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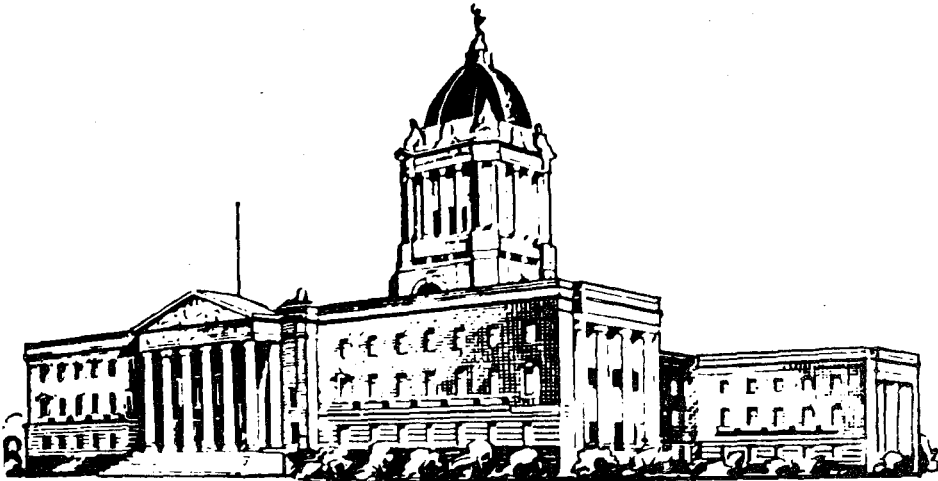
STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman

**Mr. James T. Walding
Constituency of St. Vital**



Friday, December 15, 1978 10:00 a.m.

**Hearing Of The Standing Committee
On
Public Accounts**

Friday, December 15, 1978

Time: 10:00 a.m.

AIRMAN: Mr. James D. Walding.

CHAIRMAN: We have a quorum gentlemen, the Committee will come to order. As members probably aware the Member for Rossmere has submitted his resignation to the Speaker and it leaves us with a vacancy on the Committee. Mr. Miller.

SAUL MILLER: Mr. Chairman, I move that Mr. Parasiuk be a member of the Committee.

CHAIRMAN: Mr. Miller has moved that Mr. Parasiuk fill the vacancy. Is that agreed? Agreed I so ordered. Mr. Craik.

DONALD CRAIK: Mr. Chairman, I'm sure there isn't any problem but in the makeup of the committee there is a proportioning of the parties, and where I realize that the Liberal Party only one member of the Legislature, I am wondering, maybe Mr. Reeves would confirm that there is any difficulty here in the reduction in the members changing the proportions.

CHAIRMAN: Mr. Cherniack.

SAUL CHERNIACK: Mr. Chairman, in the first place Mr. Craik should know that there is no change in proportions if Mr. Parasiuk takes Mr. Schreyer's place, they did belong to the same party I recently.

CRAIK: No, no problem in that regard, only the proportions of representation on Committees would, as to whether the formula that was used would in any way be affected by the fact that total numbers have changed from 23 to 22 or . . . Mr. Chairman, all I want to do is give Mr. Reeves a chance to confirm that it doesn't make any difference, I assume it doesn't.

JACK REEVES (Clerk): All I can say, Mr. Minister, is that the number remains the same and proportion remains the same, to the best of my knowledge, as far as the Committee is concerned.

CRAIK: That's fair enough.

CHAIRMAN: Mr. Cherniack.

CHERNIACK: Mr. Chairman, it's an interesting point raised by Mr. Craik because, as I recall the proportion has been changed from the previous proportion because I think that the Liberal member was eliminated, a Member of the Opposition was eliminated, from this, and as a result the Opposition had one less as declared by the responsible committee last year. And I would like that it will be raised and rectified in the next Session when Committees are reappointed. Frankly, I'd like to ask Mr. Reeves to check into it to see whether the proportion of representation, government versus Opposition, is different now than it was in 1977. My impression is that there's a greater proportion of government representation now than there was before, added to the fact the government has requested the opposition to name the Chairman. As a result, I think it would be interesting, and not necessarily at this stage, to learn whether there was actually a change of spokespersons on the opposition side with the Chairman being in the position he is.

CHAIRMAN: Mr. Craik.

MR. CRAIK: Mr. Chairman, I think that those proportions are not really set by the Clerk of Court, it is set by the Committee in which case it would be referred by the House to that Committee and certainly not to Mr. Reeves. I only wanted to double check and make sure that we were in any way overlooking anything that the committee had decided with regard to the proportions and I presume that we're not.

MR. MILLER: The Committee stays the same size as last year.

MR. CHAIRMAN: When we adjourned the last meeting we had reached Pages 16 and 17 in Report of the Auditor, the blue book. I have Page 16 marked as being passed, it would then seem that we had reached Page 17. Mr. Cherniack.

MR. CHERNIACK: Since we met last we've received two communications from the Provincial Auditor. I wonder when it would be appropriate to discuss them with him. Frankly I don't think it is important when we do it, but they deal with matters that were discussed at the committee.

MR. MILLER: The questions were asked.

MR. CHERNIACK: The questions were asked and not answered, and I am wondering if we could just revert to a couple of those to sort of deal with them again.

MR. CHAIRMAN: Well, since we have passed the pages where they apply maybe we should deal with it now before we go on to further pages if that would suit the convenience of the committee. Mr. Craik.

MR. CRAIK: Mr. Chairman, is that the questions regarding the specifics of the Fleet vehicle: was it the Foreign Currency?

MR. CHERNIACK: It's both, the one dealing with Fleet also has various other particulars beyond that, and I only wanted to raise the question of one of those. I don't know if other members have other matters to raise but I only had one of the particulars in that one memo, and then the other is the Foreign Currency translation.

MR. CRAIK: I wonder, on the foreign currency, whether what we are really talking about here is setting the ground rules for the future method of statement of foreign currency obligations. Since that will be part of the Financial Administration Act changes when it is reviewed by the committee at a later date, whether or not we shouldn't hold it until then and then we would perhaps, in addition to Mr. Ziprick's recommendations, I would think invite a representative from the Canadian Institute of Chartered Accountants to give us some further background on his recommendations since a lot of what we do really in this field is because of the rules that are being made now, not only in Canada but in the United States as well, where our bookkeeping methods have to, to some extent, dovetail with — and maybe we could, in addition, when we look at the Financial Administration Act, look at the possibility of having their presentation to us so we get a clear picture of this total problem we are going to have to decide on. So if that is satisfactory what we do is simply ask that that item be held over until we deal with the Financial Administration Act which will be some time around the time when we also deal with the Auditor's Act.

MR. CHAIRMAN: If that has the agreement of the committee then the one document from the Auditor headed "Translation of Foreign Currency", put that aside until later. Mr. Miller.

MR. MILLER: Mr. Chairman, I'm just wondering, is it the intention of the Minister to have two sessions with the Auditor with regard to the Financial Administration Act, before the end of the year?

MR. CHAIRMAN: Would you use the microphone?

MR. MILLER: I'm sorry. Is it the intention to have the meetings with the Institute to deal with the Financial Administration Act before the end of the year, or are we talking about something in the future?

MR. CHAIRMAN: Mr. Craik.

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CRAIK: I think we might have problems getting a quorum between now and the end of the year, . . .

MILLER: I think so.

CRAIK: So perhaps we had better leave it.

MILLER: Okay.

CRAIK: But what we indicated is that we intended to make changes to these Acts some time in the next session of the Legislature. So it will probably be . . . certainly it would be before we look at legislation or deal with legislation in the House.

CHAIRMAN: The other document referred to the Committee is headed "Requested Information", number one the fleet of vehicles and two particulars concerning certain funds. Were there any questions or comments on the first of those, the vehicle fleet? Mr. Cherniack.

CHERNIACK: Mr. Chairman, just to understand the trend. I see that at the end of the 1978 fiscal year there was an increase over the previous year so that there is no change in the consistency of increase year by year. I am wondering whether the Minister knows what the present fleet is, whether it is up or down from what it was in March 31 of 1978?

CHAIRMAN: Mr. Craik.

CRAIK: No, I can't give you any indication on that.

