



Province of Manitoba

Report on Summary Financial Reporting Project

Executive Summary

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A. Overview

1. Background

In March, 2005, the Government of the Province of Manitoba made a commitment to fully implement Summary Reporting, including the requirements of generally accepted accounting principles (GAAP) for the 2007/2008 fiscal year. This commitment is to extend to both the Province's budgeting and reporting processes. This decision marked yet another stage in the evolution of the Province of Manitoba's approach to financial reporting.

Over the last 10 years, the Province's primary emphasis in its financial reporting has largely been on the Province's Operating Fund, the fund in which the revenues and expenses of the provincial government departments are accounted for. However, over this same 10 year period, there have been substantive changes to Canadian GAAP, including GAAP for the public sector. In addition, over the last decade, the Auditor General of Manitoba (AG) has expressed a continuing and growing concern about the degree of adherence of the Province's financial statements to GAAP.

Therefore, over the last several years, the Government has taken two specific measures. First, it has implemented more of the components of GAAP, as established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. In fact, the financial statements issued for the year ended March 31, 2005 were fully in compliance with the requirements of GAAP. Second, the Province shifted the emphasis placed on the various reports included within the annual public accounts by giving the summary financial statements much greater prominence than the statements of the Operating Fund.

PSAB GAAP continues to evolve, though. In fact, the most significant change in recent years has been the expansion of what is known as the Government Reporting Entity (GRE). This expansion of the GRE, is effective for the Province's March 31, 2006 year end. The new requirements will add many new entities, including all of Manitoba's school divisions, into the Government's financial statements. Implementing the requirements of these new GRE provisions is a key driver in the implementation of the Province's commitment to Summary Reporting.

2. The Commitment to Summary Reporting

The Province's commitment to fully implement PSAB GAAP by the conclusion of the March 31, 2008 year end affects four components of the Province's financial planning and reporting processes:

- a) **Summary Financial Statements** – The Government has committed to fully implement all provisions of GAAP, including the expansion of the GRE for its March 2008 year end.
- b) **Summary Budgeting** – The annual budget tabled by the Government will be a summary budget prepared for the entire GRE and using the accounting principles inherent in PSAB GAAP. These summary statements will include the departments which are currently part of the annual estimates process as well as all GRE entities.
- c) **Summary Interim Reporting** – The Province provides quarterly reports at the end of its first, second and third quarters. The commitment to summary reporting will ultimately mean that these interim financial statements will be prepared on a PSAB GAAP basis and presented for the full GRE.
- d) **Annual Report** – Complete implementation of summary reporting will include the preparation of an annual report which will contain a comprehensive financial statement discussion and analysis.

The expansion of the GRE and the ongoing implementation of new PSAB GAAP requirements make the implementation of summary reporting by 2007/08 a significant task. The Province recognized the magnitude of this project and established a Steering Committee to oversee the project. The Steering Committee concluded that external expertise and assistance would be required to appropriately plan and execute the Province's mandate. Therefore, following the process of request for proposals, the Committee selected Deloitte to provide project management and consulting services for this project.

3. Our Approach to this Work

To undertake the assignment, Deloitte undertook four types of activities before synthesizing the findings and formulating our recommendations:

a) Meetings and Discussion with Stakeholders

Over the course of the project, we met regularly with the Steering Committee. In addition, we met on several occasions with representatives of each of the Provincial Comptroller's Office (PCO), Treasury Board Secretariat (TBS) as well as representatives of the working groups. The use of working groups is explained in more detail below.

b) Analysis

As part of our work, we undertook various analyses to analyze the GRE and to gain a better understanding of the Canadian public sector financial reporting landscape. In some of this analysis, we were assisted by various members of the Department of Finance. Financial reporting and budgeting practices are diverse across Canada's provincial governments. However, most are moving increasingly to the implementation of GAAP standards.

c) Working Group Interaction

In order to manage the magnitude and complexity of the task inherent in consulting with the large number of entities within the GRE, a decision was made early in the project to divide the GRE entities into logical groupings. Consequently, seven working groups were established. These included Health, Universities and Colleges, Special Operating Agencies, Public Schools, Government Business Enterprises, Crown Organizations, as well as Family Services and Housing.

