

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

Chairperson
Mr. Jim Maloway
Constituency of Elmwood

Vol. LXXVII No. 2 - 1 p.m., Monday, June 5, 2023

ISSN 0713-9462

MANITOBA LEGISLATIVE ASSEMBLY
Forty-Second Legislature

Member	Constituency	Political Affiliation
AL TOMARE, Nello	Transcona	NDP
ASAGWARA, Uzoma	Union Station	NDP
BRAR, Diljeet	Burrows	NDP
BUSHIE, Ian	Keewatinook	NDP
CLARKE, Eileen, Hon.	Agassiz	PC
COX, Cathy	Kildonan-River East	PC
CULLEN, Cliff, Hon.	Spruce Woods	PC
DRIEDGER, Myrna, Hon.	Roblin	PC
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<i>Vacant</i>	Morden-Winkler	

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

Monday, June 5, 2023

TIME – 1 p.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Jim Maloway (Elmwood)

VICE-CHAIRPERSON – Mr. Shannon Martin (McPhillips)

ATTENDANCE – 10 QUORUM – 6

Members of the committee present:

Messrs. Brar, Guenter, Isleifson, Lamont, MLA Lindsey, Messrs. Maloway, Martin, Michaleski, Smook, Wishart

Substitutions:

Mr. Brar for Ms. Naylor

APPEARING:

Mr. Tyson Shtykalo, Auditor General

WITNESSES:

*Mr. Silvester Komlodi, Deputy Minister of Finance
Ms. Andrea Saj, Provincial Comptroller*

MATTERS UNDER CONSIDERATION:

Province of Manitoba Annual Report and Public Accounts, dated March 31, 2022

Auditor General's Report – Public Accounts and Other Financial Statement Audits, dated December 2022

* * *

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

Before we get started with our business today, I would like to inform the committee that a resignation letter from Mr. Nesbitt as Vice-Chair and as a member of the committee was received. Mr. Guenter is now the replacement PAC member for the government the remainder of this Legislature.

I would also like to inform the committee that a resignation from Mr. Wasyliw as a member of the committee was also received. Ms. Lathlin will be the replacement PAC member for the official opposition for the remainder of this Legislature.

Would like to thank–this opportunity to welcome the new members to the Public Accounts Committee, and look forward to working with them in the future. *[interjection]* This one here? Okay.

Committee Substitution

Mr. Chairperson: I would like to inform the committee that under rule 104(2), the following membership substitution has been made for this meeting and the meeting scheduled for Wednesday, June 7: Mr. Brar for Ms. Naylor.

* * *

Mr. Chairperson: Before the committee can proceed with the business before it, it must elect a Vice-Chairperson.

Are there any nominations?

Mr. Len Isleifson (Brandon East): I would nominate Mr. Martin.

Mr. Chairperson: Mr. Martin has been nominated.

Are there any other nominations?

Hearing no other nominations, Mr. Martin is elected Vice-Chairperson.

This meeting has been called to consider the following reports: Province of Manitoba Annual Report and Public Accounts, dated March 31, 2022; Auditor General's Report–Public Accounts and Other Financial Statement Audits, dated December 2022.

Prior to dealing with these–with the–well, with this–today's business, I am pleased to table the responses provided by the Auditor General of Manitoba to the questions pending responses from the May 31 meeting. I'm assuming I've done that.

These responses were previously forwarded to all members of this committee by the research officer. I'm aware that we have some new members since then, so if you would like another copy, please speak to the research officer directly.

Are there any suggestions from the committee as to how long we should sit this afternoon?

Mr. Shannon Martin (McPhillips): Can I suggest that the committee sit 'til 3 p.m. and revisit at 3 p.m.?

Mr. Chairperson: It's been suggested by Mr. Martin that the committee sit 'til 3 p.m. and review at that time. Agreed? *[Agreed]*

Does the Auditor General—*[interjection]*

For the information of the committee, there's been a request for the following witnesses to be able to speak on the record, and to answer questions from the members, and the Provincial Comptroller is the person that will be answering the questions: Andrea Saj.

Is there leave of the committee to allow them to speak on the record if required? *[Agreed]*

Does the Auditor General wish to make an opening statement?

Mr. Tyson Shtykalo (Auditor General): First, I'd like to introduce the staff I have with me today. I'm joined by Natalie Bessette-Asumadu, Deputy Auditor General, and Shane Charron, the engagement leader for the audit of the Public Accounts.

Mr. Chair, each year my office audits the Province of Manitoba's summary of financial statements as part of the Public Accounts audit. We also audit the financial statements of a number of other government-controlled and related entities. The objective of these audits is to an—express an opinion on the financial statements in accordance with Canadian auditing standards.

Our 2021-22 financial statement audit work is summarized in the report, Public Accounts and Other Financial Statement Audits. The report also contains my observations on a number of matters of concern.

Mr. Chair, I'm concerned that during the 2022 audit of the Public Accounts, we continue to encounter many of the same issues as prior years, and found an increasing amount of control deficiencies. More specifically, we found significant control and accounting deficiencies throughout the government departments we audit. This included poor compliance with controls over purchases and expenses, inadequate accounting processes and other control-environment weaknesses.

* (13:10)

Without proper accounting controls in place, there is a greater risk of errors in financial reporting. To mitigate this risk, we had to expand our audit work, which increased the time it took to complete the audit.

New auditing standards this year will require significant work on the part of the Province to implement. Given the additional work required this year,

improvements to the Province's control and accounting deficiencies are crucial to prevent unacceptable delays in the finalization of the Public Accounts for '22-23.

The report also notes the Province did not have effective controls in place to identify and address deficiencies. We heard concerns from officials regarding job vacancies and turnover, as well as the lack of accounting knowledge in departments. Despite the vacancies and lack of accounting knowledge, it remains the responsibility of the Province to ensure appropriate controls are in place.

Mr. Chair, as a result of the concerns noted in my report, I have announced a new audit, which we will undertake to examine the Province's comptrollership model and look for root causes of some of the deficiencies that are noted in my report.

In conclusion, I'd like to thank the Department of Finance, the Treasury Board Secretariat and all others involved in the preparation of financial statement—financial information in government and government-controlled related entities. Their co-operation and assistance is greatly appreciated.

