Groen, wish to make an opening statement, and would he please introduce his staff joining him here today.

Mr. Groen.

Mr. Richard Groen (Deputy Minister of Finance):

Yes, sitting with me today is Andrea Saj. She is the executive director of Public Accounts in the Office of the Provincial Comptroller. And Ann Ulusoy, who is the Provincial Comptroller.

And yes, I'd like to make an opening statement.

I would like to thank the committee for the opportunity to provide some brief comments. As my predecessor has already made an opening statement on the 2017-18 reports on the agenda, I'll confine my opening statement to the Public Accounts for the year ended March 31, 2019, understanding the Auditor General's audit opinion on the March 31st, 2019 summary financial statements and Public Accounts and other financial statement audits, dated December, 2019.

* (16:10)

I shall endeavour to answer all administrative-related questions posed by the committee on the report reflected on today's agenda. As always, it is possible we may need to take some questions as notice and provide a specific response to the question in writing at a later time, and we will endeavour to do so promptly.

The provincial Public Accounts for the year ended March 31st, 2019, volumes 1, 2 and 3 were released on September 26, 2019 in accordance with required legislation. Volume 1 includes the economic report, the financial statement discussion and analysis and the audited summary financial statements of the government.

The Province experienced a summary loss of \$163 million, which was \$358 million under the budgeted projection of \$521 million. This is the third consecutive year that the Province has come under budget.

Summary net debt is \$25 billion, a \$654-million increase from the previous year. The increase in the net debt is the result of a summary loss of \$163 million, a net increase in tangible capital asset investments of \$246 million, unrealized losses on—of investments of \$225 million in the government business enterprises due to mark to market accounting and net increases of \$20 million in non-financial assets and miscellaneous adjustments.

In addition to the financial statements, the financial discussion and analysis report includes trend information on the financial condition of the government. During '18-19, the FSDA outlines a

number of key indicators. For example, one such key indicator is the net debt of the government as a percentage of the provincial economy or gross domestic product or GDP. In fiscal 2018-19 this percentage was 34.6 per cent, essentially unchanged from the 34.5 per cent in fiscal 2017-18.

I would also highlight for you two additions to volume 1: on page 6 an informetric on taxes and fees paid by a typical Manitoba household and where that money is spent and invested; also, there are 11 pages—pages 63 to 73—on strategic outcomes that were achieved during the '18-19 fiscal year.

Volume 2 includes the audited schedule of public sector compensation payments of \$75,000 or more and the unaudited schedule of government departments and special operating agencies' payments in excess of \$50,000; 2018-19 is the first year that the public sector compensation payments is prepared using the new legislative threshold of \$75,000 or more. The prior years used a threshold of \$50,000, and that had not been changed since 1996 when The Public Sector Compensation Disclosure Act was first passed. The amendment to the act improved the public accessibility to the reports, reduced red tape for the not-for-profits that received provincial funding and mandated the disclosure of all employment contracts and severance payments for political staff.

Volume 3 includes unaudited supplementary schedules related to the core government and other information required for statutory reporting requirements. The Office of the Auditor General released a special report to the Legislature entitled understanding our audit opinion on Manitoba's March 31st, 2019 Summary Financial Statements, dated December 2019th. The report provides the Legislature and the public with a deeper understanding of the two qualifications of the Province's summary financial statements in fiscal 2019 from the perspective of the OAG.

It is important to note that Manitoba does not take a qualified opinion lightly. It has been over a decade since Manitoba received a qualification from the Office of the Auditor General on the summary financial statements. In the case of the 2019 qualifications, the Department of Finance, frankly, has a professional disagreement with the Office of the Auditor General on the application of public sector accounting standards.

In the case of the Manitoba Agricultural Services Corporation transferred to the trust accounts, it is the position of Manitoba that the trust assets are not

controlled by the corporation and therefore neither by the Province.

As for the Workers Compensation Board qualification, legislative change to The Workers Compensation Act were tabled as Bill 21 on November 28th. It is the Province's opinion that, once the proposed legislative changes are enacted, the Workers Compensation Board will no longer be viewed as controlled.

We have worked with the Office of the Auditor General to get to this point. Likewise, similar work is taking place with respect to the Hail and AgriInsurance trusts in the Manitoba Agricultural Services Corporation.

I would like to thank the staff at the Comptroller's Division who prepare the Public Accounts. I also want to thank the now-retired Mr. Norm Ricard and his staff, particularly those present today. I also want to acknowledge their professional and their collaborative relationship with the Department of Finance, and we look forward to building on this relationship going forward.

Thank you very much. I look forward to questions from committee members.

Mr. Vice-Chairperson: Thank you.

Before we proceed further, I'd like to inform those who are new to this committee of the process that is undertaken with regards to outstanding questions.

At the end of every meeting, the research officer reviews the Hansard for any outstanding questions that the witness commits to provide an answer and will draft a questions pending response document to send to the deputy minister. Upon receipt of the answers to those questions, the research officer then forwards the responses to every PAC member and to every other member recorded as attending that meeting.

Therefore, I'm pleased to table the responses provided by the Deputy Minister of Conservation and Climate to the questions pending responses from the June 25th, 2020, meeting. These responses were previously forwarded to all the members of this committee by the research officer.

Before we get into questions, I would like to remind members that the questions of administrative nature are placed to the deputy minister, and the policy questions will not be entertained and are better left for another forum. However, if there is a question that borders on policy and the minister would like to

answer that question or the deputy wants to defer it to the minister to respond to, that is something we would consider.

The floor is now open to questions.

Mr. Lindsey: It certainly should be interesting doing these two series of reports that really both had the qualified opinion, which hasn't happened—and I recognize the deputy minister talked about—hasn't happened for quite a number of years, to have one, never mind to have two of them back to back.

So I'd just like to ask the Deputy Auditor General about the seriousness of having qualified opinions attached to these audits, and particularly, having qualified opinions year after year dealing with the same issues. And is that a serious issue?

Mr. Shtykalo: I definitely would consider it a serious issue.

Preparing financial statements under, you know, a formal set of accounting standards, such as the public sector accounting standards, is important for ensuring consistency and comparability, not only from year to year, but also from jurisdiction to jurisdiction.

I will say that we have been working collaboratively with the Department of Finance on looking at the two qualifications from the previous two years, and I am satisfied that there is a commitment to address the issues that underlie our qualifications.

* (16:20)

Mr. Lindsey: So I understand what you're saying, so, now, after you issued—or your predecessor, I guess, issued the first audit report with the qualified opinion, there would have been steps, I'm assuming, taking after that, and yet here we are, the second year, with the same qualified opinion, so maybe you could just explain what transpired between those two audit reports that left the Auditor General still putting the qualification in place.