In the course of this project, there were three meetings held with each working group. First, the Steering Committee held an orientation session to describe the Province's commitment to Summary Reporting. Then, Deloitte facilitated a first working group session in which the working groups were each canvassed for their views on the issues which they anticipated for their organizations as a result of the commitment to Summary Reporting. Finally, after consultation with the Steering Committee on the issues raised by the working groups, a second working group session was held to describe for the GRE entities what approach the Province would ultimately adopt to implementing Summary Reporting.

d) Review of Existing Processes

In our meetings with PCO and TBS, we gathered information about the current process to provide annual financial statements, interim financial statements, the annual report, as well as the process to prepare the annual budget.

B. The Challenges

As a result of our meetings with the stakeholders, including PCO, TBS, the Steering Committee and the working groups, a list of specific issues identified by each stakeholder was compiled. These individual summaries of the challenges to be faced were then synthesized into a single list. The following is a summary of the challenges identified by all stakeholders:

- 1) **Expansion of the GRE** – New entities, included in the GRE for the first time, will be required to report year end and interim results for inclusion in the Province's financial statements. They will also be required to provide budget information.
- 2) **Differing year ends** – Several significant entities within the GRE have their own fiscal year ends; these dates do not coincide with the Province's March 31, year end. These entities will still need to provide information on an April to March basis for purposes of the Government's Summary Reporting.
- 3) **Format and content of budgets and financial statements** – There is a wide diversity of practice across the GRE entities, particularly in relation to budgeting and interim reporting processes. Depending on the level of detail which is ultimately required for provincial reporting and budgeting purposes, considerable effort may be required to standardize the methods and approaches across the entities.
- 4) **Consolidation of information** – While the current summary financial statements require the consolidation of many GRE entities, this "consolidation process" will need to be replicated for interim reporting and for the preparation of budgets. Systems, processes and resources will be required to meet this challenge.
- 5) **Accounting expertise** – Currently, the level of accounting expertise varies significantly among the entities included in the GRE. The requirements of summary reporting on individual GRE entities will present them with new complexities and increased reporting requirements.
- 6) **Requirements of the Office of the Auditor General (OAG)** – In considering the timetable for the preparation and release of the Province's summary financial statements, adequate time must be factored in for the audit of the financial statements of GRE entities and of the summary financial statements.
- 7) **Balance Sheet** – A budgeted balance sheet is currently not prepared. In fact, a balance sheet is only prepared as part of year end reporting. Introducing the preparation of a budgeted balance sheet into the current timeline, could prove difficult for many entities.
- 8) **Conversion to PSAB GAAP** – Many of the individual GRE entities prepare their own financial statements using not-for-profit GAAP. Therefore, the PCO must effectively convert these statements to a PSAB GAAP basis. The commitment to Summary Reporting will increase the number of entities that are part of the year end statement conversion process and it will impose PSAB GAAP requirements on the budgeting and interim reporting processes of the Province.
- 9) **Governance** – The implementation of Summary Reporting is an effort to provide enhancements in the way in which the Province does its financial reporting. The Governance framework among the stakeholders in Summary Reporting is intended to remain unchanged. However, the governance requirements and timelines of individual GRE entities will need to be aligned with the requirements and timelines of PCO and TBS.
- 10) **Timing** – The commitment to Summary Reporting represents increased requirements for many GRE entities. Maintaining existing timelines, in the face of additional work requirements, was identified as a challenge. Further, if there is intention by the Province to continue accelerating the release date for its financial statements, such acceleration would also provide additional challenge.
- 11) **Availability of information** – It was unclear whether the amount of information currently provided by GRE entities to TBS or to the departments to which the entities report, would be sufficient for purposes of preparing the financial statement discussion and analysis that will ultimately be included in the Province's Annual Report.

C. Implementation Plan

1. The Guiding Principles

Following the first working group sessions, we reported our findings to the Steering Committee. Our subsequent analysis and discussions with the Steering Committee resulted in an agreed upon statement of principles. These principles established a guide for us to use in addressing the issues identified by the stakeholders. The following is a summary of the guiding principles that were endorsed by the Steering Committee and reported to all working groups:

a) Summary Budget Preparation

- It is expected that the summary budget format will be similar to the format used to prepare the year end summary statements. The expenses in the summary statement of revenues and expenses will be reconciled to the departmental estimates that must be voted upon by the Legislature.
- Rather than being the aggregate of the individual Board approved budgets of all GRE entities, the summary budget will be based on Government's best estimate of the summary revenues and expenses of all GRE entities.
- If a budgeted balance sheet is required, it will be done at "a high level" by central government, without requiring additional information from GRE entities.
- The Summary Budget will be prepared on a PSAB GAAP basis. The process required to do this will vary by working group depending on the magnitude of the process, resources within the working group and the significance of the working group's individual GRE entities.