Would also like to thank my staff for their professionalism and excellent work on the financial statement audits and this report.

I look forward to the discussion today on the report.

Mr. Chairperson: Thank you.

Before we proceed further, I'd like to inform those who are new to the committee of the process that's undertaken with regard to outstanding questions. At the end of every meeting, the research officer reviews the Hansard for—*[interjection]* I have to go back a bit, here. Thank you.

Does the deputy minister, Mr. Komlodi, wish to make an opening statement, and would he please introduce his staff joining him here today?

Mr. Silvester Komlodi (Deputy Minister of Finance): Good afternoon. I'd like to thank the committee for the opportunity to provide some brief comments on the March 31st, 2022 Public Accounts, as well as the Auditor General's report to the Legislature submitted in December 2022.

Sitting at the table with me is Andrea Saj, the Provincial Comptroller. Andrea will also be able to respond to questions from the committee members.

Also present from the department, seated behind me are deputy minister Ann Ulusoy, secretary to Treasury Board; acting assistant deputy minister and chief financial officer Ann Leibfried; and acting executive director in the Office of the Provincial Comptroller, Terry McLure.

The 2021-22 fiscal year began with Manitoba continuing to tackle the COVID-19 pandemic and the ongoing global economic crisis. Manitoba was focused on the ongoing vaccination program that achieved province-wide delivery of over 30,000 vaccinations per day at its peak and well over 80 per cent of Manitobans receiving at least one dose of a COVID-19 vaccine.

Manitoba also created two additional departments that focused on mental health and community wellness and seniors and long-term care. Significant efforts were initiated by government in 2021-22 towards the gradual reopening of broader health-care services and to begin addressing the backlog for diagnostic tests and surgeries.

During the 2021-22 fiscal year, many regions of the Canadian economy started to reopen as the COVID-19 virus was being managed. In Manitoba, the restart of the economy was managed by—in progressive phases, with a continued focus on health care, delivering supports to vulnerable sectors and investing in the economy to create jobs.

The Province's summary financial position as at March 31st, 2022 was a net loss of \$704 million, an improvement of \$1.42 billion over the previous year's deficit of \$2.124 billion and an improvement of \$893 million over the 2021-22 projected budget deficit of \$1.597 billion.

Despite ongoing uncertainties and risks, the recovery is due to a substantially longer-than-expected improvement in a number of economic sectors in Manitoba following the COVID-19 pandemic.

Provincial own-source revenues were \$1 billion higher than the prior year due a significant increase in personal and corporate income tax remittances. Other provincial taxation revenues increased from the previous years. Federal transfers were higher than budget, reflecting a \$145-million one-time Canada Health Transfer, new funding for early learning and child care and the AgriRecovery Drought Assistance program.

Government business enterprises were \$529 million under budget, largely lowered by a net loss of income at Manitoba Hydro as the severe drought conditions in

the summer months of 2021 affected the water levels. Total summary revenues compared to the Budget 2021 forecast were \$1.269 billion higher than expected. Expenses before debt servicing were \$403 million greater than budget, or \$55 million below the prior year. A sizeable portion of the current-year expenditures were driven by COVID-19-related spending, including the public health response and numerous other support programs.

The Province's annual report and Public Accounts for the year ended March 31st, 2022 was released on September 29, 2022. That includes the following sections: Where Does My Money Go? Revenues and Expenses at a Glance; an Introduction to the Annual Report; Strategic Outcomes and Strategic Infrastructure Investments; Summary of the COVID-19 Response in Manitoba in '21/22; Introduction to the Public Accounts of Manitoba; Financial Statement Discussion and Analysis; Risks and Uncertainties; Variance Analysis and Assessment of Significant Trends; Summary Financial Statements; and Information Provided Under Statutory Requirement.

The SFS at March 31st, 2021, had two qualifications for the exclusion of the Workers Compensation Board, or WCB, and Manitoba Agricultural Services Corporation, MASC, trusts from the financial statements. It is important to note that the SFS at March 31st, '22, is now only qualified for not recording the disposition of the WCB during 2020-2021. The qualification had no impact on the balances and accounts for the year ended March 31st, 2022. On November 6th, 2020, legislative changes were made to The Workers Compensation Act. The Office of the Auditor General agreed that the legislative changes on November 6, 2020, would remove the WCB qualification from the March 31st, 2023 SFS.

The second matter relates to the trust assets, which MASC and the Province of Manitoba excluded from their financial statements. Changes were made to the MASC act regulation, which prescribes the form of insurance contracts with Manitoba producers for the 2021-22 crop year, such that the producers and the government of Manitoba, and Canada, have all agreed to restrict the use of insurance premiums exclusively for insurance indemnities and other expenses under the AgriInsurance program. The MASC qualification was removed from the March 31st, 2022, SFS, including the comparative 2021 balances and accounts.

The department also welcomes the Auditor General's report to the Legislature and the findings

related to the effectiveness of the departmental comptrollership. The Auditor General Act in Manitoba does not include irregular comptrollership audits.

Some other provinces have a requirement in legislation for comptrollership audits every year—every other year. The Office of the Auditor General would benefit from the more frequent comptrollership audits of the corps and its reporting entities, and the Public Accounts Committee would benefit from knowing the comptrollership status of Crowns, health authorities and universities.

The OAG's report to the Legislature has identified several issues, which appear to be caused by a variety of challenges faced by departments related to staffing, skills and capabilities and processes. The Office of the Provincial Comptroller is committed to addressing these findings through collaborative work with departments and by performing its own due diligence to understand the root causes of the challenges under the authority granted to the Provincial Comptroller under The Financial Administration Act.

I shall endeavour to answer all administration-related questions posed by the committee on the reports reflected on the agenda. We may need to take some questions on notice and provide a written response later.

Mr. Chairperson: Thank you.

Mr. Komlodi: Just almost done, sir. I'd like to thank the staff of the Treasury Board Secretariat, who prepared the annual report, and the Office of the Provincial Comptroller, who prepared the summary financial statements.

I also want to thank the Department of Justice for preparing legislative changes required to remove both qualifications.