Mr. Shtykalo: Okay, so with respect to the Workers Compensation Board, in the first qualification in 2008 was on the fact that the Department of Finance took a look at the criteria of control under public sector accounting standards and came to the conclusion that it was not controlled.

We did an analysis which we've laid out in our report and came to the conclusion that the preponderance of evidence was that Workers

Compensation, as it had been in previous years, controlled in accordance with the criteria under public sector accounting standards.

There was no—there was nothing that had happened from previous years to trigger a change in our assessment, but, nonetheless, we undertook an assessment right from the start and arrived in that position. Similarly, in 2019 with respect to Workers Compensation Board, there was no changes in the factors that we considered to be controlled. A lot of those factors that we considered were requirements that are in the Workers Compensation Board's legislation. So, barring any change in that, we qualified for the second year.

With respect to the qualification on MASC insurance trusts, in 2018 these—so this is for the fiscal year ended March 31st, 2018. In September 2018, the legal trusts were formed, an accounting entry was made to an accrue—to accrue a payable and recognize an expense for a transfer to these trusts as at March 31st, 2018. When we looked at that transaction itself, regardless of the assessment of the trusts, it didn't meet the criteria of a government transfer at March 31st, 2018, so we qualified on that basis.

Keeping in mind that these trusts were established right near the end of our audit work and the issuance of the Public Accounts, we continued to look at the structure of the trusts that were established—the insurance trusts that were established at MASC, and by March 2019, we had completed our assessment that despite the fact that the assets—that the money was in a legally formed trust, the Province controlled the use of those funds, therefore it met the definition of an asset.

So we qualified in March 2019 on the basis that controlled assets were not included in the summary financial statements.

Mr. Ian Wishart (Portage la Prairie): Following up with the Deputy Auditor General on the MASC trusts in particular, there are—there is federal legislation that determines the surpluses and the origin and the—where it can be paid out. And it's very clear that benefits in accumulated surpluses from the crop insurance programs, or the MASC trusts in this case, can only be paid out to producers. And, in fact, the money is—40 per cent of it is actually of producer origin, 40 per cent is federal origin and only 20 per cent is provincial.

And because of the matching federal legislation—there is provincial legislation, there is federal

legislation that determines this—how is it you would determine that to be a provincially controlled asset when there is federal legislation that tells you you cannot use it for any purpose chosen?

Mr. Shtykalo: While I agree that the money that is eventually in the trusts, or were held previously in the reserves of MASC, originate from the federal government, producers and the Province, MASC the corporation, under its legislation, is directed or legislated to administer the insurance programs, both for the production—crop production insurance and for the Hail Insurance.

That legislation—you know, through that legislation, it is MASC the corporation that takes the assets, holds them, administers them and pays the amounts out in accordance with the insurance agreements, which, you know, at least on the production insurance side, do have federal requirements written into them.

Because the corporation is using the amounts sitting in the trust to extinguish or to meet their obligations, under public sector accounting standards those—that indeed does meet the definition of an asset.

If the trusts just ceased to exist, the liability would still rest with the MASC corporation. So the fact that this amount of money is either being paid from a reserve held internally or in a trust where MASC the corporation directs all the payments from, the control rests with the corporation.

Mr. Wishart: Following up with that line of logic, other jurisdictions, of course, have accumulated surpluses—some in trusts, some held in reserve. What do other provinces do in regards to accounting standards when it comes to this, as crop insurance of one type or another exists in every province? Is this a standard practice across the country?

Mr. Shtykalo: I won't speak to what other jurisdictions do—or, rather, I won't speak to why other jurisdictions are accounting for things the way they do, but based on our survey, we identified the Province of Quebec as one jurisdiction that did use trusts. We also noted that there was extensive reference to the trusts in the legislation, but we didn't go through—so some of the structure is a bit different, but we didn't go through and do an analysis of how the Province of Quebec rationalizes their treatment.

Mr. Wishart: So did you look at other provinces? As you know, Quebec frequently has slightly different legislation because of their quite different system, in

terms of legislation. I am well aware that many other provinces, in fact, use trusts in regards to this.

Have you looked at other jurisdictions other than Quebec?

Mr. Shtykalo: While we did look—we did do a cross-Canada jurisdictional scan, we didn't note any other jurisdiction that was accounting for it in the same manner that the Province started to with respect to accounting for them as trusts under administration according to public sector accounting standards.

* (16:30)

Mr. Chairperson in the Chair

Mr. Wishart: Other provinces have legislation to create the surplus pools, whether they're trusts or not, whether they're just surplus pools, and as Manitoba actually had the first version of the legislation in the country, much of the legislation in other provinces is very similar to Manitoba's legislation. We were the first ones; they copied that, and it spread across the country relatively rapidly.

Why would there be a difference of interpretation as to whether it's a provincially controlled asset when the legislation's actually very similar?

Mr. Chairperson: The Auditor General—Deputy Auditor General.

Mr. Shtykalo: I don't know if I can answer why it would be different. I do know that we did a thorough analysis of comparing what the structure was in the province to the public sector accounting standards. We did consultations with other experts in the accounting field and we were confident, based on our analysis of the Province's structure to public sector accounting standards, that they met the definition of an asset. I can't speak to why there'd be differences in, or with similar situations in other jurisdictions.

Mr. Wishart: Just one final question related to this: The government of the day, in 2002, there was a substantial surplus in crop insurance at the time and it was not a trust. I sought an opinion from the federal government as to whether they could disperse it—some of this for purposes other than crop insurance and were told they could not.

So how is it that the Province would have jurisdiction—would not have jurisdiction over it then, and would now?

Mr. Shtykalo: I'm assuming nothing's changed over as far as using it for another purpose. I agree that currently that the monies that are held in the trust

similar to the money that were held in the reserves within the corporation in the past could only be used for one purpose, and any accumulated surplus could only be retained for future payment of indemnities. So I don't think anything's changed since 2002 with that respect.

Mr. Lindsey: Just before I get back to my original line of questioning, I'd just—a quick follow-up on what Mr. Wishart said.

So, right now, with the funds in trust, there was, at some point in a previous trust or a different jurisdiction, where they wanted to pay something out other than just for the intended purpose and the government said no, that couldn't happen. So does that not indicate that the government still has control, ultimately, over the fund?

Mr. Shtykalo: I don't—I'm not sure if I'm clear on your question. You're asking if the example given of 2002 when—and I don't know—I'm not familiar with this, but my interpretation was that in 2002, the Province or MASC sought to distribute some of the accumulated surplus. The federal government, because the amounts that are collected and paid out are subject to an agreement with the federal government, the federal government would not allow that, and so that's the situation. And you're asking—maybe you could—could you clarify what your question was as far as does that not indicate something?

Mr. Lindsey: Perhaps maybe misunderstood. I thought that line of question was that the provincial government had said no; those funds couldn't be used. So the way it stands right now, the money is put into trust—into this trust, so the provincial government can't say that they couldn't use that money to do something other than what it was intended for. Is that what you're saying?