CHERNIACK: Could that information be made available for the next meeting?

CRAIK: I don't see why not, but I am just wondering, you want it . . . —(Interjection)— yes, you can certainly get the information.

CHERNIACK: All right.

CHAIRMAN: Anything further on the fleet? Mr. Parasiuk. Use the microphone please.

WILSON PARASIUK: Mr. Chairman, I was wondering if we could get a report on the number of vehicles that are leased.

CHAIRMAN: Mr. Craik.

CRAIK: I would think there shouldn't be any difficulty getting that.

CHAIRMAN: Anything further on that page? The second item, Particulars concerning certain funds, Mr. Cherniack had a question?

CHERNIACK: On Page 3, item 9, I wanted to — unless somebody wants to go in . . .

CHAIRMAN: Anything on Page 2? Nothing on Page 2. Page 3. Mr. Cherniack.

CHERNIACK: Mr. Chairman, I wanted to question Item 3, The Beef Producers Assurance Plan. I had an explanation before on that, that is in a memo which is dated March . . . I don't know the date but we've had it for some time now, yes it was dated November 23rd of this year, and there's another elaboration on it. I am still not quite clear on the Manitoba Beef Producers Assurance Plan, and item of \$1.8 million, in trust, how the level of federal subsidies would affect the amount?

CHAIRMAN: Mr. Ziprick.

ZIPRICK: Well, as I understand it, there were discussions and it wouldn't affect the amount of money, except that it would be added if there was a subsidy, but there was no subsidy so the amount went as was.

CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Well, but is that a reason for non-payment? Was the money held back for the people entitled to it because of some other hoped for additional payment to the farmers affected or the producers?

MR. ZIPRICK: As I understand it, there was discussions that it could be augmented and if it that the two would be combined and would go out together, but there was no agreement to augment so this was sent out in the amount that was available from the province.

MR. CHERNIACK: There was money known to be payable to certain beef producers and what are saying is that that money was held back, although it was known that at least that amount payable. I am just wondering, just as Mr. Ziprick has mentioned his concern on behalf of the school boards not getting their money early enough, whether it is not the same kind of a problem where money was known to be payable and was not paid and held back. I assume no interest was paid to the producers when they received their money finally.

MR. ZIPRICK: No, but as we understood it to be of a highly temporary nature, at least so it is not the same kind of thing as I understand it. If it was something that's going to be a prolonged situation I can understand it, that the farmers should have been paid at that point. But if it's something that was just so close to being finalized that it would have been unreasonable to do it along without having it finalized in that area. This is where the difficulties are of not having departments really present. I'm carrying the message secondhand, I don't know to what extent Finance know more about this specifically, but I'm just carrying the message secondhand as to the information that we were told and we have no reason to believe that that information was valid. So for much more enlightenment with regard to policy and the reasoning behind this you would have to talk to the department.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, the moneys were set aside as at March 31, 1978, that's the earliest we know of but it must have been earlier than that, it could have been March 30th. It would be a matter I should think of some concern on behalf of the people whose money this was to let me know how long it was held back by the government prior to March 31, 1978, and I see the moneys disbursed in July, so that would be April, May, June, plus some days. So we know of at least three months and I wonder whether, in due course, Mr. Ziprick could let us know how far back the moneys were known to be due and not paid so we get a better idea of the impact on the date producers were entitled to it, for the delay, in the hope that they would get more money. That's my question. I don't see why they couldn't have received two payments rather than hold back one.

MR. ZIPRICK: Mr. Chairman, I think that the transfer was actually effected early in April, it was before the period had expired that the money would have to be lapsed and so the province's payment was not finalized until as at the fiscal year end, as I understand it.

MR. CHERNIACK: Well, Mr. Chairman, the amount may well have been known six months earlier but when the government was balancing its books and throwing them out of balance — because they weren't in balance of course — then it was decided that moneys that were not yet paid would be set aside as if paid and charged to the previous year's expenditures. That might be consistent with other practices of this government. I'd like to know the extent to which this is consistent with the way Mr. Ziprick's view of the accounts has been over the period of years.

MR. ZIPRICK: Well, this is not inconsistent with practices over the period of years where money has been voted for a particular program of this nature and the information is known as at the end of the year, and to lapse that money and re-vote it in the next year, there would really be no just reason but for some small technicality, so it's not unusual under those circumstances to determine the specific amounts, put it into trust temporarily until whatever other specific detail that's required becomes available and then the money is paid out. So that this was not an unusual kind of treatment. These same kinds of treatments have been carried out before.

MR. CHERNIACK: Are there any others of a similar nature in this fiscal year end?

MR. ZIPRICK: To my knowledge, no.

MR. CHERNIACK: So this is the only one?

. **ZIPRICK:** As far as I know, this is the only one.

. **CHERNIACK:** Thank you, Mr. Chairman.

. **CHAIRMAN:** Are there any further questions? Mr. Wilson.

. **ROBERT WILSON:** Well, when you get to No. 12, I wonder if Mr. Ziprick or the Minister can
lain . . .

. **CHAIRMAN:** Before we do, are there any further questions on this item 9? Any questions on
or 11? Item 12, Mr. Wilson.

WILSON: I wonder if the Minister can explain the sudden drop in the moneys being received
by the lawyers of the province regarding the interest from citizens' money that sits in the bank?
Notice that the balance as of March 31st, 1976, was \$1 million and a report that we received
on the 28th of February, 1978, was there was 2.163843 and now there's only just over half a million.
Has the Banking Act changed? Is there some reason that the . . . or is that particular information
correct? I mean, in other words, would it be possible sometime to get me the current balance
that the province is holding from interest turned over by the legal profession?

CHAIRMAN: Mr. Ziprick.

ZIPRICK: Just as a matter of accounting, the balance that is represented here in trust is the
existing balance that hasn't been paid out. It doesn't necessarily imply that that's all that was
paid for that year. To get the total amount of receipts for the specific years, we don't have
particulars handy but that certainly could be obtained on a comparison basis for one, or two,
three — whatever years.

WILSON: While we're at it, back in February 28th of 1978, I had asked for an accounting
of the Law Society of Manitoba for their annual grant that they received from the taxpayers of
Manitoba for over \$250,000 and I was told at the time that they are required to report to the
Attorney-General, and I wondered if that annual report, or that annual financial statement is available
to me in the terms of reference I'm trying to get clarification of what it means by "the grant that
taxpayers pay the lawyers of Manitoba to the Law Society is for administration and enforcement
of also some educational programs." It would seem the Department of Education should be involved
in the educational programs and I'm more interested in monitoring the administration and
enforcement because it would seem to me that the offices that they have in Lakeview Square are
fairly elaborate and I would hate to see the taxpayers of Manitoba having to foot this bill. So
that the money that is being paid to them to go for the purposes to which it was intended and
the only way I'm going to be able to find that out is if I'm able to examine their yearly audited
statement that they give to the Province of Manitoba. Is that statement available, Mr. Ziprick?

ZIPRICK: I don't know. I would have to check into that.

WILSON: Well, if the financial statement is available, I would appreciate members of this
committee receiving it some time in the future meetings.

CHAIRMAN: Mr. Cherniack.

CHERNIACK: Mr. Chairman, as a member of the Law Society, I don't intend to rise to the
defense of the Attorney-General who is also a member of the Law Society and who I believe is
responsible for monitoring this money, but I believe that the money that is disbursed from that fund
is for specific purposes, has nothing whatsoever to do with the moneys that are charged
to lawyers for maintaining the Law Society and which are used to pay the Law Society expenses
including the accommodation they have. For example, when I drive down — is it Maryland? — and
see some very elaborate-looking bailiff's offices on Maryland, I don't concern myself as to how
moneys are raised to pay for them; I just worry that there is proper control and a proper
allocation of how moneys are to be spent which are indeed moneys raised, not from taxpayers,
but from people who are clients and whose money is held in trust. In this case, the NDP government
is sure that moneys that were available in banks should earn interest, not for the benefit of
lawyers, but for the benefit of the general community involved in legal matters. So I just
want to clarify that I'm quite sure that the only persons who are paying for whatever accommodation

is needed by the Law Society are lawyers who are taxed by the Law Society.