Finally, I also thank the Auditor General, Mr. Tyson Shtykalo, and his team at the OAG for their professional and collaborative relationship with Treasury Board Secretariat and the Department of Finance.

Thank you.

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

At the end of every meeting, the research officer reviews the Hansard for any outstanding questions, and the witnesses—witness commits to providing an

answer to; we'll draft a questions-pending-response document to send to the deputy minister. Upon receipt of the answers to these questions, the research officer then forwards the responses to every PAC member and to every other member recorded as attending that meeting.

Before we get into questions, I would like to remind members that questions of an administrative nature are placed to the witnesses and that policy questions will not be entertained and are better left for another forum.

The floor is now open for questions.

* (13:20)

Mr. Brad Michaleski (Dauphin): It's great to be here today and have the opportunity to ask a few questions on this very important subject matter of—I just want to frame—I have a series of questions and I hope I'm staying within the lines of my questioning.

But the context of them, I'll just give you a bit of a preamble to the questions because it deals with both of the reports, but it also deals with—we had a meeting from the Auditor General's office and explained, essentially, the process of the Office of the Auditor General, how they conduct the audits.

So, it kind of goes into that questioning too. So, it's more related about process, but it's also related to the Public Accounts and it's also related to government departments, specifically and generally. So, it may wander off, but then the Public Accounts does have a wide range.

So, my question's are directly to this report and specifically the comments by Mr. Shtykalo, the concerns expressed by the new accounting standards for the Province and what appears to be emphasis—greater emphasis, impact and demand for what appears government accountability and transparency. Seems we're going in that direction generally.

And, of course, value for money. And, you know, again, we're entering an era where more and more people are asking more and more questions, and—through connectivity—and we're going towards a—what appears to be a more competitive environment.

So, the AG has expressed—generally expressed—an increased amount of control deficiencies and I don't—I think that's—again, it's not particular to one department, but I think there's—I think we'll find that it may be wandering outside this meeting, that they're sort of that sort of same theme going on in other departments, but we'll pick on Finance for now.

I would say these controls are needed like never before. This is my own personal observation as MLA for Dauphin. And also, at the same time, we need them, but they're actually going to be required. Correct?

So, with this, I agree and support some of the concerns that the Auditor General has expressed regarding some of these—this environment where we need to be changing the accounting systems

So, I have a series of questions, but it may seem hypothetical, but I don't—I think there's a lot of truth grounded in some of the things we're facing now. But the first question is, because I don't know, now who else is affected? How wide of scope these accounting changes that are affecting the Province that are being required? Is this a Canadian issue? Is it an international issue?

How big of scope are these changes that the Manitoba government is having to implement? Because I understand municipalities have been doing it for some times, coming to terms with these accounting—I recall that when I was on the municipal government level.

So, now we're hitting this date where it's going to be implemented in the province, so I'm curious on the scope of—this is my first question.

Mr. Komlodi: So, just in terms of the scope, maybe I'll start with sort of the origin for the rules, and they are developed by CP, Canada's public sector committee, who effectively oversee the PSAB rules, and our financial administration act at the provincial level, we are required to be in compliance with PSAB rules.

They would also apply to the federal government, to municipalities, effectively the entirety of our summary environment, except for the Crowns, which fall into the IFRS standards.

So, it is a broad scope across the public sector landscape in Canada.

Mr. Chairperson: Mr. Michaleski, I'll recognize you for one more question, and then we go to Mr. Lindsey, and then we will be coming back.

Mr. Michaleski: Fair enough, Mr. Chair. I'll hopefully have some time to ask some other questions, but I just—a quick follow-up on this.

So, just for clarity, when you say this is affecting Canada only, or is other areas and, in particular, trade

partners of Canada, are they doing or are they experiencing the same sort of change, and if so, who—which jurisdictions are doing that?

Mr. Komlodi: So, the PSAB board would be mindful of developments in other jurisdictions, I'll say from a competitiveness perspective in terms of our rules. When investors are looking at Manitoba as a jurisdiction it helps to have standards that are effectively, you know, in some kind of an alignment with rules of our major trading partners.

So, from that perspective, in terms of the accountability and the oversight that comes with PSAB rules and standards as they're implemented across the country—are an important consideration for all public sector entities in Canada.

MLA Tom Lindsey (Flin Flon): Good afternoon, everyone, and thank you all for taking time out of your lives to be here and try to answer some questions for us.

Why—first question relates to the opening statement that was made about the MASC trust funds and WCB changes that were made. I understand why the legislative changes were made to get rid of the qualification on the audit statement.

In the process of doing that now, have we lost the ability to really keep track of how those entities are spending public money, which is the whole point of this Public Accounts Committee and the Auditor General and all the rest of them.

* (13:30)

So, are we losing some oversight of what's happening in those two departments?

Mr. Komlodi: Thank you for the question.

So, both the WCB and the MASC's financial results would be publicly available. They are audited statements. The OAG, as well, would have oversight over those. The premiums that are collected in both cases are dedicated, so there is a, if you will, legislative statutory certainty around what those expenses are, what those revenues are being used for. So, from an oversight perspective, there is existing statutory oversight and financial reporting requirements that are audited.

MLA Lindsey: Yes, so, on that same—so, it's publicly available. Does that mean that it comes before the Public Accounts Committee the same as other things do?

And in the Department of Health, how do we account for Shared Health and spending and one thing and the other there; it's not broken out completely. So, is there some way that it should be?

Mr. Komlodi: So, both the MASC and Shared Health, in terms of its inclusion as part of the Department of Health, would be part of the Public Accounts Committee's purview. In terms of MASC, because it is consolidated into the summary financial statements, it is in front of this committee for a discussion.

In terms of Shared Health, there was a reference, just in terms of the Health component, into which Shared Health would be consolidated in the Public Accounts in—on page 67. That does not break out Shared Health specifically; however, Shared Health does have audited financial statements that they would be submitting to the Department of Health, and it's through that process that it is then 'consolid' into the overall summary financial statements.

So, Shared Health itself isn't specifically, in terms of the committee's purview, here, but it does show up as a consolidation within the Department of Health and mental health.

Thank you.