Mr. Shtykalo: Yes.

Mr. Lindsey: Well, just to get back where I wanted to go in the first place, just talking a little bit more about the Workers Compensation for now. So former Auditor General stated: In my opinion, WCB is controlled by the Province based on the definition of control in the PSAS and should be recorded in the summary financial statement for the years ended March 31st, 2019 and March 31st, 2018, in respect to the summary financial statements are not in accordance with the PSAS, which requires the financial operations of controlled entities to be consulted.

So has anything changed in that regard?

Mr. Shtykalo: As of March 31st, 2019, no.

Mr. Lindsey: Okay, thank you for that.

So—da-da-da-da—so then in 2018 the government concluded that the WCB is not controlled and removed it from government reporting. And please forgive me if I'm asking the same questions in different ways over again; I just want to try and make sure I understand. So could you explain the definition or test of control as it pertains to the PSAS standards and how the government is in control of the WCB?

Mr. Shtykalo: So I think the best way to answer this question is to refer to our report, Understanding our Audit Opinion on Manitoba's March 31st, 2018 Summary Financial Statements, page 6, halfway through. We talk about the following factors, which indicate that the government controls the WCB, and they're bullet-pointed there. I can read through them: All WCB board members are appointed by government. While government must consult with relevant stakeholder groups for the purpose of making board appointments, the ultimate authority and discretion in appointment lies with government. The WCB may make regulations in many areas impacting its operations as described in section 68(1) of the act; however, the government can disallow any regulation within 30 days.

We noted the government controls the scope of Workers Compensation Board in its revenue-generating capacity through the right-through the regulation it enacts to control which types of employers must play—pay premiums into the accident fund. And, finally, the WCB must provide a grant to government from its accident fund to cover expenses incurred by government in administration.

So, of those four points, those are ranked in probably order of what we would consider significance or relevance to determining control. So most certainly, you know, we would consider the fact that all WC board members are able to be appointed by government despite the fact that under current legislation, despite the fact there must be consultations held.

Mr. Lindsey: Oh, my understanding of the term consultation means that the people being consulted may make suggestions but it doesn't mean that the government has to follow those suggestions; the government could, in fact, still appoint whoever they wanted or tell the entities, no, pick somebody different than what you've suggested. Is that correct?

Mr. Shtykalo: Yes, that's consistent with our interpretation of the legislation as it's currently worded.

* (16:40)

Mr. Lindsey: So the four things that you've indicated in your report and that you put on the record here today, the first one, that board members are, in fact, still appointed by the government or the government still controls who's appointed, so when it comes to the regulations made by WCB, has anything changed in that regard? The government still controls what those regulations are, the government still has the ultimate authority in deciding to allow something that WCB has put forward to pass or to not pass, is that—my understanding correct?

Mr. Shtykalo: Yes, as I mentioned, as at March 31st, 2019, there had been no changes to the legislation, which would address that ability. However, we do note that there has been a bill that's been put forward to specifically address some of these items, but it has not passed. And I would—I'd probably refer you to the Department of Finance for further information on what they see as—in how that bill would address some of our concerns underlying our qualification.

Mr. Lindsey: And we can talk some about what that bill may or may not do in a bit, if we want, but right now, there's—nothing has changed as far as the WCB act or anything that would say that your qualification is still not in place. So, going forward, if for whatever reason, the Legislature didn't sit again for a period of time or if the bill didn't pass or it didn't get discussed, there would be nothing right now as it stands to change your qualification.

Mr. Shtykalo: No, there'd be nothing to change our qualification.

Mr. Lindsey: So, right now, the way it stands, the WCB provides an annual grant to the Province. So nothing has changed in that regard, either. So, really, everything that you've talked about in your two qualifications going 2018-2019 are still exactly the same, and if nothing changes, those qualifications would still be in place. So, I guess, how would we—recognizing that everybody has said that those qualifications are pretty serious matter, if those don't change, then, potentially, we'd be looking at another budget year with the qualifications exactly the same still in place, is that?

Mr. Shtykalo: Yes, we would.

Mr. James Teitsma (Radisson): Just—if I could ask the Deputy Auditor General to maybe comment a little bit more on the legislation that was put forward with regards to the Workers Compensation Board.

Now, sadly, I don't think that legislation was allowed to pass through the House or receive royal assent, but if said legislation, I presume, were before the House again, and given the opportunity to receive royal assent, would that, in any way, affect his opinion of the qualification issue regarding the Workers Compensation Board and the budget?

Mr. Shtykalo: Well, until the legislation's passed and until I have the financial statement audit opinion in front of me to sign, I wouldn't say definitively, but I will refer back to my opening comments where I referred to working collaboratively with the Department of Finance, and we certainly have had discussions regarding the changes that are put forward and our initial assessment was that that legislation does address the factors that we've identified on page 6 of our report.

Mr. Teitsma: Just getting back to MASC and I'm—I was happy to have my colleague, Mr. Wishart, who's got far more experience in that area, address that question. But I guess there still remained a question unanswered, which is, how many provinces use—or how many provinces' financial statements include MASC-like assets in their balance? In other words, we understand that your interpretation of PSAS is one way and our financial department is—or, Finance Department is another way. I guess what I'm asking for is when there's a difference of opinion between professionals, normally, you'll expand the circle to other Auditor Generals' departments and other departments of finance across the country. So how many other provinces include MASC-like assets in their financial statements the way you're asking Manitoba to do?

Mr. Shtykalo: To my knowledge, all the provinces except for Quebec.

Mr. Lindsey: So, just to get back to the WCB, we understand that there may be a bill that, at some point in time, may pass, but it appears that, right now, the way that bill is worded, that board members, excluding employee representatives, are still appointed by Cabinet. So nothing changes in that regard with the bill as it's been introduced. So, then, with that lead, there's still to be that—qualifications even if this bill was to pass?

Mr. Shtykalo: You know, I really don't want to speculate. I would wait and see—to see what the bill reads that is passed or what the amendments to the act are, once the bill passes before we would conclude definitively on that.

Mr. Teitsma: Mr. Chair, just following up to that previous response given to me by the Deputy Auditor General, if you could undertake to confirm that understanding and provide a response back to the committee, I would appreciate it. With regards to the provincial—the Province's take on whether or not MASC-like assets are in the balance sheet.

Mr. Shtykalo: So we can undertake to provide something, but I just—maybe if I could ask you to just clarify what the exact question is that you want an answer on.