MR. CHAIRMAN: Mr. Wilson.

MR. WILSON: Well, in response to that, the problem that I have in my mind is that the engine and the chartered accountants and the different other professions in the province do not receive an annual grant from the taxpayers of Manitoba and I don't agree — (Interjection)— Well, according to No. 12, and I'm reading from the information that was given to me, that the money that is dispensed to the Law Society is used — and if I can quote — "educational programs of the Law Society and costs incurred by the Law Society of Manitoba in the administration and enforcement of the section."

MR. CHERNIACK: Right.

MR. WILSON: Now, administration and enforcement of what? What are they enforcing? If Mr. Cherniack is telling me that this annual grant of over \$250,000 a year goes for strictly educational programs, then I will turn around and ask the Cabinet to examine if it shouldn't be put back to the Department of Education because I see no difference in educating lawyers than I see in educating anybody else in the private sector. I don't see why this special grant to probably some of the most affluent members of our society, I don't think the taxpayers should be funding it. If people so, therefore, until I'm proven wrong, my suspicion is that there is absolutely no justification for the taxpayers paying \$250,000 a year to the Law Society of Manitoba. I'll leave it at that until I get the information.

MR. CHERNIACK: Mr. Chairman, I'm waiting for the Minister of Finance to respond to the statement that the moneys referred to in Item 12 was a special grant from the government. I read it that the interest received on trust accounts. Now that, to me, does not mean a grant from the government. Since Mr. Wilson keeps referring to a special grant from the taxpayers, I would like the Minister of Finance to clarify: Is it a special grant paid by the taxpayers?

MR. CHAIRMAN: Mr. Craik.

MR. DONALD W. CRAIK: Mr. Chairman, I thought the conversation was going quite well with me here. Maybe it's a special dispensation, I don't know. It seems to me the client does have an option as to whether he gets the interest on the trust moneys that are held, or if the client does not get the interest, it goes into an account and the government receives the largest portion of it but through the agreement the Law Society does retain a portion of the interest for purposes as indicated in Item 12. My understanding of it, as I recall, is that the citizen does have an option of first of all, as to whether his solicitor puts the money into a trust-bearing account in the client's name, if it's a long-term or a longer term, or an investment of a term that would indicate that the client might want to go to that trouble of doing it. If they don't do that and the solicitor puts it into an interest-bearing trust account, and there are rules of interest earnings that the interest then is distributed according to an arrangement made when the interest moneys were first put with in the legislation, at which time, during the period of the former government, there was an agreement reached that the Law Society would retain a portion of that for their purposes.

Mr. Wilson's question is whether or not they should have the right to retain any of it and it's a slightly different matter but I think the citizen does have some option here as to whether the citizen retains the interest or whether it goes into the account.

MR. CHAIRMAN: Mr. Parasiuk.

MR. WILSON PARASIUK: Mr. Chairman, I still am not clear in terms of Mr. Wilson's statement. He has said that the taxpayers of Manitoba are providing a grant of \$250,000 to the Law Society. I would like to ask the Auditor, in looking over expenditures over the last year, have the taxpayers of Manitoba, through taxation money, given a grant of \$250,000 to the Law Society?

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: No, this is just as Mr. Craik has explained, it's by arrangement, money that's placed in trust by lawyers that are not specifically designated to clients, that interest is paid over in accordance with the law that was passed, paid over into the trust here and then it's paid over in accordance with the arrangements as laid down in that legislation and the agreement. It specifically provides for defraying the actual costs of looking after these particular trust accounts and the

oney goes for other specific purposes. So this is the source of the money and it's used, it's now recified in legislation — so what Mr. Wilson is bringing up here, and if he doesn't agree with the gislation, I think that's another matter. But I can assure you right at this point that we're completely tified that the way this has been handled is in accordance with presently laid-down legislation id agreements and the accountability tracks are there except we don't have the figures of the tual amounts in total that flowed through these accounts. If the committee is interested, that rtainly can be obtained.

3. PARASIUK: Mr. Chairman, the reason why I was asking that question is that, you know, Mr. lson does seem dissatisfied with the procedure. But the point is that he keeps saying the procedure something that it isn't and therefore that can possibly sway public opinion with the wrong pression. I've heard him specifically say that the taxpayers of Manitoba have given a grant of 50,000 to the . . .

1. WILSON: That's correct.

1. PARASIUK: . . . to the Law Society. He said, "That's correct." I would like the Auditor to ase tell me if the taxpayers of Manitoba have given a grant of \$250,000 to the Law Society. ink that's a fairly straightforward question and I would like a straightforward answer. You know, hey did, and maybe they did somewhere else, but I would like to know: Have the taxpayers of nitoba given a \$250,000 grant?

1. CHAIRMAN: Order please. Mr. Wilson.

1. WILSON: Yes, on a particular Public Accounts Committee meeting's information that we eived, just to clear up, because I want the Member for Transcona to realize that it says, under ction A and B, it says, "Moneys provided as grants to the Society from the Law Society and icitors' Trust Funds — \$509,800." So provided it's grants. Now you look in Public Accounts; figures are there that they get this money; it says "grants" right here. In my opinion, what it osically, it's some form of dispensation or disbursement that the Law Society is receiving as an agreement because they bend over backwards to see that money that they were not entitled comes to the Consolidated Fund and so, therefore, they get paid to turn over money that nterjection)— Well, I don't get a kickback from my business tax that I pay every year, so my t is that why should they get 25 percent back from money that doesn't belong to them? The ks paid the interest on it; the money doesn't belong to them and I don't see how they can turn und and justify receiving this type of money. What I've asked for today is, could I please have ok at this annual statement that says that the \$250,000-plus goes for educational purposes and does, then I will let the matter rest.

PARASIUK: Mr. Chairman, I didn't get an answer from the Auditor as to whether the taxpayers Manitoba have provided a grant of \$250,000 to the Law Society. A grant is something that is ved from Consolidated Revenue or from lotteries or from some other source, and provided as ant. Is that the case? Is that how the Auditor, in his reviewing of the expenditures, sees this enditure?

CHAIRMAN: Mr. Ziprick.

ZIPRICK: No, now the item we're dealing with here is the interest money from the trust accounts the solicitors receive and in accordance with the law has been turned over to the Consolidated d to be placed in the Trust and Special Division and to be paid out under these conditions so this is a receipt of that money and the paying out, and the balance of .6 million of that ey is still remaining in trust as of March 31, 1978.

ow when we talk about grants, it's the return of a portion of that interest money and that's out in the law and the law sets out how it's supposed to be paid in and under what conditions supposed to be returned and then there's to be an accounting for it afterwards. As far as I'm e, all these conditions have been complied with.

PARASIUK: And then in your professional opinion this is not a kickback as it has just been ribed.

ZIPRICK: No, this is what the Legislature has decided and approved and it's completely . . . air wisdom, that's what's supposed to be done and I am not going to comment as to whether good policy or a bad policy. That's not up to me.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, firstly I think that Mr. Craik used the word "citizen" when he meant "client" a few times. It's clear, I believe — and he can confirm it — that the moneys raised on interest are moneys that were clients' moneys, that had to be kept in trust pending the completion of certain transactions.

The word he used about the Law Society retains a portion of it, I think is not a correct term because the Law Society never had it. It's money that was paid by the bank direct to the trust account of the Provincial Government and then there was money paid out in accordance with the legislation. All that is a matter of record.

What is also a matter of record, however, is that Mr. Wilson persistently talks about taxpayer money being paid, and he used the term Consolidated Revenue. Now maybe that's so, but if it so, he should prove it or we should get information to confirm what he is saying because know him as we all do, we can expect him to keep on saying that these are moneys paid — taxpayer moneys being paid out of Consolidated Revenue. Now we can't prevent him from saying what he wants to say but we should at least make sure that we know the truth or the inaccuracy of what he is saying. Mr. Ziprick has now said, more than once, that the moneys we're talking about, a moneys that come out of trust funds and that these trust funds are being raised from interest paid into bank accounts — interest paid as a result of bank accounts and that they are being disbursed in accordance with legislation. He's also said it's not taxpayers' money. Now I think Mr. Wilson should make it very clear that he knows what he's talking about and that he can prove that it's taxpayer money and if he can, we should also accept it rather than arguing with him on semantics.