Mr. Ian Wishart (Portage la Prairie): Thank you guys for coming out. It's cooler in here than at least outside, so that is something. And I appreciate the work that you've done on this.

I just wanted to circle back, and reference was made in your opening statement to the issue with MASC and the workman's compensation fund and now having in a form that I think you found acceptable.

In the case of MASC, that meant the creation of two different trust funds, which made us the same as some provinces but different than a number of others. And I'm sure you're aware there's also matching federal legislation that touches on this.

So, are you comfortable that we are now consistent with the federal legislation and reasonably consistent with other provinces so that there'll be no addition qualifications in the future on any financial statements?

Mr. Komlodi: I'll start with the provincial context, which is that we are effectively in alignment with other jurisdictions that do consolidate their MASC-equivalent organizations. We're also PSAP compliant and the OAG has indicated its agreement with the treatment of these trusts.

And the—you know, the purpose of the trusts is very much in line with the expectations of the individuals that would be benefitting from it. So, from that perspective, we are very much in alignment with similar kinds of entities that exist across the country.

Thank you.

Mr. Chairperson: Mr. Wishart, for a second question.

Mr. Wishart: Yes, just one minor point. The federal legislation always did say that any benefits in the crop insurance and MASC pool could only be paid through to producers.

And I guess I argued at the time that we didn't need all of this other legislation because the federal legislation applied and covered the risk that was there. There is a history in Canada of some other provinces having used these types of funds in the past inappropriately. I get that, that perhaps we want to look at putting some restrictions in place from that, but I guess I didn't see the need, at the time, and I still don't. I felt that the—that we were protected, or producers were protected, by the federal legislation.

* (13:40)

Why was it necessary to introduce separate provincial one, which really recapped what the federal one did?

Mr. Komlodi: So, just in terms of, you know, alignment with the federal legislation, we did make regulatory changes to ensure that there was policy alignment, given that there was contributions from both the federal government and the provincial government. There were consultations and agreement from the federal government in terms of the approach that was taken in Manitoba. So, to—you know, to make sure that there was policy alignment between the two sets of contributors to the trust.

Thank you.

Mr. Diljeet Brar (Burrows): My question is regarding agriculture.

As we all know, we are struggling with a labour shortage, and the report mentions about investing \$9.2 million through CAP, Ag Action Manitoba program, and the report also talks about 150 jobs being created immediately and, after that, 359 jobs within three years.

So I'm seeking more clarity on this. Like, has those 150 jobs been already created and what kind of jobs they were? And what kind of those 359 jobs we are expecting? Because it seems like investment of

\$9.2 million and about 500 jobs being created, but where we are at in this?

Mr. Komlodi: Thank you for the question.

Unfortunately, we don't have the specifics here with us on the specific question you asked around the number of jobs. We will follow up with the Department of Agriculture, and if it's permitted, take this question on notice.

Mr. Brar: About AgriRecovery, are there any outstanding claims still under AgriRecovery?

Mr. Komlodi: We will endeavour to get the response to the question before the committee rises. So, we're just working on that right now with staff.

Thank you.

Mr. Martin: Mr. Chair, I thank you for your attendance here today as part of the process as we try to get more educated in the understanding of the processes of government.

So, one of my concerns that I have is the non-purchasing orders, and the status of that. And, obviously, when you have spending outside the—external to central financing, it opens it up to potential abuse or at least expenses not being detected or recognized by the various departments.

Now I know, previously, the AG has made recommendations related to this, related to non-purchase orders, but—two-part question: One is, I guess, for the committee's information, because we have some new members and that, can you perhaps give us an example of a non-purchase order spending that you can highlight to us, and more importantly, how we've gone about minimizing or addressing the issues of non-POs?

* (13:50)

Mr. Komlodi: Thank you for the question. And maybe I'll start with the second part in terms of what we've done.

So, the Office of the Provincial Comptroller has issued a directive to all departments to stop using non-purchase orders. So, effectively, they were outlier purchases that were being used that are no longer permitted.

In terms of a specific example, I would refer the question to the Auditor General in terms of examples that they found as they were conducting their audits. There was a description of NPOs, as well, in the report to the Legislature that was included on page 12.

Mr. Martin: Just a point of clarification. Do I understand that correspondence was sent to cease the practice of NPOs?

And more specifically, how do you determine whether or not that correspondence has been adhered to? Or is that up to the Auditor General in a future audit to make that determination, or is that an internalized review that is your responsibility?

Mr. Komlodi: So, the direction was issued to the council of executive financial officers—so these are the EFOs, effectively, of all the major departments. We do run periodic reporting through SAP, so that's done through the Office of the Provincial Comptroller.

Essentially, it's a centralized intake of all transactions, and so there's a periodic review of that. Additionally, the internal audit unit of Treasury Board Secretariat also had produced their own analysis which will be coming to Treasury Board.

Thank you.

MLA Lindsey: So, my understanding is right now, a lot of the information is manually entered into systems to make sure that everything is accounted for in the consolidation of financial information that—although, assume that's rather a complicated process, recognizing that are—some 136 different components that all have to get consolidated into the financial information.

So, again, my understanding is that there was an IT capital project that was in the process to select the vendor and implement software that would streamline the process. Tell us what the status of that project is.

Mr. Komlodi: So, the system that's being utilized will be the SAP S/4HANA system.

We are just in the procurement phase right now. The RFP has closed, and there'll be an award coming in the near future. Once that has been accomplished, we'll proceed to the implementation phase for that module within the SAP.

MLA Lindsey: Just in follow-up to that, then, with the risks of consolidation of the increased risks because the many reporting entities, errors could cause some serious problems. So, what is being done ahead of the next set of public accounting to ensure that those risks are mitigated or at—identified and to ensure that any errors are found? What's being done, seeing as the software's not in place yet?

Mr. Komlodi: So, until we have a more robust system in place, the Office of the Provincial Comptroller has

put measures in place to increase management oversight over what has—what is submitted by the reporting entities.

We are also increasing focus on greater staff training, so in terms of the processes, the accounting processes, as well as the recruitment of CPAs—that has been increased and to make sure that the oversight is robust.

Thank you.