Mr. Teitsma: Yes, essentially, the—it's on the difference of opinion that we're having between our Manitoba government and the office of the Auditor General. I just—I'm seeking to understand a way to cut through that without any expertise. So I'm not a financial expert, but you are, and I presume the deputy minister is and many others, and so I think given the similarity between the original MASC legislation and other provinces, I would like to see that confirmed, I guess, that across all provinces, all these assets are, indeed, considered. And then you did mention the exception of Quebec, and so with regards to Quebec where they do use a trust if they could get a better articulation of why our use in trust was not the same as their use of trust, I would appreciate that as well. But just trying to understand where the differences of opinion may be springing from.

* (16:50)

Mr. Shtykalo: Okay, thank you, yes, so we will undertake to come up with a list of provinces who have assets on their financial statements similar to the assets that the Province—that—oh, man—we will undertake to provide a cross-jurisdictional scan for MASC-like entities in other provinces and the treatment of those assets.

Mr. Lindsey: Just to keep you bouncing around, back to WCB again for a minute or two. We've seen, I guess, the draft regulations, and maybe my question would be better directed to the deputy minister.

So could the deputy minister explain if grants or transfers are still going to take place from WCB to the government, especially when it comes to funding certain government programs?

Mr. Groen: Yes. The fee has to do with a grant to the government for work that's performed by the provincial government in respect of the administration of The Workplace Safety and Health Act, and those payments would continue as long as those services are being provided. So it's a cost recovery; it's not a transfer.

Mr. Lindsey: So from what we've seen so far is—there's not a whole lot of changes with the impending legislation that would cause the Deputy Auditor General to change his qualified opinion. The government still will maintain control of the board. There still will be monies paid back to the government to do the same things that those things are—monies are doing right now.

So in the, I guess, speculative opinion of the Auditor General, and I realize that's not really your area of expertise, is to speculate on things, but looking at the legislation the way it's worded at present, there's not really enough in there to change your qualification.

Is that a fair statement, or would you need more information than what we've had so far, that the control is still control of the board by the government, fees are still being paid to the government from WCB. Government still has control of regulations, so, in essence, the government, even with this bill, if it does come to pass, there really is no substantive change that would change your qualification. Is that correct?

Mr. Groen: I would say this with respect to the legislation that was tabled last December. If you read the explanatory notes that accompanied the bill it addresses, in particular, the first two bullets that the Deputy Auditor General identified of the four, and he said that these were in descending importance.

So the first one had to do with the fact that all board members are appointed by the government. Under the legislation, employee groups and employer groups will provide nominations from which the government will appoint members to the board and that will make up a majority of the board, but it would be from nominations provided by employees and employer groups, and that should remove the appointment by the government by enough of a degree to not—to show that the government doesn't have control of the board.

Secondly, any regulations made by the Workers Compensation Board that can currently be revoked or—by the provincial government, that authority's being eliminated under the new legislation. So, in

particular, those first two bullets are being addressed in the draft legislation, and it would always be inappropriate to make any decision until legislation receives royal assent, because it is subject to committee hearings and review by this body, and amendments could be made either at the committee stage or within the Chamber by legislative members, and until it receives royal assent, we really don't know what the act is going to say. And so I would support what the Deputy Auditor General is saying, is once the legislation receives royal assent, a final determination could finally be made on whether or not it addresses the bullets that have been identified in here as being indicators of control.

Mr. Dougald Lamont (St. Boniface): This is a question for the Deputy Minister of Finance.

I understand there is a difference of opinion. However, if the WCB is not under the government's control, why is it necessary—why is the government bringing in legislation?

Mr. Groen: So we did an analysis, an inter-jurisdictional analysis as part of our ongoing due diligence to determine our government reporting entities, especially those that we identified that could introduce volatility onto our summary financial statements. And, as part of that exercise, we identified the Workers Compensation Board as one where there was potential. So we reviewed the legislation with respect to Manitoba and all the other provinces.

We determined and concluded that the legislation was very similar across jurisdictions. However, only Manitoba and Saskatchewan included the Workers Compensation Board as a government reporting entity, and all the other jurisdictions who had their financial statements, you know, approved by the offices of the Auditor General in those jurisdictions, having excluded the board. So we thought we were on very solid ground. And so on that basis, we excluded them from the '17-18 Public Accounts.

I would note if we read past the bullets that the Deputy Auditor General identified in his statement with respect to the September 2018 report on understanding their audit opinion, if you go to the very next page, it says: As defined by public sector accounting standards, control of an entity by government is a question of fact, but is not always clear and may require the application of professional judgment.

And that goes back to my opening comments where we, frankly, have a professional disagreement. We agree with the office of the Auditor General in eight other provinces and we went on that basis as well, because they're also governed by the public sector accounting standards that we're subject to. So we thought we were on very solid ground in our conclusions.

Mr. Lamont: I'd like to table, this is an article from the CFIB website, from May 3rd, 2019: Manitoba's WCB rebates \$74 million, but remains significantly overfunded. And one of the things it has, is it has a timeline of all the times that the CFIB submitted to the Manitoba Legislature the meetings they had with ministers, and there were a whole series of meetings with Minister Pedersen, at-the-time-Deputy Premier Heather Stefanson, Premier Pallister. There were a whole series of meetings throughout 2017 and 2018 before CFIB ever met with WCB's president.

And can you see how this might create the impression with the public or with MLAs that perhaps government does have a role in controlling the WCB, if there's that much—if this is clearly something that was linked as a lobbying effort on the part of CFIB?

Mr. Groen: I would say this. In my 30 years' experience, the government meets with a lot of agencies, boards and commissions, not just ones that are part of the government reporting entity. So, whether the entity is part of our summary budget or not, the government meets with them, and that's not unusual. So that'd be my first point.

* (17:00)

Secondly, the Workers Compensation Board is subject to provincial legislation, and they do serve a public service, so it would not be unusual for them to meet with the Province to discuss their role and how best they see the need to serve that role and advise government in that regard, and government to meet with them to make sure that they're meeting the expectations as well. And there's a number of boards that those kind of meetings take place with, including, for example, it could be the Law Society, it could be the Chartered Professional Accountants of Manitoba meet with the provincial government to discuss their role, and none of those organizations are considered part of the government reporting entity, but those meetings nonetheless take place.

Mr. Lindsey: So just to get back to the line of questioning that I was going down: so, in the opinion of the Deputy Auditor General, would it be better to

just include WCB back into the summary financial statements, or is the Province handing over control of the WCB the better option?

Mr. Shtykalo: Well, I certainly won't—wouldn't want to comment on what would be better. I mean, if there's no change, we would continue to assert that the WCB is part of the controlled government reporting entity and should be consolidated. But, whether circumstances change or it's brought back in, either of those will get rid of the qualification, which is ultimately what I'd like to see.