So I come back and say, is there somewhere — and maybe it needs more review — is there somewhere, some actual payment to the Law Society out of Consolidated Revenue other than the trust funds that we know are not taxpayers' moneys. Let's clarify it so that we can hope that Mr. Wilson will know and will therefore be able to state correctly rather than draw assumptions from papers that do not have that precise information.

MR. CHAIRMAN: Mr. Wilson

MR. WILSON: I'll leave it at this: that if the Law Society never had the money, that it belongs to clients — I used the word "taxpayer" . . .

MR. CHERNIACK: Well, that's incorrect.

MR. WILSON: I see very little difference between the client of a doctor and a lawyer. He pays taxes and if there is a certain amount of his money, namely \$287,000 or \$250,000 that could be put to better use, if I can use that term, or if the agreement could be examined, if how the money is spent is not going for the purpose to which it was intended, I can't see how you could call anything else but a payment of wages or a grant. I call it a grant because the Law Society never had the money yet Public Accounts says that the Consolidated Fund paid the Law Society of Manitoba \$287,732.00. So if the Law Society never had the money, what did they do to deserve \$287,000.00. Obviously they've signed some agreement with the former government which allows them to retain the money.

You know, the Meer for Transcona wants to use street terms and I can use them if he wants to, but basically I sense that this money was . . . If I can use an example, a woman whose husband dies, there may be \$60,000 sitting there and because certain people in the office are away on vacation or certain legal things take place, she may not receive the benefits of that estate for two years a year and a half, or a year. At that time, that money which definitely should belong to her, unless she is sort of astute like myself, I just have \$4,500 sitting with a lawyer. I said, "Would you put it into an interest-bearing account so that I can derive the benefit from the \$4,500.00?" In other words, the ignorance of the client, the taxpayer, the customer — whatever you want to call it — in not knowing that they're entitled to the interest, means that the money goes to the government and I can't see where the government has the gall, or if I can use the term, has the right to take it around and pay \$287,000 of that money back to some people — and I'm quoting you — that the Law Society never had it in the first place.

So I've asked for the information; I'll leave the matter rest until I get an accounting of how that money is spent each year.

MR. CHAIRMAN: Can we proceed, gentlemen? Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, I just want to encourage Mr. Wilson in attempting to find out

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party has been in government for over a year and I think that if he can't get the answer to what he calls the "gall of government," then I think he ought to clarify or make a public utterance in the way his government and his party is handling these funds.

CHAIRMAN: Mr. Wilson.

EMBER: Don't push your luck. It's your deal; you signed the agreement.

CHERNIACK: They don't honour deals.

WILSON: The former government signed the agreement with the Law Society and if it's a good or bad one, history will determine whether it is.

CHERNIACK: And you're married to it, eh?

CHAIRMAN: Anything further on Item 12? Item 13 carries over onto Page 4. If there's no further discussion, perhaps we can proceed with the Auditor's Report. I refer the attention of honourable members to Page 17 of the Auditor's Report—pass — Mr. Cherniack.

CHERNIACK: His succession duties, there's reference by Mr. Ziprick on Page 4 of the earlier report, the one which was sent to us on November 23rd —(Interjection)— Oh, well, on information that I received — that's true, I received it, Mr. Ziprick — that there was some \$2.6 million of assessments which had not been finalized as at March 31, 1978. I'm dealing now with a program that was cut off, revenues that were removed by the present government. They cut off the estate on but there was still money payable as at March 31, 1978. Was that amount known? Was it to be assessed or was it known at that time?

CHAIRMAN: Mr. Ziprick.

ZIPRICK: No, these are preliminary assessments that have not been finalized in any way so far.

CHERNIACK: Were there billings out as at March 31, 1978, assessed accounts which had not yet been paid?

ZIPRICK: Well, as I understand it, there's preliminary assessments and the people that are assessed have a certain amount of time to dispute these things and then they're finalized and paid. The amount of preliminary assessments outstanding as at March 31, 1978, that were being assessed was \$2.6 million.

CHERNIACK: Were there finalized — if I can use that word — accounts as at March 31, 1978, that had not yet been paid?

ZIPRICK: Generally the finalized ones are paid and the account is not considered finalized until it's paid.

CHERNIACK: You mean it's not final until it's paid.

ZIPRICK: That's right.

CHERNIACK: Well then what you mean, they're not paid accounts but certainly there must have been assessments that were made — not preliminary but actual assessments charged to an account and not yet received as at March 31, 1978. I see there must have been in the normal course of things.

ZIPRICK: As I understand it, all assessments are made and expected to be paid but they can be disputed and appeals requested for changing of assessments and it's only when the person that's assessed agrees that that's the amount and within the laws the time has expired for any further assessment that then he pays that money and it becomes revenue.

CHERNIACK: Then I want to know whether there is not a space of time between the time when the person assessed agrees to the amount and the time runs out and payment has not been made.

MR. ZIPRICK: There isn't that kind of refined breakdown as to what exact stages. It's either the process or it has been finalized and paid, so that there's a potential of this amount. There might be even more than that amount. By a review of the assessments maybe some more could be found. So it's just a first assessment or assessments in stage of review.

MR. CHERNIACK: So Mr. Ziprick, you really don't consider an amount is due under successful duties until it's paid.

MR. ZIPRICK: It's not set up in a revenue as receivable in any way. It's in the records as a potential receipt of that much money. It's being worked on, but it's not treated as revenue until paid.

MR. CHERNIACK: Well, it's not treated that way by the Department of Finance possibly but you, Mr. Ziprick, feel that it is not an account receivable until it is paid, according to normal accounting practices?

MR. ZIPRICK: Well, I don't know just to what extent normal accounting practices . . . We'd like to review the law and obviously as long as the person has still time to appeal, the best you could say is that this is the first demand, subject to changes on appeal. It's only when it becomes final that . . . Now, I don't know to what extent these were, you know, on the verge of becoming final and to be paid.

MR. CHERNIACK: But, Mr. Chairman, may I ask Mr. Ziprick, I believe that under the Act people can spread their payments over 5-½ or 6-½ years and that in addition the Minister has a right to defer for a much longer period of time payment. That has happened, I believe. Would that not be an account receivable clearly if the taxpayer has agreed that this money was payable, the money has run out but the taxpayer has opted to pay it over a period of years in the future? Is that still as an account receivable?

MR. ZIPRICK: Well, it would be in the same record. Now, that's what I mean. I don't know what stages . . . There might be some of that category in there, but I don't know; we don't have an analysis at what stages but of course the information is available.

MR. CHERNIACK: Would the Minister agree then that there must be cases, and would he like to give us the information, of what moneys were clearly owing, agreed to and not paid as at March 31, 1978, and whether that is in fact an account receivable not subject to appeal as to amount and not paid? Are there such?

MR. CHAIRMAN:: Mr. Craik.

MR. CRAIK: As far as income from it is concerned, there is an amount in the current year's budget even though this was cancelled as of October 11th last year, as you are aware. There are ongoing cash flows resulting from assessments that are presumably made at some point in time. Mr. Curtis can clarify that point in time in which the assessments are made, but there will be a flow from this even in the current year, even though the Act no longer applies because of the change in some of the estates. There will probably even be an amount in next year's budget that will square out to nothing eventually. At this point in time, as of October 31, you would have budgeted for the prior year under the former government for an amount for that year of the income from that estate and Mr. Curtis may recall, I think, that the amount included in the statements last year would probably be a pro rata amount, based on the time of year and on the amount budgeted for that year. Perhaps I can just ask him to reply with regard to the technicalities.

MR. CHAIRMAN: Mr. Curtis.

MR. CURTIS: Thank you, Mr. Chairman. The practice of the department has been to record items as they have become revenue and, in some cases, there are agreements whereby under the Act the estate is allowed to pay for the amount of the assessment over a period of years. The revenue is taken into the year in which it's received, even though the amount is known and could be considered as an account receivable.

MR. CHAIRMAN: Mr. Cherniack.