b) Year End Summary Financial Statements

- The 2008 year end financial statements will be modeled after the format of the existing summary statements.
- With certain limited exceptions, GRE entities that do not have March year ends will be required to provide financial statement information that effectively restates their results and financial position to March 31. The OAG will need to determine the appropriate level of audit assurance that will be required for the stub period.

c) Interim Financial Reporting

- The first complete PSAB GAAP compliant, full GRE financial statements will be prepared for the year ended March 31, 2008. This level of reporting will not be done at any of the first three quarter ends in that fiscal year.
- The introduction of interim reporting will be done on a staged basis with various aspects of GAAP compliance and inclusion of the full GRE introduced over time. Quarterly presentation of complete PSAB GAAP, full GRE statements remains the ultimate objective.
- As the staging plan for interim reporting is put in place, a pragmatic approach will be employed whereby entities falling below a certain materiality threshold will not have to provide actual information each quarter. In these instances, submitted budgets may be used as a proxy for actual results.
- GRE entities may be required to provide additional analysis and commentary on their operations beyond that which was already supplied to the department or organization to which they are accountable.

d) Annual Report

- The expected format of the March 2008 year end annual report has not been determined.
- The requirements of individual GRE entities to provide additional analysis or commentary on their operations have not yet been determined. However, it is likely that such incremental requirements will be small for most if not all entities.

e) Communication Strategy

- The Steering Committee should form a small task force of dedicated persons responsible to implement the Summary Reporting project.
- The Summary Reporting requirements of some working groups will be coordinated through a central resource, likely in a provincial government department. In these instances, consideration will be given to providing additional resources to this central coordinator.
- Provision of additional resources to individual GRE entities related to their reporting requirements may occur but only on an exceptional basis.
- In the longer term, a standing committee on GRE summary financial reporting should be established to maximize communication on financial reporting matters within the GRE.

2. Impact of the Guiding Principles

The next step was to apply the guiding principles against the identified issues. Doing so resulted in a number of outcomes. First, some issues no longer continued to exist because the principles addressed the concern that had been raised. For instance, concern over the level of detail that might be required for the new summary budget format was alleviated by applying the principle that indicated that the budget would be presented in a highly summarized fashion.

In other cases, the application of the principles caused the issues to remain, although they were essentially deferred to a later point in time. For example, the concerns related to interim reporting on a summary basis would be deferred until at least 2008/09, or perhaps later.

After applying the principles, the issues which remained in the short term were as follows:

- The expanded GRE
- Different year ends
- Consolidation
- Accounting expertise
- PSAB GAAP

In addition, it became apparent that the most significant implementation challenge exists for public schools. This is the case because public schools currently do not follow GAAP. They employ a reporting model known as FRAME (Financial Reporting and Accounting for Manitoba Education). Therefore, the implementation of Summary Reporting for public schools requires a new set of accounting policies as well as the introduction of regular interim reporting. This must occur. Further, Manitoba's school divisions have a June 30 year end rather than the Province's March 31 year end. The issue is further complicated by the comments from school divisions, themselves, that many divisions do not possess sufficient expertise to appropriately address the issues. Many divisions are ill-equipped to handle the challenge.

3. Preparing Financial Statements – At Year End and Quarterly

In general terms, the process for the preparation of the Province's annual financial statements is the existing process that will be required to change the least to achieve the Government's commitment. New systems of information flow will be required to accommodate the expanded GRE. It is expected that this will include increased participation of working group coordinators to oversee the activities of the GRE entities.

Further, it is expected that there will be increased consultation and collaboration between TBS, PCO and the working group coordinators. The purpose of this increased communication would be to ensure that each party has the information which is required for them to complete their respective responsibilities.

A staging plan has been developed that would see the ultimate goal for full PSAB GAAP, full GRE interim reporting being achieved for the first time in the third quarter of 2009/10. In the intervening period between now and then, the published quarterly information will increasingly incorporate additional elements of GAAP compliance and full GRE entity inclusion. Concurrently, systems and

processes will be developed to gather full GRE and PSAB GAAP information for internal government purposes only during the 2008 and 2009 fiscal years.

4. Budgeting

Responsibility for summary budgets will continue to rest with TBS. However, it is expected that the preparation of a PSAB GAAP compliant full GRE budget will be a substantially more involved activity than it has been heretofore.

Currently, TBS's primary focus is on the departmental estimates process. Other groups within the Department of Finance gather information that enables the preparation of the very high level summary budget revenues and expenses that appear in the budget papers.