Mr. Lindsey: So would the amendments that have been talked about so far—I mean, we've heard from the deputy minister saying, well, we're not going to appoint people to the board, but in essence, they are—the entities will be allowed to nominate candidates, but it's still up to the government who gets to be on the board and who doesn't. So, in your opinion, would the amendments—if they don't do everything to correct what's caused you to put the qualification on the audit—is that going to be enough to cause you to not have a qualification? Or do you think that, based on the discussions we've heard here so far on the proposals, that more would need to be done? And have you had ongoing discussions with the department about where you would like to see those kind of things go in order for you to not have the qualification?

Mr. Shtykalo: I think it's been mentioned a couple times this evening: we are working with the Department of Finance to provide them feedback on proposals which would include 'promosed'—proposed amendments to the act, but until those amendments are passed and put into the act, I won't provide an opinion or opine on whether what is a bill right now would be enough to remove the qualification.

Mr. Lamont: Yes, this is for the Deputy Minister of Finance.

There was recently a fiscal update, as well, about some of the recent COVID measures—and this is—does relate to the Workers Compensation Board, because on page 28 of the appendices, summary investments—and I'd like to table this—it has WCB financial released—relief, \$37 million.

Can you explain why this would be included in the recent fiscal update if this is not supposed to be something that's on the government's books?

Mr. Groen: So this is a list of events and activities that have taken place in Manitoba to basically help Manitobans and businesses in Manitoba deal with the

COVID-19 pandemic that we've all been dealing with, particularly since the state of emergency was called on March 20th. And the financial relief provided by the Workers Compensation Board was relief that was determined by the Workers Compensation Board and approved by the Workers Compensation Board and was included in the list in recognition of the steps that they took to join the Manitoba government in providing relief.

Mr. Lindsey: I have a question for the deputy minister, looking at some of the changes that we've talked about here.

Can you explain what the impact will be from the government turning over control to the WCB and no longer being the controlling party, if you will, that they are right now?

Mr. Groen: So, I mean from a financial reporting perspective the Office of the Auditor General has highlighted and identified the impact of the Workers Compensation Board being included in—as a government-reporting entity in our summary financial statements. So that's on the financial side.

On the other side of the equation, if you're looking at the control we exercise legally over their governing statute, I mean their mandate is not being impacted; it's their governance that is being impacted.

And so, again, it's a different level of control and it's not necessarily removing the levers that, you know, working with the Office of the Auditor General they've identified that would assist in identifying a change that has been made from prior years that would allow them to prospectively basically remove the qualification with respect to the Workers Compensation Board.

But there are other amendments being made that have to do with the legislation, and so that has to do with their statutory obligations and mandate which isn't being amended. It's just our governance that's being amended for purposes of removing the qualification.

Mr. Lindsey: So it seems to me, and then maybe I'm jumping to conclusions, but in the process of trying to get away from reporting the WCB the way it presently reported for financial reasons, that the government is turning over control of the WCB, and the concern is in that process, does it alter the ultimate operation of WCB and how it operates going forward just to meet a financial reporting goal, as opposed to an actual goal for WCB in the government?

* (17:10)

Mr. Groen: So I would say that that's certainly not the intention in terms of their governance structure to go above and beyond what we've worked with with the folks at the Office of the Auditor General, but I guess once passed and in force, the test of time will, if it reveals otherwise, then we'll know at that point, but that's certainly not the intention at this point in time with the proposed amendments.

Mr. Mark Wasyliv (Fort Garry): I have a question for the Deputy Auditor General. Just following up on something he stated that there was ongoing meetings between his office and the government over the proposed amendments, I'm wondering if you can expand on that and tell us how many meetings there's been, who's been at these meetings, what has been discussed at them, are there future meetings scheduled?

Mr. Shtykalo: So the audit of the Public Accounts, which our office does of the summary financial statements, is approximately between ten and twelve thousand hours of work each year. A—you know, during that time we have regular meetings with the office of the comptroller and her staff on various accounting issues. At times, during, like, during the summer, it's almost on a weekly basis. There are also, perhaps, ad hoc meetings that take place. So we're—you would almost say, except for maybe a few months in December and January, we're in constant contact with the Office of the Auditor General, talking about, you know, our audit plans, what we're going to be looking at, what areas we're going to be looking at, issues that they see with changing accounting standards, et cetera.

As a regular course in those meetings, we will engage in discussions on the qualifications and things that they're doing in an effort to address the qualifications. So part of those conversations we're, indeed, you know, going through what we had identified in the RTL and looking at what was being proposed in a bill and having a discussion. At no point would I ever say, or anyone in my office say, no, you need to do this to change this; we don't provide that direction. They come to us with a question, we'll provide our thoughts on it, but at the end of the day, the decisions that are made by the Department of Finance are theirs and we try—we specifically will not provide a direction to go on anything, whether it be language in a bill or an accounting treatment in the financial statements.

Just to further illustrate that, there may be, you know, a new program or a new—even a new accounting standard. So part of the process is we'll meet with the office of the—or the Department of Finance office of the comptroller. They'll provide a position paper saying, you know, we propose taking this and do this, this and this because public sector accounting standards say this, this and this. We'll provide a position paper back saying, you know, you've considered this, this and this, have you fully considered this?

So there's a lot of back and forth. Part of those conversations inevitably is on the issues that underlay our qualifications, but I can't provide anything more specific about our conversations in that.

Mr. Wasyliw: One of the issues with the previous qualified opinion was that the board members were appointed by government and that it was too much control. So, under—I'll just give you a hypothetical. So say you have a system where an employer's submit a short list, the workers submit a short list, but the government ultimately picks who they want off that list. So they still retain the decision that—who's on the board. Is that control, or is that not control?

Mr. Shtykalo: The assessment of whether an entity's controlled this is, as it was—as we point out in our report, a matter of fact, but it's subject to professional judgment. And what the standards do is they set out primary factors and secondary factors. So, each of those are considered on their own merits, and based on the preponderance of evidence provided by that, we determine whether we believe an entity's controlled.

So the situation that you propose, we would have to look at in combination with all of the other factors.

Mr. Wasyliw: What are the primary and secondary factors?

Mr. Shtykalo: Okay, so, I am quoting from public sector accounting standards, section 1319: First persuasive factor is a government has the power to unilaterally appoint or remove a majority of members of the governing body or organization. Number two, a government has ongoing access to the assets of an organization, has the ability to direct the ongoing use of those assets and has ongoing responsibility for losses. Third persuasive factor would be the government holds a majority of the voting shares or a golden share that confers power to govern the financial and operating policies of the organization. And, D, the government has 'unilaterable'—unilateral

power to dissolve the organization, and thereby access its assets and become responsible for its obligations.

Then there's some secondary, less persuasive factors: To provide significant input to the appointment of members of the governing body of the organization by appointing a majority of those members from a list provided, or being otherwise involved in the appointment or removal of a significant number of members.