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CHERNIACK: Mr. Chairman, that absolutely answers my question. Clearly there are accounts payable that are known as to amount, that are admitted and due but by terms arrived at either through legislation or by agreement, will be paid in the future and will be allocated as it is received, that it is finalized but money has not been received. And I only make the point to indicate that is the cash flow method of accounting which has existed up to now, which Mr. Ziprick says on occasion been varied and which of course we know was varied by the existing government to the extent of some — was it? — \$30 million, where they broke the policy of dealing with cash and rather set up an account payable and charged it as an expenditure, just as they apparently did with the beef growers. I just bring that out to make sure that we understand that there are ways in which government is dealing with various accounts.

CHAIRMAN: Mr. Craik.

CRAIK: Well, Mr. Chairman, on that point, I think it's being suggested here and I think the word was used "broke", broke with the pattern or broke with the tradition or something, but I want to point out that there are . . . I think it was done last date and that I pointed it out as well, although I don't have the specifics, my recollection of transfers from year to year, and it's not a case of dealing with any pattern, it's been a pattern that dates back certainly well into the '70s and probably the period when Mr. Cherniack himself was Minister. So there is nothing particularly unusual about any of the procedures.

CHAIRMAN: Mr. Cherniack.

CHERNIACK: Mr. Chairman, I'm not aware that in the '70s there was a treatment of moneys as the some \$30 million of federal money that was set up as an account payable; I'm just aware of it. If there was set up of that kind of an account payable in the '70s, I'd like to know about it.

CRAIK: There was, Mr. Chairman, an amount in 1971 of \$19 million . . .

CHERNIACK: What happened?

CRAIK: In 1973, an amount of \$42 million; in 1974, an amount of \$45 million; in 1975, an amount of \$45 million. All received . . .

CHERNIACK: Is that in the book that we have, or is that Mr. Craik's own notes?

CRAIK: No, that's just . . .

CHERNIACK: It's your own notes.

CRAIK: . . . internal information. And that money . . .

CHERNIACK: And what kind of amounts? Are those accounts payable set up as of March and those amounts shown?

RAIK: Those particular ones are Revenue Canada receipts.

HERNIACK: Those are payables or receivables set up?

RAIK: They are received in one year and applied in another.

HERNIACK: Mr. Chairman, I am very sorry to press it. I want to understand. Were those amounts that were received in one year and set over to show as an account receivable in the following year or were they, as this government did this last year, moneys that were set up as a payable and paid out of this year's revenue but paid in the next year? Now, there is a difference between receivables and payables, and if Mr. Craik is giving examples of which I am not aware I want to know are those receivables postponed or are those payables set up? There is a big difference.

RAIK: Mr. Chairman, the question here is to . . . I think the key word was "broke". You use the word broke pattern or something with previous uses.

HERNIACK: Yes, I'm not sure.

MR. CRAIK: And all I'm saying is that there are cases here — and I have given you specific y where moneys were actually received in one year and applied to another. And these amounts I shifted all the way from — in the cases I quoted — from \$19 million to \$45 million. Where: think perhaps you may have been the Minister in 1971, although I don't recall what years; that have been about the end of the time when you were there, but certainly in that particular year t was \$19 million in 1971; there was \$42 million in 1973, and so on and so forth. These shifts v arbitrarily made by you, which I would assume fall into your — what you call breaking or what it is. It's . . .

MR. CHERNIACK: Mr. Chairman, isn't it strange that Mr. Craik has not answered my ques It was a very simple question. Were those moneys he refers to receivables postponed or amo set up as payables for the future and charged to the previous year? And I say there is a big differe and I'd like to at least clarify the category. Now, he has the information and I don't have it. U those figures, could he not clarify what they represented?

MR. CRAIK: Well, I did answer it, Mr. Chairman. I told Mr. Cherniack and the Committee t were amounts received in one year and applied in another, and there are amounts received Revenue Canada. What more can I tell you? I have told you what they are.

MR. CHERNIACK: So, Mr. Chairman, they are different from what is done by his governme this last year. In the last year, his government had showed . . . In this year his government shd that there was moneys that they expected to have to pay to Canada in the future year and — pay but would be deducted from revenue in the future year — which they show as an acc payable, money due and the expenditure was charged back to the previous fiscal year. That's thing that they did. Now, he is suggesting that we did similar things and possibly I did when I Minister of Finance. I'm saying it's not the same because it was a receivable, apparently, v was postponed. And I say there is a big difference between charging up an expenditure postponing a receivable into the following year. And I am quite prepared to debate it, althou this stage all I'm trying to do is to ascertain facts and the fact is that the references . . . I to make sure that all those references he made, about which I don't have any record now, receivables postponed and not payables set up. Is that the fact?M

MR. CRAIK: Mr. Chairman, the principle involved is the same. It doesn't only apply to that sp example I used of being received in one year and applied to another for Revenue Canada; the : pattern is consistent throughout in the use of the special municipal loan in the general emerg fund. That took place right through from 1968, right through until 1977. You know, there is no unusual about the procedures. I think the key matter here is the matter of whether the prir involved breaks with the traditional pattern and it certainly doesn't. Now, it seems to boil : to Mr. Cherniack's concern in trying to prove a point there has been a shift of \$30 million me point out to you that within the last four months we have been advised of a correction o million that applies to 1976-77, and we're going to have to account for it in this year. So how you going to isolate one particular item in all of this, and particularly try and establish the that you're somehow breaking with traditional pattern, and let's nail down this. You know, fi all, the principle that's involved here is one that has been used as far back as you want to the records, and certainly was used very consistently by the former government.

MR. CHERNIACK: Mr. Chairman, I intend to debate this matter wth with Mr. Craik unde Estimates or at a time when we are debating policy. I wanted to get facts, and I now believe since Mr. Craik did not challenge my statement that it must be a fact that the items that h referred to in the previous eight years are postponement of revenue and are not a setting an account payable of moneys which were expected to be paid but were not paid out. And I establish that with him — and I believe that that is now correct because the fact is he I challenged it, he has just been arguing as to similarity — that I have established that tha an expenditure. It built up the deficit shown at the end of the year and thus became more cons with the extravagant claims of the present government that the deficit was as big or would big as they claimed it would be and to that extent, there is a vast difference. There was a cl in government.

But as I say, I intend to debate this on other occasions, but I am now leaving it from my stanc on the basis that he does not have an indication in the previous eight years, of an expen — an account payable, — being set up charged to a previous year and payable in the future such as was done by his government. I'm saying that because he has all the information and I and if he doesn't give the information then we're stuck.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Well, I think, Mr. Chairman, to sum this up, we are examining the Auditor's report and the Auditor's report stands on its own and that's what's under discussion. I'd be quite happy to discuss the methods and principles with Mr. Cherniack anytime at all during the session of the Legislature, and if he has any questions about the methods as reported in the Auditor's report, and Mr. Ziprick has already addressed himself to them and I'm sure is quite willing to address himself further to them if Mr. Cherniack so desires, and I think we ought to deal with his report and not with these other questions, although I'll be quite happy to deal with them on the proper occasion.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Could Mr. Craik give me the information that he read from? I don't mean now, but at his convenience. He gave information about various previous receivable setup; could that be supplied to the Committee in due course?

MR. CRAIK: Well, Mr. Chairman, I'm quite willing to provide all the information available. The information is all historical record; if you want to go back you'll find it. I don't want to go back into the history of things and we waste all our time regurgitating history.

MR. CHERNIACK: Oh!

MR. CRAIK: I can tell you it's a fact of life. If you want to know a specific example, the one I quoted, I'll dig it out for you but I don't want to go back to . . .

MR. CHERNIACK: No, no, Mr. Craik was reading from a sheet. If he could make a copy of that available that would be fine, you know. —(Interjection)— If he won't, that's fine too.

MR. CRAIK: I'll provide any information I referred to specifically and give you the documentation.

MR. CHERNIACK: Thank you.

MR. CHAIRMAN: Any further questions on Page 17? Page 17—pass; Page 18? Page 18—pass; Page 19, Mr. Cherniack.

MR. CHERNIACK: I have a few notes here, I'd like to check them out myself. The first item seems refer to some 5.8 million revenue dependent upon the amount of expenditures and the timing claims and recoveries from Canada. Was any part of that 5.8 million known as at March ?