Mr. Isleifson: Thank you for joining us today. It's nice and cool in here.

* (14:00)

A couple of questions, and I want to go back almost to what was started in the process piece. And I basically have a question for both the—both of you.

Maybe I'll start with the—internally, on a standards review, do we find that there's more internal review, or reviews required because of internal action, or external action; and how does the department monitor changes and results that come with those reviews?

Mr. Komlodi: If I could just ask for a clarification—if the member's referencing the accounting standards, in terms of—or is it variances that—resulting from, you know, budget to what is being reported.

Mr. Isleifson: The audit standards.

Mr. Komlodi: I'd like to request the Provincial Comptroller to respond to the more technical nature of this question.

Ms. Andrea Saj (Provincial Comptroller): In order to mitigate the risks due to uncertainty, complexity and subjectivity of estimates, we have prepared a policy in our financial administration manual, which is our internal guidance that we provide to the financial community within the core government in the following areas whenever an estimate is used.

This is—an accounting estimate is one of the more broad categories that the auditing standards apply to that we've been focusing on of late in my office.

So, we've outlined the requirements for departments for documentation of their methodology, support for their assumptions, assessment of the need for the use of experts, where applicable, and then a risk-based review of accounting estimates by the Office of the Provincial Comptroller.

So, all accounting estimates require documentation that is signed off and certified by the responsible executive financial officer, detailed calculations supporting the value of the estimate signed by the professional who's in a position to verify the estimate and third-party confirmation of the estimate in the form of report statements and third-party validation.

The OPC, the Office of the Provincial Comptroller, performs a risk-based review for departmental Estimates. So, in the areas of higher risk where there's a higher accounting estimate—a larger dollar-value accounting estimate—my office will perform a risk-based review.

And I will refer the rest of the question over to the Auditor General, if that's appropriate.

Mr. Shtykalo: So, I'll just—maybe I'll just get some clarification on, more specifically, which standards or all standards the question was referring to.

Mr. Isleifson: I will make this—actually, that was my second question. So, I will make this my second question then, so that I'm not taking up the floor here and coming up with another question.

But, my question was going to be to the Auditor General. On your aspect of it, when you go out, do your agents do annual reviews of the standards or is it—not monetary, but more ongoing?

And the reason I ask is I used to do audits, and I used to keep my eye open for upcoming and new—and always try to stay ahead of the curve. So, it wasn't an annual review; it was an—almost a monthly review that I would do.

So, I'm just wondering, you know, what the standards are used by your agents and what process they use to remain current so that when it does come back to the department, they're not behind the eight ball trying to figure out what we're trying to do.

So, I don't know if that makes sense.

Mr. Shtykalo: For my office, the—I think the simple response is it's an ongoing process.

If we're talking about—or, speaking to accounting standards specifically issued by the Public Sector Accounting Board, the process they have for issuing a new standard is, it's not just one day they issue it; it's a long, robust process with consultation with stakeholders both on the preparer side and the auditor side, including stakeholder—obtaining stakeholder feedback through exposure drafts, statements of positions, et cetera.

So, a standard—the process for—when a standard—the idea of a standard is first introduced to when it's actually put into place is years, it could be three to four years.

So, as CPAs in the office, part of the professional development that is required as a CPA and that we push in the office for our staff is to be aware of upcoming standards and make that part of their learning plan on an annual basis.

So, when these exposure drafts come out two years ahead of when they're actually going to be implemented, we already have gone through a process both individually and then as a team to look at the standards and what the implications may be for the office.

We also will highlight upcoming standards in our audit plans that we present to the agencies and to the Province. For example, this year—so, we're already talking about—let me get the year right—2023-24. In our audit results packages that we prepare for agencies, we're highlighting two standards that are going to be in effect for this coming year, and one is a revenue standard on accounting for revenue and the other is an auditing standard. So, it's how we audit, which may have some impact for the clients that will be in effect for the '24-25.

So, we do have a process both internally and for communicating, if that answers the question.

Thanks.

Mr. Dougald Lamont (St. Boniface): Thank you very much for coming today.

Yes, I had a bigger—a big-picture question, I suppose. I know that one of the things that's mentioned in the annual report is a concern about excess—or, I say, I guess, vulnerability to too much reliance on federal transfers.

* (14:10)

So, I'm just wondering—or, you know, because that could change in the future, we don't know—I was wondering what steps the department had taken to address that concern. Or what—

Mr. Chairperson: Mr. Komlodi.

Mr. Komlodi: Thank you for the question. And I would just note that it's more of a policy-related question in terms of the forward-looking nature of that.

We do report on the federal transfers to total revenue as a vulnerability indicator in the Public Accounts. There was a historical trend that we would, of course, track, in terms of the Manitoba share on the provincial weighted average.

These are statutory programs in terms of, you know, them falling under federal legislation. So we do, you know, keep track, and we understand, as we have reported, that there are a number of factors that would drive, you know, the extent to which provinces receive equalization growth would be impacted.

So, very much formula driven, which we have full line of sight into, and we do report on that, of course, in the Public Accounts as a vulnerability.

Thank you.

Mr. Lamont: Yes, and just another question about—it's, again, another big picture one about inflation. I know that you're talk—look, we've seen a higher than expected, both corporate and personal incomes, which is being reflected in higher revenues. It seems to me that these are all tied together with inflation.

So, I guess I have two questions related to inflation. One is: Are there sectors that have experienced a downturn in—due to inflation? And the other is: If, as is being forecast by some, that we will see a slow down—not necessarily a recession, but a slow down—and would you also anticipate that, if we see a slow down in inflation, we'll also see a slow down in government revenues in the same way in a related fashion?

Mr. Komlodi: Thank you for the question.

So, inflation would be one of the factors that impacts, you know, our revenues. I mean, it's a dynamic space, in terms of how the economy functions. So to the extent that prices are changing, will lead to different behaviours by different corporate and individual actors.

We do report regularly through the Manitoba Bureau of Statistics in terms of our consumer price index, and Manitoba's diversified economy would generally and historically be more—be a lot more resilient. The Public Accounts, of course, reports on, you know, the revenue reporting through the summary environment, so it would be factoring in any of those dynamics that I mentioned would be playing out in the real economy.