Then it goes, there's some other ones: appoint or remove the CEO or other key personnel; establish the mission or mandate of the statement—of the organization; approve the business plans or budgets of the organization; establish borrowing or investment limits; and restrict the revenue-generating capacity of an organization.

So those would be, in public sector accounting standards, the persuasive and less persuasive indicators of control.

Mr. Wasyliw: I want to turn to MASC. Now, my understanding that MASC benefits from trusts because the trusts are paying MASC's obligations.

Do I have that correct?

Mr. Shtykalo: Yes. Yes.

Mr. Wasyliw: And MASC decides who gets paid and who does not, is that correct?

Mr. Shtykalo: Yes.

Mr. Wasyliw: I also understand that MASC has the obligation to pay even if there isn't enough money in the trust.

Is that also correct?

Mr. Shtykalo: Yes.

* (17:20)

Mr. Wasyliw: I would ask the deputy minister: Does he agree with the three points just made by the Deputy Auditor General, explicitly how MASC trusts are assets of the Province?

Mr. Groen: The Department of Finance would not agree that MASC, as a corporation, benefits from the trust agreements. They basically administer contracts of insurance for Hail and AgriInsurance—an AgriInsurance case that's subject to a federal cost-sharing agreement. So there's considerable restrictions putting on the contracts, and so we would not characterize the corporation as benefiting.

The reserves, in the government's opinion, belong to agri-producers. They do not belong as an asset for the benefit of the Manitoba government, and by putting them into trusts, it ensures that that money will forever be for the benefit of agri-producers and not for the benefit of the government, notwithstanding the disagreement over the financial reporting and public sector accounting standards, whether they should be included or excluded as assets of the Manitoba government.

Mr. Wasyliv: So I think I want to clarify with the deputy minister. So is the department currently using a different definition for public assets that doesn't align with the public, you know, accounting standards?

Mr. Groen: So, in the Department of Finance's opinion, and these opinions are developed by members who are CPAs, just like there are in the Office of the Auditor General, who are familiar with the public sector accounting standards. In our opinion, we are abiding by the public sector accounting standards, and we're relying not only on the public sector accounting standards with respect to control of assets, but also with respect to trusts under administration, and trusts under administration are not consolidated into the financial reports of the provincial government or any government, for that matter, and we're relying on those provision as well. And that's why, in part, we chose the path that we did, which was to transfer those reserves into trusts for the benefit of agri-producers with respect to insurance, crop insurance, and hail insurance.

Mr. Wasyliv: So, unlike WCB and MASC, the auditor supported the designation of funds transferred to other trusts as an appropriate transfer for the purposes of public accounting, and, to give some examples, they include the Conservation Trust, the GROW Trust, Heritage Resource Fund, and the Military Memorial Conservation Fund.

However, and this is a question for the auditor—Deputy Auditor General: Does the auditor have any concerns with large transfers of funds to external agencies?

Mr. Shtykalo: I wouldn't comment on the policy decision to make large transfers to trusts, you know, for the purposes of financial accounting, that's where my concern would lay. The reason for including that in our RTL is so that readers of our report can see that there are different ways to account for similar transactions and that those are important questions to

ask to fully appreciate, you know, the way things are accounted for.

Mr. Wasyliv: Well, I mean, we've seen significant swings in government's stated financial position in the year a transfer is made, and does the Deputy Auditor General have any concerns regarding to the transparency with these other trusts?

Mr. Shtykalo: We don't—or I don't have any concerns with regards to the transparency. The information's available; it's just sometimes confusing for users of financial statements to get a complete picture, and that is why we included that information in our report.

Mr. Wasyliv: Okay, well, you had indicated, to use your words, confusion, as a result of the use of these transfers. How about murkiness over issues of control? And, for example, the Auditor General believes that the government can maintain decisions who gets the annual funding and leave the trust job to simply administer investment. So I guess my question is to the deputy: Could the deputy explain the rationale or benefit the government sees in creating these many external trusts?

Mr. Groen: So I would say this, that the intention of the trust is to secure future financing for purposes of undertaking government policy initiatives, whether it be in climate or the environment or rehabilitation, and that's kind of the stated purpose of establishing these trusts. In terms of choosing it as a form, a policy decision to choosing that form to provide that certainty of funding going forward, I think I would defer to the Minister of Finance.

Mr. Chairperson: Mr. Wasyliv.

Mr. Wasyliv: My question is to the—

Mr. Chairperson: Oh. I'm sorry. Finance.

Hon. Scott Fielding (Minister of Finance): Yes, I guess the comments I'd make involve *[inaudible]* I think it is—there is good financial reasons of why we do this. I mean, there's the work—to a certain extent, the Conservation Trust works almost like an endowment fund where every year there's monies that are generated from this, and so we think it makes a lot of sense to do that, and it's money—for instance, we paid out to I think close to \$5 million in different grants for conservation types of initiatives. It's money that is generated and works quite well.

Trusts aren't something that's new to governments; previous governments have used them. Governments, really, across the nation, should be there. So I think it is an important financial tool to use

that to generate some additional dollars to create some operating dollars to support programming that's in place.

Mr. Wasyliw: For the Auditor General, would you see as beneficial to consider this matter as a public policy review?

Mr. Shtykalo: I'm sorry. The question was would I see this.

Mr. Wasyliw: Would you see this as a beneficial area to consider as a matter of a public policy review?

Mr. Shtykalo: Yes, that's definitely something that I wouldn't comment on, whether I see something as beneficial or not from a public policy point of view. You know, my concern is that it's been accounted for appropriately in the books.

* (17:30)

Mr. Wasyliw: Now, in your 2010 Public Accounts, as been stated, the management of the trust funds by The Winnipeg Foundation is in compliance with PSAS accounting standards. Could you explain if the funds managed by the Manitoba Chambers of Commerce, for example, the minimal-mineral resource development fund would also align with the PSAS account practices?

Mr. Shtykalo: If I could just get you to reference in the report, it would be helpful. *[interjection]*

Chamber of Commerce. *[interjection]* Oh, Winnipeg Foundation.

Okay, so the question was—

Mr. Chairperson: Mr. Wasyliw.

Mr. Wasyliw: I'll repeat the question.

Now, in your 2019 Public Accounts, you stated that the management of the trust funds by The Winnipeg Foundation is in compliance with PSAS standards. And I'm wondering, are you in a position to explain if the funds managed by the Manitoba Chambers of Commerce, the mineral resource development fund, would also be in alignment with those standards?

Mr. Shtykalo: So we don't comment in here, I think, specifically on the chamber of commerce, but we do point out that, you know, on page 27, that there's different options for financial reporting. Not options, but different ways depending on how it's structured, they can be accounted for.

In the case of The Winnipeg Foundation trusts, the money going out to them was accounted in accordance with PSAS as a grant, so expensed in the year that the money flowed or was paid over. And then, in future years, as money becomes available to the Province, that's recognized as revenue, and then expensed when paid out from the Province.