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: Under which item?

MR. CHERNIACK: The very first item on Page 19.

MR. ZIPRICK: Oh, yes.

MR. CHERNIACK: Government of Canada shared cost receipts.

MR. ZIPRICK: No, the claims are made — these are under Shared Cost Receipts — so the claims made and they're, of course, made as quickly as possible when the information is gathered then the money is paid by Canada.

Now, under our system of accounting, the capital claims are recorded as Receivable and taken on that particular year, but the revenue, if it's not received I think by the second or third day after the end of the fiscal year, then it's considered as part of the next year.

So these various claims come in at various times and some of them were maybe anticipated they'd be received earlier, but they were not received until later. But that's not inconsistent with the cutoffs and the practices that have been followed.

MR. CHERNIACK: Well, Mr. Chairman, I would ask Mr. Ziprick that since we are dealing with money owed by Canada, the amount of which I gather is known or may have been known to some extent anyway, as at that date but not yet received, would it not be more consistent to have used it to offset the \$30 million which was set up as an Account Payable to the same party; in both cases we're dealing with Canada.

In one case they tell us, or we agree, that we owe them 30 million so we set it up as an Account Payable. In the other case we know that they owe us money but it hasn't been received yet; would that not have been just as — well, even more consistent — to set it up as an offsetting amount of the 30 million?

MR. ZIPRICK: Well, I think I expressed my view the last time that this area needs to be taken a look at and some more basic policies established and will have to be taken a look at because now that it's combined there has to be a consistency between the claims that are from the capital side for expenditures on buildings and whatever have you, and the claims under these various other expenditures. So that a decision will have to be made as to whether the capital side will be treated on a cash basis or reverse and I would like to see it the reverse that all the claims that we have established at the year that are known, that should be set up as claims receivable, taken into the revenue of that year and all the amounts that we know that are payable to the Federal Government should be set up as payable so at that particular time to the best of our knowledge that is a cutoff and that's the situation on an accrued basis, receivable and payable, because the way money flows from Canada there can be some delays and we have watched fairly carefully the big recoveries for instance, in the Department of Health and Social Development, under Social Welfare.

Now, if one of those recoveries was delayed for a few days and only 11 got into a fiscal year you could have a very significant swing that would not be reasonable to even consider a comparison to be made. So I think that by going to that kind of a policy I think we would preclude any kind of concerns that we're having here right now.

MR. CHERNIACK: I'm just wondering if I would be fair to summarize what Mr. Ziprick said by saying that he did not disagree with my statement that it would have been consistent to show an amount receivable from Canada as an offsetting amount to the amount shown as payable to Canada. Now that's what I believe would be correct and consistent and he did not disagree with my suggestion that that would have been a consistent procedure.

MR. ZIPRICK: Well, it could be a consistent procedure but would not be consistent with the practice that were followed.

MR. CHERNIACK: Mr. Ziprick, in this case Canada was given an Account Payable charged to the previous year's consolidated revenue. That's correct, isn't it? \$30 million was set up as an account payable and charged to the previous year?

MR. ZIPRICK: It was set up as a deferred item, that Canada was going to reduce subsequent year revenue, it's not going to be paid to Canada but just set up and Canada was going to reduce subsequent years revenue by that amount.

MR. CHERNIACK: Yes. Well, that's even worse from my standpoint because it's not money that were going to be paid to Canada but rather it was known that whatever would be payable by Canada in the following fiscal year — and that is an unknown amount — that whatever that would be that would be a deduction of some 30 million, a reduction in revenue.

I was saying that since, under this item we're discussing, it was known that there is money owed by Canada, that it would have been more consistent to reduce that 30 million by that amount.

MR. ZIPRICK: If you tried to match, or put in the revenues from Canada that are applicable to the taxes collected for that year, that would present a better figure.

MR. CHERNIACK: Thank you.

MR. CHAIRMAN: Mr. Wilson.

MR. WILSON: Just so it's clear in my mind, is there any yardstick or any way that we can set up as to whether the change of the Canadian Government's attitude towards payments pertaining to the agreement that they signed with us that they would be responsible for the cost of administering and paying out social assistance and what have you, for the agreement pertai

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to the Treaty Indians? Is there some figure available, are they broken out, that would indicate that in 1975 the Federal Government only rejected, say, 400,000 where in 1978 they've either neglected or omitted to pay, say, \$2 ½ million? Is there any ongoing figure which indicates the outstandings that the Canadian Government owes the province for shared costs pertaining to Treaty Indians?

R. CHAIRMAN: Mr. Ziprick.

R. ZIPRICK: Well, all this information is available in the departments because as expenditures are being made then whatever is recoverable is all kept track of. The claims are being made up and then the claims are sent to Canada, and Canada reviews them and rejects certain things; they come back and there's further discussions and when it's agreed that this is the amount that is acceptable to both sides, then that's the amount that's paid. So all that is recorded in the department

R. WILSON: Internal.

R. ZIPRICK: . . . and could be available.

R. WILSON: All right.

I. CHAIRMAN: Any further questions on Page 19? Mr. Cherniack.

I. CHERNIACK: The next item deals with School Lands Fund. Mr. Ziprick, in the second paragraph that portion "Miscellaneous Receipts", it says that certain transfers were budgeted but not made; and then he says, "We agree with the transfers not being made," and I would like him to clarify that statement in the light of the fact that on Page 8 he says that the Fund will be discontinued, which means that in the current year it will be made. Would he clarify what he means by "He agrees that the transfers should not be made"?

I. CHAIRMAN: Mr. Ziprick.

I. ZIPRICK: Well, what we mean there is, I would say that I don't agree that these items should have been included in the budget in the first place because they were not outside moneys, they are moneys that were already there. As a matter of fact they've already been spent and just been covered by an IOU in the Fund so that there was in fact no moneys available. I believe they shouldn't have been included in the budget and so I'd be more correct to say that it had no effect. But having been set up in the budget I guess the process should have been gone through to comply with the legal requirements but the effect within the present context would still be the same.

I. CHERNIACK: Well, Mr. Chairman, two points: One is therefore that Mr. Ziprick says he agrees with the item having been set up in the budget but therefore he will agree, I think, that statement that the transfers should not have been made, is not a correct statement because the fact that once it was budgeted then it should have been made even though he disagrees with the budget over which he has no real supervisory control. I think that part is correct.

I. ZIPRICK: Yes. Although the item is in the budget it's not mandatory that the government has to transfer, and the decision for not transferring was not mine but the government's. The Legislature can't direct it in such a way that the government must transfer and if it had directed in such a way that the government must transfer, then whether I agreed or disagreed, I'd certainly point it out and say that the government had not complied with legislation. But in this case the placing of the item in the budget was not of a kind that directed the government and said, "You must transfer", the choice not to transfer it was the government's and so I could not take issue and say that there was any violation of any legislation.

I. CHERNIACK: Oh yes, I'm not talking about legislation, I'm talking about an opinion that Mr. Ziprick voiced here that he agrees with the transfers . . . he agrees with their not being made, and I'm just challenging his statement on the basis that it was budgeted. Had it been made, would Mr. Ziprick have said that it should not have been made?

I. CHAIRMAN: Mr. Ziprick.

I. ZIPRICK: I would have pointed out, just like I did last year, that there was no substance to

that kind of revenue.

MR. CHERNIACK: That may be, but the fact is that it should have been made, surely, if it had been budgeted to be made, because the Legislature reviewed it and the Legislature voted on the total package, and the Legislature agreed to either the deficit or surplus which was projected, and this was part of it. So once it was expected . . . I know it didn't have to be done, the government would control whether or not to do it. I'm just wondering why Mr. Ziprick believes it should not have been transferred, even though it was budgeted to be so, even though he thinks it's not very meaningful.

MR. ZIPRICK: Well, it's a matter of accounting and accountability, had no meaning, and to that extent I agree to put through entries just for the sake of putting through entries that don't mean anything is an exercise in futility and a waste of time. And so to that extent I completely agree that none of these kind of entries should be put through. Now, if certain things are in the budget and they become law then naturally I would point out that the law has not been complied with. In this case, it hasn't been law and the decision of the government was not to proceed with so I didn't see anything particularly wrong with not putting through an entry that really was meaningless.