Mr. Brar: I'm referring to page 48, at—in the annual report. There's a table called expense by function.

And most of the numbers in two columns that we compare are comparable; but for Agriculture; Environment, Climate and Parks; Municipal Relations; Sport, Culture and Heritage; the numbers jump a bit.

Can you just explain that? And also, we are comparing restated and actual; why not actual and actual? Just trying to understand.

* (14:20)

Mr. Komlodi: Thank you for the question.

I'll start with the restatement, and on page 104—one zero four—the Public Accounts, under note 22, there's a description of why there was a restatement, and I'll just read that. So, on January 18, 2022, the government announced reorganization changes that resulted in certain functions being transferred between departments. As a result, certain 2021 financial statement balances have also been reclassified to be presented on the basis of the 2022 results.

Mr. Brar: I just wanted to quick check, on page 11 it talks about inflation rate quickly increased from 0.4 per cent in Feb. '21 to 3.2 per cent in April 2022. Should it be 2021? Seems like a typo. Page 11.

Mr. Komlodi: If I understood the member's question correctly, I'm looking at page 11, at the far right section of the chart there, March 2022 is reported, which would align with the—effectively, the fiscal year to which this Public Accounts relates.

So, that would be the reason why we have the March '22 there.

Mr. Brar: So, when I look at the graph, it tells me that the inflation quickly increased from 0.4 to 3.2 between February and April 2021, but the report says April 2022. Page 11 of this report. It's the second—third line from the top.

Mr. Komlodi: So, it appears there is a typo, an error, on that page. So, the description should say April 2021. Thank you for catching that.

MLA Lindsey: So, looking at the delegation of financial signing authority, it seems that there have been some issues as to who has delegated and how often those kind of charts are up updated.

Now, I understand that there was an issue previously, and then again, in 2022: five of the six departments had not updated their charts as required.

So, the action plan, it talked about training and spot checks that were introduced to try and fix this problem, however, it's still considered unresolved by

the OAG as required approvals were not done in a timely manner after 2022 department reorganization.

Training and spot checks, it seems, have not been effective. All of this, of course, was compounded by NOSI creation or changes in the departments, so that what was in one department is now in a different department, but also, due to potentially being compounded by staff shuffling or staff shortages.

So, could you tell us what additional actions are being taken to address this shortfall that seems to be on-going with the delegation of financial signing authority?

Mr. Komlodi: Thank you for the question.

So, through the Office of the Provincial Comptroller there was training under way, as well as spot checks, with each of the departments, to ensure that there was both more timely updating to the designated financial—the DFSA documents, as well as ensuring that there is robustness, in terms of how they updated for accuracy.

* (14:30)

As I mentioned in my opening statement, the OPC is doing that diligence work—due diligence work right now to make sure that all departments are in compliance with requirements in terms of both timing and accuracy of the DFSAs.

MLA Lindsey: So, then one would assume there must be some kind of guideline that says how long it takes for a department to update the chart after there's a change made within the department.

And looking at that, then, how long did it take to update charts after the 2021 Cabinet shuffle? Were they updated according to a standard, or is there no standard?

Mr. Komlodi: So, in terms of the standard itself, it is included in the internal policy to the Provincial Comptroller and the financial administration manual.

In general, the requirement is for the documents to be updated before the next Estimates of expenditure is approved.

Mr. Michaleski: I'm going to just continue on with my—I won't make such a long preamble, Mr. Chair, as I did last time, but it—my questions are all related in the same line. But, specifically to the Auditor General—but feel free, Mr. Komlodi, or the Comptroller, to weight in on this.

Mr. Vice-Chairperson in the Chair

My question is about the future role of the Office of the Auditor General, and because—again, I go back to the report of Public Accounts from December 2022. Like, there is an incredible stressing of concern expressed by the Office of the Auditor General regarding poor compliance, inadequate accounting processes and, oh, I am—and I'm quite sure these are—have some legacy attached to them. And it's great that changes are being made and incorporated, I hope.

But be that as it may, there's a lot of concern here. So I'm going to go back to the Auditor General's office with in mind that we're flagging and finding concerns. We also have, running in the background, the shift to a Canadian standard here in Manitoba and, of course, we have to—we're required to change to this new accounting 'proce.'

So, with all that in mind—so, as the fiscal changes and pressure on government expand, I think that's a fair comment to make, I would see there's an increase for more qualifiable and validated spending results, and measurements are needed.

So, my question for the Auditor General is, how do you intend to specifically conduct and access performance audits when there is really, I think, a shift in focus based on the accounting changes? How are you going to address that, and essentially put a—qualifiers, whether it's financial or measurements. I think—I don't think that's necessary as a policy thing, but I—my question whether that's—becomes, now, a role on the responsibility Auditor General's office.

So, if you could comment and answer that.

Mr. Shtykalo: Thanks for the question.

With respect to financial statement auditing, these types of shifts, while they may affect the financial results, I don't see as big of impact on how we go about conducting our financial statement audits. Because we are auditing against the public sector accounting standards, as well as using Canadian auditing standards.

However, on the performance audit side, as you mention, any of these shifts I would see being captured in the criteria that we use. Because each performance audit has a different list of criteria at the start of the audit; we developed—we have an objective, we develop what would be appropriate criteria and have conversations with the department or entity that we're auditing that those are appropriate criteria.

So, I would see in the performance audit—I would look to that, and the shift in the criteria being used to

capture any of that. But as far as the financial statement audits, I don't see as big an impact.

Mr. Chairperson in the Chair

Mr. Michaleski: Just one follow-up question. Again, it's cleaner, I guess, when you're doing just a financial audit as financial, and it's very grey—subjective when you get into performance.

My point, though, is we're—I think the financial aspect of a performance audit in—is emerging as a bigger and bigger issue that we need to put a number to, a line item to qualify, right? Because if we're looking at, you know, comparing Manitoba to other jurisdictions, then it becomes a very relevant question in terms of how well government is doing.

So, again—and I think the Office of the Auditor General indirectly inherits a fiscal evaluation, or a financial evaluation, of performance audits. So, again—and that's my point. And do you see that, or does finance—like, does department see that as a role that Department of Finance would want to see Auditor General play that sort of qualifying role in their audit.