The accounting treatment for the chamber of commerce grants, I believe, is slightly different, but because we don't refer to it in our report, if you have questions on the accounting for those amounts that were paid, I would refer that question to the Department of Finance.

Mr. Wasyliw: I want to return to MASC, and my question is to the deputy minister.

It's been two years since this issue was raised, and I'm wondering what remedial action has or is the government taking to ensure that the Auditor General doesn't need to issue a qualified opinion in '20-21.

Mr. Groen: I'll defer to the Minister of Finance.

Mr. Fielding: So the government has been meeting, I think as the audit—as the Deputy Auditor General had indicated, almost, at this time of year, almost daily, in terms of these types of issues. Our hope is to address these accounting professional differences between it. So we continue to meet with the Auditor General; I think we have a good working relationship with him. So our hope as a government is to address not just the Workers Compensation issue, but the issue as it relates to the trusts.

Mr. Wasyliw: So I guess I'll ask this of the deputy again: So what changes are planned to the trust, or are there going to be any changes to the trust?

Mr. Groen: So I think it would be premature for me to comment on exactly what changes are going to be made. There's reference in the 2020 budget document that this work is taking place and a resolution is being worked on. The exact form of that resolution is still being finalized at this time, and I think once that resolution has been reached, I think we will be announcing what steps we're taking and why, and it'll be there for all the world to see in terms of how we resolved this impasse in getting rid of the qualification from the OAG.

Mr. Wasyliw: So, without any changes planned in the foreseeable future, will you be including this in the summary accounts to avoid a qualified opinion this year? And that's to the deputy.

Mr. Fielding: As indicated before, in our previous answer, we want to work with the Auditor General and his office to resolve not just one qualification but both the qualifications. I think we've worked pretty effectively on the first piece of legislation, Workers Compensation Board, which was, well, I'll just say was delayed in the Legislature because of political wranglings back and forth. In any event, we were unable to pass the legislation, so we found a legislative fix to that, and I think what we'd like to do is continue to work with the Auditor General's office to find some sort of a solution that will kind of amend both the professional differences that can allow us to get out of a qualification position as a government.

Mr. Wasyliw: So, on page 10 of the report, it states that excluding entities from government reporting entity that are still controlled by the government does not provide a complete picture of the financial position and results of the government. I guess I'll ask the Deputy Auditor General if he agrees with that statement.

Mr. Shtykalo: I can't find the exact reference in the report, but I mean, as a—just as a statement, yes, I would agree with that. If you control something and you don't include it, you're not showing a complete picture.

Mr. Wasyliw: I'd ask the same question of the deputy minister, whether he would agree with that statement.

Mr. Groen: I mean, I would answer it on the basis that we continue to report on the basis we have the last two years, and we will continue to do so going forward. I'm not in a position to talk about the 2019-20 Public Accounts that will be released next month. And I think we'll all find out what decisions have been made when those are released at that time.

Mr. Wasyliw: I guess, I don't know if deputy heard me, but the question was whether or not you 'agree'—agreed with the statement that excluding entities from the government reporting entity that are still controlled by the government does not provide a complete picture of the financial position results of the government. Would the deputy minister agree with that statement or disagree with that statement?

Mr. Fielding: I'd renew just the answer that I gave last time. Sometimes there's professional disagreements amongst people that are in the same profession, and as such, I'll give you an example with the Workers Compensation Board. Even though the way we accounted for it, Manitoba and Saskatchewan, the only ways as other jurisdictions that accounted for

this—accounted for—that's the Workers Compensation Board in a different way. They didn't get qualifications.

* (17:40)

With that being said, there is a respect from the government side to the Auditor General in terms of their opinions, and so we want to work with the Auditor General to come to a conclusion to make sure that there isn't qualifications on these things.

So what I would say is, again, there's a professional difference sometimes, but we'll continue work with the Auditor General's office to resolve those that may or may not include legislative changes or other changes that we can make, but we want to ensure that the Auditor General is well aware and that we get out of qualifications. That is the goal of the government.

Mr. Wasyliw: Part of the auditor's objectives, as stated on page 14, and I quote, are to obtain reasonable assurance about whether the summary financial statements as a whole are free from material misstatement, whether due to fraud or error. End quote.

So I guess this is for the Deputy Auditor General: So following your qualified opinion from 2017-2018, the government then proceeded to exclude WSB and MASC for a second year in a row. Would you attribute this to fraud or to error?

Mr. Shtykalo: I don't know what I'd attribute it to, but it was certainly, from my perspective and my office's perspective, an error.

Mr. Wasyliw: Well, since your office had identified this issue the year prior, would you agree, then, that the last year the Province knowingly misrepresented their financial statement?

Mr. Shtykalo: We issued our opinion in 2018. The Department of Finance prepared their financial statements for 2019 well aware of our issues and the statements are the Department of Finance's to prepare and make decisions on what they include or do not include, and I, likewise, in 2019—or our office, likewise, in 2019 expressed our opinion on those statements.

Mr. Wasyliw: Given that they knew what the issues were and refused to correct them, how do you interpret it?

Mr. Shtykalo: I determined the workers—the exclusion of the Workers Compensation and the

MASC insurance trust to be an error in the summary financial statements.

Mr. Wasyliw: So now, on page 13 it explains, and quote: Had the WCB and MASC trust departures from PSAS been corrected, the Province would have had an annual surplus of \$9 million in the current year—2019—and for the prior year 2018 would have had an annual deficit of \$347 million. End quote.

So I'll ask again: Do you believe that the government knowingly misrepresented their financial statements?

Mr. Shtykalo: I won't speak to what they know or don't know. They presented their financial statements. In our opinion the deficit was overstated in both years because they didn't include WCB and the MASC insurance trust.

Mr. Wasyliw: Now, on page 10 of the twenty-nine, Understanding my Audit Opinion, it states, quote: "Eliminating their impact on the summary deficit or surplus must be given careful consideration to ensure transparency and accountability and that accounting standards are not compromised."

So, if the government had complied with your recommendations from 2019-20 fiscal year, or they begin to in this current '20-21 fiscal, could you explain how this would benefit or harm the Province's deficit?

Mr. Shtykalo: So in that paragraph that you refer to, if I can maybe paraphrase what we're saying, is that while we understand that volatility arising from—or, changes or impacts on the deficit arising from funds that have—or, trusts or funds that have a specific purpose should continue to be accounted for in accordance with accounting standards despite, you know, the desire to segregate them.

So the impact, I mean, again, goes back to what you were describing. For 2019 and '18, as laid out, you know, an understatement of the deficit in both years. For impacts going forward, if things were to change, I can't speak to that.

Mr. Wasyliw: So the basic effect is, is by not including these assets, it's making the Province look like it has a larger deficit than it actually does, and in one year, if, actually, the Province was in surplus, and the government maintained that it wasn't.