Beginning in 2007/08, it is expected that the summary budget will become a much more important instrument in the Province's financial management processes. First, it will form the basis for the actual versus budget comparison which will be done when the 2008 financial statements are prepared. Secondly, it is expected that the Province's Balanced Budget Legislation (BBL) will be amended. It is possible that an amended BBL could reference the summary financial statements in determining the measure of compliance. Accordingly, the summary budget then becomes an important tool in planning for BBL compliance.

Therefore, in addition to the existing departmental estimates process which will need to continue largely unchanged, TBS will need to oversee a process of preparing an entire summary budget. The Steering Committee recognizes that it will not be possible to have the summary budget be prepared by aggregating the Board approved budgets of all GRE entities. The timing of Board approvals of individual entity budgets is such that this is not a practical approach. Consequently, Central Government will need to formulate its best view on the budgeted revenues and expenditures of the GRE.

Accordingly, both PCO and the working group coordinators will play an essential role in assembling the information which TBS will use to estimate the revenues and expenditures for all GRE entities on a PSAB GAAP compliant basis. For instance, Schools Finance Branch (SFB) will need to provide information to TBS related to the anticipated aggregate revenues and expenditures of all public schools. While individual School Board approved budgets of all school divisions will not be available, we expect that based on the quantum of the Province's commitment to public schools grants, a fairly sophisticated estimate of the resulting aggregate revenues and expenses of all school divisions on a combined basis can be formulated.

A similar approach to estimate or extrapolate the budgeted revenues and expenditures for each working group and/or entity within the GRE will be required.

5. Communication

The success of the implementation plan will depend largely on the effectiveness of the communication among the stakeholders. Open lines of communication will help to ensure that any problems encountered are addressed on a timely basis, particularly when the timing for completion directly impacts other stakeholders or subsequent steps in the plan.

Prior to September 30, 2008, we believe that this communication should be coordinated through the full effort of the implementation task force. The principle elements of the task force's responsibility will be to:

- Monitor progress against the implementation plan.
- Serve as a resource for all individual GRE entities and working group coordinators as they each develop their own organizational plans to complete their component of the Summary Reporting responsibilities.
- Serve as a consulting resource for smaller GRE entities that lack the expertise and skill to tackle their new responsibilities independently.

Thereafter, we believe that a standing committee on financial reporting should be developed to facilitate ongoing communication. The purpose of the committee would be to:

- Ensure that all concerns from GRE entities are addressed in a timely and comprehensive fashion.
- Assess on behalf of the Province the implications of upcoming PSAB GAAP standards.
- Prepare the GRE wide response to implementation requirements for new PSAB GAAP standards.
- Develop the annual timetables for budgeting and financial reporting processes.

6. Resourcing

There are several key elements to the overall strategy for implementing Summary Reporting:

- Deep GAAP budgeting and financial reporting skills must be concentrated within a small number of components of government. The most significant financial reporting, budgeting and GAAP related responsibilities should also rest with these same people. These skills and responsibilities would be concentrated in the task force, TBS, PCO and the individual working group coordinators.
- Where other GRE entities require additional resources to assist them in addressing their summary reporting requirements, assistance will be provided by those within Government and with whom the requisite skills are concentrated. Principally, this will be the task force.
- The Summary Reporting requirements for the GRE's smallest entities will be minimized through the introduction of a threshold. Organizations falling below the threshold will have minimal new requirements so that they will not experience significant resource issues.

The first area in which significant resources will be required will be a "bulge" resource requirement, to achieve implementation of all the components of Summary Reporting. These resources will be based largely in the task force which we suggest be comprised of 4.5 FTEs. In addition, Schools Finance Branch will require some additional temporary resources to assist in the large challenge which is faced in achieving compliance for public school divisions.

In addition to bulge requirements in the specific areas identified, there is a recognition that additional resources will be required throughout the stakeholder groups to maintain the increased workload associated with Summary Reporting. These resources, in some case, can be phased in over time to address the incremental requirements, although ultimately they will need to be retained on a permanent basis in the future.

Permanent requirements are expected in PCO, TBS and for some of the working groups. In aggregate, we expect that such additional resources will amount to approximately 7-8 FTEs on an ongoing basis. The ongoing resource commitment will need to be monitored because it could be impacted, either upward or downward, by a variety of factors. These factors include changes to GAAP, changes to the definition of the GRE and enhancements to the Province's financial systems capabilities.