* (14:40)

Just—again, you understand what I'm saying? Because I think you're—to do a comprehensive audit, it's not reasonable only to assume performance, but that it should have a number attached to it.

Mr. Shtykalo: So, if I'm understanding correctly, it sounds like some of the things you're describing would be similar to what we see someone in the role of a parliamentary budget officer would do: commenting on budgets and estimates and feasibility-type issues.

Currently I see, under my mandate, not—it's more of a historical focus. But, so, on the financial statement side, it's, you know, historical financial accountability: expressing an opinion on them—on the accuracy of the historical financial information.

On the performance audit side, that's where we have a little more flexibility. Again, aspects of what you're speaking about could be worked into the criteria, but to dedicate more on the financial side, unless my mandate was specifically expanded, I don't see going in that direction.

MLA Lindsey: So, in the answer to my previous question about updating the delegation of financial signing stuff, it seemed to me that the answer I got was really—that it would be updated before the next set of Estimates. Seems that would be designed to pass an

Estimate as opposed to actually update the chart or the signing authority in a real manner so that it's updated ongoing.

So, I mean, if somebody leaves the department, somebody else takes over, the chart should be updated within X number of days type of thing, so that you always have the right people doing the right signing.

Just doing it once a year in time to say you've met the audit requirement seems somehow to be somewhat deficient. Am I misinterpreting what the answer was, or does there need to be something more done there?

Mr. Komlodi: Yes, I will clarify, and I'll read the actual policy that applies in this instance: Whereby all delegated financial signing authorities should be reviewed annually at year-end or on an as-required basis, as determined by the executive financial officer. In all instances, financial signing authorities must be updated on a timely basis to ensure that delegation information is at all times complete, accurate and current.

Central Finance within the Department of Finance should be provided with copies of the most current delegation of financial signing authority charts at year-end, or advised in writing if no changes to delegations have occurred since the last submission of charts.

There are instances where a complete review and update of the departmental financial signing authority will be required; for example, the appointment of a new minister, a reorganization that affects the department and any change to an act which affects the delegations.

Thank you.

MLA Lindsey: So, I think that still leaves us a little deficient in making sure, although the answer does say that they have to be updated in a timely fashion. I would hope that that means that somebody is actually checking that when changes within a department take place to ensure that the proper signing authority is there.

Just—I have a different question. Talks about retroactive wage settlements, and I understand that the amount of those retroactive settlements isn't necessarily disclosed yet for the Estimates in March 2022.

How do those retroactive wage settlements get accounted for, and will there potentially be some dramatic changes by the time the next set of Estimates comes out, by the time the next—the whole budgetary process takes place?

If those numbers are all agreed to now but they're not accounted for until the next budget, what impact would that have on future budgets that are not necessarily captured in current budgets so that we would have a realistic Estimate or an idea of what the future obligations would be?

* (14:50)

Mr. Komlodi: So, I'll just maybe split that into two components.

One is, from a budgeting perspective it is built in as a contingency in terms of the expectation for the coming year. From a Public Accounts perspective, effectively, retroactively this would be accrued for each of the impacted departments.

Mr. Lamont: I had a couple of questions about—let me just check and see where it is. It's the expense analysis on page 47, 48. There were a couple of very—it seemed to be very significant reductions, both in Finance.

Finance was apparently reduced by, is it \$306 million, if I'm correct—and do correct me if I'm wrong—and that Municipal Relations expenses decreased by \$357 million.

So, if you could just—can you just expand on the details of those reductions, and how is it that Finance and municipal affairs each handled that reduction, and what did that reduction consist of in a bit more detail than the numbers we've got there?

Mr. Chairperson: Okay, so just a reminder to members of the committee that all committee members' questions should be put through the Chair.

And we're approaching 3 o'clock. As previously agreed, we should revisit as how long we should sit.

Are there any suggestions?

Mr. Martin: Mr. Chair, can I make the suggestion that the committee continue to serve to allow myself, Mr. Michaleski, and I believe, Mr. Lamont had an additional question. So for—allow those three questions to be heard and then, at that time, the committee rise?

Mr. Chairperson: So, it's been suggested that we allow the questioners who are on the list at the moment to finish their questions and then we—yes—we decide whether we're going to pass the report or not.

MLA Lindsey: I would suggest 3:45, Mr. Chair.

* (15:00)

Mr. Chairperson: So, the original suggestion is not unanimous. So, will somebody say no to that?

An Honourable Member: No.

Mr. Chairperson: Okay. So, Mr. Lindsey, your suggestion was 3:45. Is that agreed?

An Honourable Member: No.

Mr. Chairperson: That is not agreed?

An Honourable Member: Can I suggest 3:30?

Mr. Chairperson: Okay. Suggested that—*[interjection]*—yes, Mr. Smook.

Mr. Dennis Smook (La Vérendrye): Could I suggest 3:30? That way we allow Mr. Lindsey more time for questions in there.

Mr. Chairperson: It's been suggested 3:30 by Mr. Smook. Mr. Lindsey, do you agree with that? So, Mr. Lindsey, could you repeat that please?

MLA Lindsey: I'd suggest then that we revisit it at 3:30 to ensure that we've concluded the business that needs to be done.

Mr. Chairperson: Okay. So, can we agree, then, that we will revisit at 3:30? *[Agreed]*

So, Mr. Komlodi.

Mr. Komlodi: Just to respond to Mr. Lamont's question.

In terms of the Municipal Relations, there are two programs: the federal restart program and the Manitoba restart program, both from the prior year that would have been one-time expenditures, so they no longer show up.

We're just in the process, on the finance side, to look up the list for the COVID programs that are listed there, but those also would have been ones that no longer continue.

So, thank you.

Mr. Lamont: I just—a question. I know that interest rates have risen sharply. I believe today the Bank of Canada has indicated they may continue to raise them, and I know that we saw a substantial increase in debt servicing fees.

So, I'm just wondering if the deputy minister would be able to just talk about the risks that impact, and any mitigating actions that are being taken to deal with possible higher interest charges as far as our public debt and deficit are concerned.