Is that fair?

Mr. Shtykalo: Oh no, I'm not going to, you know, say anything further on that, other than in our audit opinion we laid out what the impact was.

Mr. Wasyliw: I have a question for the deputy.

Do you plan to remove any other government-reporting entities from summary financial statements in the future?

Mr. Fielding: We make determinations of budget process that make sense for Manitobans. There's a budget process, happens through an Estimates. I can't give you any indications of that. The budget process starts and we'll review everything that makes sense for taxpayers of Manitoba.

Mr. Wasyliw: My question is for the deputy.

Do you plan to remove other government-reporting entities from the summary financial statements in the future?

Mr. Groen: We continue to review the financial reporting results for government-reporting entities. We continue to do our due diligence by determining whether or not they fall within the public sector accounting standards. We continue to do reviews; that could include interprovincial or legislative reviews that could result in decisions such as, for example, First Nations child and family service authorities being removed from the public accounts as well, as being outside of our control.

So we continue with that work, and that work will go unabated. And once we make a determination that it is part of the government-reporting entity or it should be part of the government-reporting entity, we'll report either through our budget or our Public Accounts on those changes.

Mr. Wasyliw: Again, for the deputy.

Will the Province move to include money held by the Workers Compensation Board and the agricultural trust back in its summary financial statement in '20-21?

Mr. Fielding: These are political types of questions and they're policy questions that will be made by Cabinet as well as other members of the government. We have fantastic people supporting us in the public service, but those decisions are made politically. That's a part of it. We want to address these, as mentioned, both the qualifications, we are working with the Auditor General's office to address these issues, even though there's some difference of professional discretion with these types of things. We want to get these things addressed and we want to make sure it's as open and transparent and the qualifications go away, and so we'll continue to work with the Auditor General.

I can't comment beyond that of any other decisions on it. We believe that the decisions we made make sense for Manitobans. Our concern before was previous governments were taking credit for money that wasn't theirs, whether that be through the MASC trusts or Workers Compensation Board. Our concern is we want to make sure that we're more of a transparent government than the previous government.

* (17:50)

Mr. Chairperson: Any further questions?

Mr. Teitsma: Question for the deputy. I've noticed on—that the net debt has been climbing and climbing quite a lot over the years. I'm wondering if that is going to continue indefinitely or if we're seeing some light at the tunnel in terms of the growth of the net debt over the last 10 or so years as indicated in the report. Will it continue to climb or is there light at the end of the tunnel?

Mr. Groen: So a lot of our borrowing requirements that have been adding to gross debt from Hydro is we're now on the other end of that curve. It kind of peaked already with Bipole III and Keeyask, so that'll reduce our borrowing requirements.

As far as to government activity, as the annual summary net income gets closer to zero, then our net debt growth will also decline. I'll also indicate that our, you know, we have to continue to borrow for capital investments that are made on an annual basis, and basically until you have a surplus that exceeds your capital investment, you'll have to continue to debt finance your capital, but that's also on a declining path, growth path, compared to prior years. And, as we make investments into the provincial economy, the metric that is used, which is net debt to GDP, not just net debt as an absolute number, but relative to what the economy can support, we expect that to decline as well.

Mr. Wasyliw: I'm wondering if the deputy minister can tell us that given their view of the WC and MASC, if either one of these entities runs out of money, does that mean that the Province of Manitoba will not be on the hook and will not have to fund those agencies, and those agencies will be on their own. and if they run out of money, then they will—it's a problem that they will have to deal with internally?

Mr. Groen: That's a very hypothetical question that we haven't come across yet, so I'm not sure I'm in a position to give you an answer at this point in time to the extent that it hasn't arisen. That's why there are

reserves. That's why those reserves are being put in trust, to reduce the volatility, not for the Manitoba government, but for the benefit of agri-producers, so that their premiums don't have to increase exorbitantly in a bad year in which there's flooding or drought that impacts their ability to generate receipts and vice versa. So that's the purpose of their reserves.

The reserves are there to be managed by the entities for the purposes of the benefit of agri-producers and employers and employees when it comes to the Manitoba Workers Compensation Board, and those policies are reviewed by a group of professionals who manage the investments to make sure that the actuarial and the portfolio is appropriately sized, and all those organizations provide annual reports that may comment on those reserves to make sure they're adequate in circumstances. The volatility that they would experience in extreme situation that would require provincial support hasn't come up, to my knowledge.

Mr. Wasyliw: The government's position is that MASC and WCB are independent organizations that are not controlled by the Province of Manitoba. If they are not controlled by the Province of Manitoba, then they would not be the Province problem if they ran into financial issues. So, being consistent with your position, would you state on the record now that should either one of these entities get into financial difficulties, they would not be bailed out by the Province of Manitoba given your position?

Mr. Groen: So I would make a correction. We have indicated that we do not control the Workers Compensation Board, which is why we've removed them from our summary financial reporting. We have never indicated that we do not control Manitoba Agricultural Services Corporation. What we have said is that the trusts are not assets that are controlled by the provincial government and the money in the trusts, therefore, are not assets of the Manitoba government. We have never said that Manitoba Agricultural Services Corporation is not controlled by the Manitoba government.

Mr. Chairperson: Hearing no further questions or comments, I will now put the question on the reports. Number one.

Volume 1 of the Public Accounts for the fiscal year ending March 31, 2018—pass; Volume 2 of the Public Accounts for the fiscal year ending March 31, 2018—pass; Volume 3 of the Public Accounts for the fiscal year ending March 31, 2018—pass.

Auditor General's Report—Public Accounts and Other Financial Statement Audits, dated August 2018—pass;

Auditor General's Report—Understanding our Audit Opinion on March—Manitoba's March 31, 2018 Summary Financial Statements, dated September 2018—pass.

Volume 1 of the Public Accounts for the fiscal year ending March 31, 2019—pass; Volume 2 of the Public Accounts for the fiscal year ending March 31, 2019—pass; Volume 3 of the Public Accounts for the fiscal year ending March 31, 2019—pass.

Auditor General's Report—Public Accounts and Other Financial Statements audit, dated 2019—pass.

Auditor General's Report—understanding our audit opinion on March 31—Manitoba's March 31, 2019 Summary Financial Statements, dated September 2019—pass.

Does the committee agree that we have completed consideration of Public Accounts and other financial statements of the Auditor General's Report—Follow-up of Recommendations, dated March 2020? *[Agreed]*

Before we rise, it would be appreciated if members would leave behind any unused copies of reports that they may have collected and reused at the next meeting.

The hour being 5:57, what is the will of the committee?

Some Honourable Members: Rise.

Mr. Chairperson: Committee rise.

COMMITTEE ROSE AT: 5:58 p.m.

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