MR. CHERNIACK: Had the transfer been made, would that have reduced this budget that showed up at the end of the year?

MR. ZIPRICK: The figure that I certified would not be changed. If we are talking about what the other figures would be *vis-a-vis* all these different transfers, I am not in the position to really follow because it was so imprecise that in no way could I establish that revenue deficit or surplus. So to that extent I am not in a position to comment how accurate that revenue deficit or surplus is in the revenue division.

MR. CHERNIACK: Mr. Chairman, I am not asking Mr. Ziprick to certify to anything really. The Minister of Finance announced a deficit for the last fiscal year of an amount which I don't recall at the moment. Had the transfer been made as shown here, would that deficit figure have been reduced by the amount of — is it \$3.3 million?

MR. ZIPRICK: Yes.

MR. CHERNIACK: Yes. Just the way the deficit was increased by the transfer of the \$30 million that we referred to owing to Canada; is that correct?

MR. ZIPRICK: Yes.

MR. CHERNIACK: Yes. Thank you, Mr. Chairman. Oh, oh, one more: And will it be reduced this current fiscal year, as a result of the plans shown in Page 8? The same amount of money?

MR. ZIPRICK: No, I wouldn't think so. This will be just offset against the opening balance sheet position. I would disagree to have this figure included to reflect in this year's excess of revenue over expenditure. I would say if it's closed out, it should be an adjustment against the opening deficit.

MR. CHERNIACK: Would Mr. Ziprick please ascertain whether it has been dealt with yet in the fiscal year and, if it's going to be dealt with in the fiscal year but not yet done so, could he bring to our attention the manner in which it will have been done, in the light of what he has said?

MR. ZIPRICK: We are auditing the year that's in progress and if it's done contrary to the way I believe it should be done I certainly will bring it to your attention.

MR. CHERNIACK: And you believe it should not be used to reduce a current deficit.

MR. ZIPRICK: That's right.

MR. CHERNIACK: Thank you.

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IR. CHAIRMAN: Any further questions on Page 19? Mr. Craik.

IR. CRAIK: Mr. Chairman, just so we get on the same topic as to which you attribute these things, want to mention that . . . I doubt that it's contained anywhere, I'm not advocating that it should be, but under that Mining and Mineral Royalties Tax and under the legislation passed by the former government, we're facing this year, under the averaging clause of that legislation, a very substantial pay-back to the mining industry. Now, if we're going to go on this puritan accrual basis that seems to be being advocated by Mr. Cherniack here, then we're going to have to not stop where he is but we're going to have to stop each year and try and estimate what is likely to happen and how much we should be allowing for pay-back to the mining industry of moneys that were collected earlier but are going to have to be paid back in the current fiscal year because of that three-year averaging clause.

R. CHERNIACK: Isn't that done every year?

R. CRAIK: Well, it's . . .

R. CHERNIACK: Isn't, every year, isn't the statement of expected expenditures, the budgetary items of expenditure shown in the Estimates every year, including what is expected to be refundable moneys? Isn't it always done like that?

R. CRAIK: Well, what I'm saying here is under this particular item here where you've got a decrease of \$5.7 million, that if we had really attributed the debt to the year in which the experience was had in the mining industry, it would not have been this year, it's last year and the year before, we're faced this year . . .

R. CHERNIACK: But that's no change.

R. CRAIK: It's unforeseen; you don't know what it's going to be until you have experienced the year, when it's actually as a result of something that primarily happened the year before and the year before that.

R. CHERNIACK: Sure.

R. CRAIK: And as a result of it, if you're going to, I say, if you're going to follow this puritan accrual method, or whatever the proper terminology of it is, where you're going to try and tie everything down to the exact year in which it was incurred or in the year in which caused the problem, which is really what you would do if you went that far, you can add another, I'll make a guess of \$7 million, that we're going to get hit with this year, that is a result of nothing to do with this government but occurred during the period of the former government but still, if we had followed the technique you're wanting to set up, we would have attributed another \$7 million to last year.

R. CHERNIACK: Mr. Chairman, I appreciate what Mr. Craik has said, and that's exactly why I don't want to follow that and I didn't want to follow it when his government set up \$30 million as an account payable and charged it to the previous year, when indeed it was moneys that would be used to reduce payments made in this current year. It's exactly because of what he did that I'm bringing up these other issues. So it's not that I want it done this way; I'm just pointing out to him that what he has done is to make it more logical that we do set up accounts receivable and accounts payable. I do not agree with that. I want that understood, but I am saying that when they increased last year's deficit by a \$30 million item, then they have invited questions of this nature and they're getting them. Now the fact that years go from one year to another is a fact of life that has stood from, I'm sure, 1870, and it is something that was dealt with in that way and not used for political motives. That's my point.

R. CRAIK: Mr. Chairman, to boil it down, I think what Mr. Cherniack is trying to say is that there is an amount that he thinks shouldn't have been attributed to last year, in terms of the size of the deficit that was stated. And in trying to follow his line of attack to establish his case, if we're going to do that, then I think that what you have to do is to take in the other side of the equation and I would like to ask you how you're going to, for instance, now go back and account for, as the example I've used earlier today and I think at the last meeting, where we are now advised of a \$13 million dollar catch-up that is basically error that applies to two years ago, a calculation that the Federal government has picked up and advised us that two years ago they were \$13 million in error. Now

we had no way of accounting for that, but if we're going to follow your technique with everything being perfectly attributed to the year in which it happened, we're going to have to go back and open up books. That's carrying it to the extreme. In this particular case, the one I'm saying here since you are using an example on Page 19, the very next paragraph you've got an example where you would, in fact, if you attributed it to the proper year, I think we would attribute not the \$7 million referred here, but another \$7 million that we expect we're going to get hit with, which is really attributable to last year and should have been put in last year's as well. So what I'm saying is that for every argument you're going to put forward the fact that moneys were transferred from one year to the other to make the deficit look bad against you, I'll find you an example where it's the other way around.

MR. CHERNIACK: Mr. Chairman, all I interpret Mr. Craik's statement to be is that he could compound the method and just keep on working on that basis, and that's not the way I want it. Had he not set up \$30 million as an account payable — and it's not even an account payable — then I would not have raised any of these points. And I agree with him . . . at least he seems to be critical of going backwards and I agree with that. But if he disagrees with going backward, he should not have carried forward the way he did, and we will continue to refer to this back and forth, but I am not endorsing the retroactive variation of the accounts. I am not; nor do I endorse what he did this last time of the \$30 million, and I say that it was done in order to justify extravagant statements made by him and his leader in the previous years and during the election, and they're trying to make it stick. They had to back down considerably, and this \$30 million helped them in their way of dealing with it. I'm not supporting that method, I am attacking it, and therefore I am not supporting any suggestion of reworking statements backwards. I'm just saying you should handle them the same way. That's not puritanical, although I don't for a moment reject the suggestion that I am looking for a pure way of dealing with accounts.

MR. CRAIK: Well, Mr. Chairman, I think then Mr. Cherniack has really underlined the one point that I attempted to make and that is that his first goal is to prove that there was X-amount of money that should have been attributed to a different year, and he's now saying that within the broad scope of what's called normal accounting practices he wants to find enough examples to justify his case.

MR. CHERNIACK: I've found them.

MR. CRAIK: So he is going to spend his time trying to do that, and we're going to have a great impasse because I am going to find just as many examples in history, throughout his administrative where exactly the same procedure was done . . .

MR. CHERNIACK: No, you won't.

MR. CRAIK: . . . and this is why the term "normal accounting practice" . . .

MR. CHERNIACK: No, you won't. You won't find an expenditure in account payable.

MR. CRAIK: . . . is used.

MR. CHERNIACK: Do it. Don't . . . Do it; you've had time.

MR. CHAIRMAN: Any further questions on this item? Any further questions on Page 19? If not, Page 19—pass; Page 20 — Mr. Wilson.

MR. WILSON: I'd like an explanation for the large decrease in that one item? Is that because it was a split year? The item \$163.5 million, an 80.7 decrease — is there any reason why from one year to the other there would be such a spread in the borrowing?