Mr. Komlodi: So, in terms of tracking the information that, you know, is part of our regular reporting through the Manitoba Bureau of Statistics, that would inform, obviously, our planning, both in-year and looking forward as we build budgets.

In terms of the fiscal sensitivities, there is analysis that we include in the Public Accounts; on page 43, for example, where we do list, you know, the increase of interest rates and what that would mean for the portion of our debt that's exposed to refinancing. So, in terms of what was included on page 43, a 1 percentage point increase in interest rates would be an estimated annual fiscal impact of about \$35 million.

MLA Lindsey: So, started with some stuff that took place during the pandemic where people were working from home and they needed to find a new way to make sure things were approved, so there was electronic approval processes put in place at that time.

The AG had previously recommended that there need to be more clear guidelines for how that works, and part of the response was that they were going to explore special electronic approval software.

So, could you update us on just what the status of that particular work is, as far as the electronic approval software, and are there, in the meantime, more clear guidelines?

Mr. Komlodi: If I could ask the—if I could ask Andrea Saj to respond to the question, please.

Mr. Chairperson: Sure.

Ms. Saj.

Ms. Saj: Thank you for the question.

Yes, so, initially, when the pandemic began in March of 2020, the Office of the Provincial Comptroller issued some direction to departments around the use of electronic financial approvals, which was fairly broad, as that was a brand new way of doing business for the government departments. An update was issued to departments to provide further guidance on April 6, 2022, to give them a little bit more specific direction.

In terms of the electronic approvals process, that, again, is something that we continue to work on with our IT department, and we are in the midst of a procurement process relating to that. When the new software is introduced and the procurement process concludes and we've been able to implement the software, we will certainly be providing more

guidance and direction from the Office of the Provincial Comptroller to the departments.

MLA Lindsey: Just in a follow-up to that, what kind of assurance or confidence do you have that any of the issues that had previously been identified with the electronic approval process, that they've been addressed and that you have sufficient guidelines in place to ensure there's no problem?

* (15:10)

Ms. Saj: Okay. Thank you for that question. This is something that the Office of the Provincial Comptroller is very concerned about, as well, in terms of departments' ability and consistency in application of the directives issued by my office.

So, we have taken this directive that was issued in April of 2022 forward to our council of executive financial officers. We've had some robust discussion with those executives. We've provided training to them on the expectations as to what is an acceptable use for digital signatures and made it known that the expectation is with management of the departments, as far as their direct oversight within their departments.

The Office of the Provincial Comptroller is also involved in spot checking and monitoring of their application and of the directive.

Mr. Michaleski: I want to thank the members for being here today and answering our questions. They're—they've been doing a great job.

My question—my last question—is directed towards the deputy minister and, again, it's framed very much the same way as my other questions are. There's—running in the background there is a shift towards a Canadian standard in compliance, Manitobans required to change their accounting standards. And all this is happening at a time of change and concern where the Auditor General is flagging genuine concern. And you know, of course, that has long-term impact.

But my question, then, in light of these changes and with respect to the new accounting standards and/or the Canadian standards, as DMs—particularly for Finance, but, you know, may wander off into other departments—is it now a new responsibility to ensure compliance?

I know we have the Auditor General that's saying, you know, we remind you if you need to do that and it doesn't get—has the responsibility changed so there's greater emphasis on senior public servants like yourself—like a deputy minister of Finance—does the

responsibility and liabilities change with these new Canadian and Manitoba standards? And has it changed from the deputy minister on down through the departments to supervisors, managers, regional, you know—I'm just—has any of that changed because of these new accounting practices and standards?

Mr. Komlodi: Thank you for the question, and certainly the environment has become more complex. There are standards that have evolved.

I would say on the whole, the legislative environment, in terms of that responsibility, has not changed. We are subject to The Financial Administration Act in terms of the authorities that are the responsibility of the deputy minister that are then delegated to the executive financial officers, and further down into the department to all staff that are responsible for managing finances. It is there, also, where the DFSA, the designated financial signing authority document plays a critical value.

I would also add that deputy ministers and executive financial officers sign the management responsibility letter. That is a representation to the OAG that the financial statements have been compiled in a way that hold true to the Public Sector Accounting Board standards and are in line with internal controls.

Mr. Chairperson: Are there any further questions? If not, we will go to the reports.

MLA Lindsey: One quick final question that hopefully will be quick.

So, the control environment, I understand that the Province uses a decentralized comptrollership model where every department then—officials are accountable for their own departments.

* (15:20)

And I understand, in past audits, there's been—where accountability and control by the departments, significant control deficiencies, insufficient support. And some of the explanations that have been given were lack of resources due to increasing vacancies and unfilled positions due to turnover, efficiency and accounting knowledge and related 'compencies', again, because of the turnover, new folks showing up.

So, can someone tell us what, exactly, has been done to address those issues and what controls are in place to ensure that the proper controls are being addressed?

Mr. Komlodi: So, in terms of the vacancy rates, similar to other governments, we have been impacted

with what we're referring to—it has been referred to as the great resignation or the great retirement.

And, you know, in terms of what we're doing specifically, the reviewing of pay rates is—has been undertaken, as well as expanding what's called the Leaders in Training Program. In particular, there's a financial stream within that where we'd be hiring CPAs or individuals that are wanting to obtain their CPAs while they are working. So, we would be funding the designation of those candidates that are part of that specific program.

We've also formed a finance human resources steering committee through the Office of the Provincial Comptroller to address the recruitment issue. And we are working on increased written communication and direction to departments on the responsibilities and deadlines related to the financial controls that they would have to meet in this new environment.

Thank you.

Mr. Chairperson: Thank you.

Hearing no further questions or comments, I'm ready, now, to put the question on the reports.

An Honourable Member: Question.

Mr. Chairperson: Province of Manitoba Annual Report and Public Accounts, dated March 31, 2022—pass; Auditor General's Report—Public Accounts and Other Financial Statement Audits, dated December 2022—pass.

The hour being 3:25 and a half, what is the will of the committee?

Some Honourable Members: Committee rise.

Mr. Chairperson: Committee rise.

COMMITTEE ROSE AT: 3:25 p.m.

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