In fact, it would be appropriate for the task force to maintain regular contact with those within the Province responsible for information systems. If properly planned, advances to the Province's information systems can significantly assist in the achievement of efficiencies in the Province's financial reporting processes.

7. Legislation

There are several significant acts of the legislature which govern the financial affairs of the Province. These include the Balanced Budget Legislation, the Financial Administration Act and the Appropriations Act. In addition, there are policies and regulations and other acts which apply to the reporting and management of the Province's finances.

Concurrent with the implementation of Summary Reporting, the Province's legislation must be reviewed to ensure that it is updated to reflect the various implications of the Province's commitment to Summary Reporting.

Perhaps the most significant amendment to be considered is the BBL. The current legislation is based on the Province's historical method of financial reporting. The commitment to move to Summary Reporting will require comprehensive consideration of the Province's BBL, including the measure used to establish Balanced Budget Legislation compliance.

8. Specific Action Steps

To assist the Province in implementing the plan which is set out in this report, we have established detailed "to do lists" for each of the working groups, TBS and PCO. In addition, we have provided guidance for the Steering Committee and the task force to assist them in overseeing the implementation of Summary Reporting.

D. Looking to the Future

A great deal of effort will be required to meet the Summary Reporting commitment for the year ended March 31, 2008. Despite this short term focus to successfully implement the Government's initial commitment, the Province will need to remain vigilant for factors or circumstances that might arise in the future that will need to be addressed in the course of maintaining that commitment to Summary Reporting.

The first and most obvious such item is the requirement to complete the interim reporting staging plan prior to the end of the March 31, 2010 year. In addition, there are potential implementation risks and future issues that should be anticipated.

1. Potential Implementation Risks

In surveying the work plan and the detailed action steps, we believe that the following issues represent the most significant areas of risk during implementation:

- a) *Lack of preparedness of public schools.* The size of the challenge facing Schools Finance Branch on behalf of all school divisions is significant. Any indications of complication in that work must be understood and addressed early.
- b) *Changing responsibility assignments.* A significant number of parties within the Province's financial reporting structure must accept new responsibilities to successfully implement the plan. This will require each person and party to actively work to equip themselves with personnel, systems and processes to execute on those responsibilities.
- c) *Shifts in direction on Balanced Budget Legislation.* If there should be a significant shift in the preferred approach to BBL, there could be a significant impact on the execution of the action steps set out in this report.
- d) *Degree of integration of activities and timelines across the GRE.* We believe that the interdependence of all GRE entities, together with PCO and TBS, creates a significant risk to the entire execution of the plan.

2. Anticipating Future Issues

History has demonstrated that the GAAP environment and the Provincial Government's circumstances will undoubtedly continue to evolve over time. The achievement of the 2008 Summary Reporting objective merely represents the beginning of the GAAP compliance journey.

In particular, the Province's financial reporting process will need to anticipate upcoming changes to GAAP. The impact of these anticipated changes will need to be assessed and plans will need to be implemented to meet the new requirements.

There are other factors which may affect the Province's financial reporting processes. For instance, a determination that the reporting timetable should be accelerated could have profound implications on the resources required to meet the objective. Similarly, GAAP changes related specifically to the definition of the GRE can have significant implications for the scope of the financial reporting work which PCO is ultimately responsible for.

Finally, we believe the Province must give consideration to if and how its existing SAP software should be upgraded. The implementation plan for any new systems should contain financial reporting process cost reductions through improvements and efficiency. We believe that the implementation of new or upgraded systems in the future represents the single largest future possibility for reducing the operating cost of financial reporting.

In our view, the Government's commitment to be fully GAAP compliant should be unwavering. Once the Province has elected to use this standard in the preparation of its financial statements, it should maintain the standard, recognizing that it may have implications in the future. These implications may be ones that could not have been imagined when the commitment was first made.

This will be a challenge, particularly in light of the ongoing public policy debate on the resources that should go into “administration” and how much should go into “programming”. As resource allocations to the financial reporting process are increased, there will be debate and challenge whether the benefit of remaining GAAP compliant is worth the additional resource allocation.

These challenges will be real and potentially difficult. We suggest, though, that the question not be framed as a tradeoff between administration and programming. Instead, we believe it would be helpful to recall the Government’s objectives in moving to Summary Reporting. These include the objectives of enhancing transparency, increasing consistency and becoming more accountable to Manitobans. It is the achievement of these objectives that must be weighed against any impact of resource allocation decisions on government programming.

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