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: That's explained in the next paragraph. There is \$127 million revenue that was net out because of the difference in accounting application.

MR. WILSON: That's fine.

MR. CHAIRMAN: Any further questions on Page 20? If not, Page 20—pass; Page 21—pass. P

—pass; Page 23 — Mr. Wilson.

R. WILSON: I would just like to have Mr. Ziprick — I think I know the difference — if he could plain the difference why the former Minister of Public Works would put the vehicle fleet replacement program under Capital Funds. Is it because there was a large number of replacements that particular ar, or what? The item is under Department of Public Works.

CHAIRMAN: Mr. Ziprick.

J. ZIPRICK: Yes, I don't know the reason for it. There was no money placed in the Revenue estimates so the replacement was carried out from the Capital Estimates.

I. WILSON: That's not unusual, is it?

I. ZIPRICK: Oh, it's been done before.

I. CHAIRMAN: Any further questions on Page 23? If not, Page 23—pass; Page 24—pass; Page —pass; Page 26 — Mr. Wilson.

I. WILSON: I studied with interest, I believe these would be the comments of Mr. Ziprick's department, and at one time I had attempted to bring several abuses to the government pertaining Student Aid for people that were in an extremely affluent position, and what have you, and I was told that it was a federal responsibility and the reason that no one had ever been brought court was because it was a federal responsibility and there didn't seem to be any interest on half of the province to prosecute or bring these cases to court. I believe there was only the one from out in the country that had ever got to court.

I wondered, could Mr. Ziprick indicate — it seems to indicate from his comments here that under former government there was a very substantial number of people, students, friends of the government, or what have you, receiving aid that possibly shouldn't have done so and I wondered he could explain to me — has there been any change? Is less student aid being given out today than there was, say two or three years ago? And what are the reasons for that?

J. ZIPRICK: Well, I don't have the comparisons here before me as to the total of the aid but as far as the prosecutions are concerned, there's very seldom that you can prove intent and until you can prove intent, then you certainly cannot prosecute for various mistakes that can happen. Most of these overpayments were arising because the income that was originally declared on the declaration proved to be much less than was subsequently received and so if the individual didn't advise the department that they had received more income and there was no adjustment and if as subsequently discovered at any time, it became an overpayment. But that in itself, is not a crime and so attempts were made at recovering.

Over the years, there has been an attempt made to improve on the system and tighten it up and that process is still going on and we think that there's a big progress forward by demanding clarification of earnings after the student has completed working. I think that by this kind of process, overpayments could be reduced substantially.

I. WILSON: Well, could you then tell me just off the top, who qualifies for student aid, anybody attending an institute of education in the province? I mean, what I'm saying is, do out-of-province students and out-of-country students, as well as local people, qualify for student aid and what role does the province play in the audit sampling? Is that strictly a federal responsibility or are we involved?

J. ZIPRICK: No, as I understand it, all the applications that are made are made to the province. The province processes the application to determine whether the student is entitled to assistance or not and having determined that, then the assistance is paid and the federal government contributes in accordance with an agreement established with the province. That's my understanding maybe Mr. Miller, who was the former Minister, may have a better understanding of it.

CHAIRMAN: Mr. Miller.

MILLER: Mr. Chairman, as I recall, the criteria established by the federal government, their bursary and throughout Canada, it's administered through the province. The only variation is the extent bursary versus loan, but the combination as we did, we've combined the whole process and the determination as to how much would be considered low and how much would be bursary is left

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to the province, but the criteria are established by Canada itself apparently, as I recall, in discussion with all the provinces and then established levels are determined and from there it goes.

Mr. Wilson indicated something about foreign students or out-of-province students. The way operates really is that the students who are not resident of Manitoba, let's say a resident from Ontario they can apply through Ontario and qualify for the Federal Government's Student Loan Program even though they may be attending a Manitoba school, but that would be totally federal money.

MR. CHAIRMAN: Mr. Wilson.

MR. WILSON: The question I wanted to ask is: If the Federal Government picks up the entire cost of out-of-province students, then would the Federal Government cost-share the expenses involved in the monitoring and the enforcement of collection of the outstanding student loans, or is that solely a provincial responsibility? Is there any cost-sharing formula for, say the provincial legal staff be involved in the collections of these moneys?

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: I can't be certain but I think that it's purely a provincial responsibility, administration is purely a provincial responsibility, but I can't be positive on it.

MR. CHAIRMAN: Mr. Blake. Use the microphone, please.

MR. DAVID BLAKE: If we've finished that item, Mr. Chairman, I just want to move down one of the Auditor's comments on the financing of school divisions. We've discussed this — (Interjector) Oh, all right. Yes, go ahead then, I'll wait until we get down to the next one then.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: The paragraph dealing with post-secondary education and shared-cost claims I want to more fully understand what is said. I believe that this paragraph says that there was \$15 million of moneys payable by the Government of Canada for the year ending March 31, 1977 that is the fiscal year prior to what he's dealing with — which had not yet been paid. Is that correct?

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: Well, the agreement expired as at 31st March, 1977, so all these claims that I have been established and are being worked on all pertain to that particular period but there are claims that were worked on during the fiscal year of March 31, 1978, and some of them are still being worked on.

MR. CHERNIACK: Yes, so that again, it doesn't disagree with my statement. I'd like it confirmed that there is \$15-20 million payable by the Government of Canada for shared-cost moneys expended by the Provincial Government prior to March 31, 1977.

MR. ZIPRICK: That's right.

MR. CHERNIACK: That's right. And none of that had been paid, I assume, the \$15-20 million not been paid in the fiscal year we're dealing with.

MR. ZIPRICK: That's right.

MR. CHERNIACK: So that it was known that a minimum of \$15 million and up to — it could be as high as \$20 million — of moneys due from Canada for programs prior to March 31, 1977, yet to be paid and I assume, when paid, will be shown as revenue for the current fiscal year or the next fiscal year if it's not completed by then, is that correct?

MR. ZIPRICK: That's right.

MR. CHERNIACK: Then I ask Mr. Ziprick: Could this have been set up as an offsetting account from the \$30 million that the government did set up as being deductible by Canada in this year?

MR. ZIPRICK: Only on some form of an estimate because none of these were established to the point where Canada agreed that these were the amounts. The reason that we'd put it in here is more as a matter of information in that the agreement has now expired and we wanted to indicate to what extent there is finalization going on to clean up this agreement. But none of these were finalized to the point that Canada agreed because once it's finalized and they agree, then they send the money across.

MR. CHERNIACK: Two points, Mr. Chairman. Firstly, does Mr. Ziprick agree with the estimate of the minimum of \$15 million? — No. 1.

MR. ZIPRICK: That's our assessment; there would be at least \$15 million.

MR. CHERNIACK: No. 2: Reverting back to what was said earlier, does Mr. Ziprick operate on the basis that the amount is not settled until it's paid, or does he operate on the basis that the amount can be settled and will be paid?

MR. ZIPRICK: Well, as far as the accounting procedure, we were always operating in the revenue vision, on the basis that it's not taken into revenue until it's paid and that's the policy that is followed.

Now I personally have expressed a view that I would prefer an accrual arrangement — and I'm not advocating a broad accrual arrangement with all — outsiders but purely with Canada because of the complexities of cash flow and the difficulties that can be encountered in making a presentation. Now if we were on an accrual arrangement, yes, this definitely could be set up. They were sufficiently firm enough that this amount could be set up and we could certify to it that it would be finalized.

R. CHERNIACK: Well now, Mr. Ziprick, you say you don't agree with an accrual for revenue. What is the way you put it?

R. ZIPRICK: No, I would suggest an accrual for revenue and expenditure, but we don't do very much expending for Canada. So really all our interaction, or most of our interaction with Canada is on the basis of revenue and I would suggest that we work on the basis of the best known position at the time the accounts are closed that we determine it and establish it on an accrual basis — and that is with Canada only, not in general with all the various taxpayers and that — cause that gets into an exercise that wouldn't prove that much because most of them are not that significant. But in a cash flow with Canada, we can run into very significant amounts being hung from one year to the other, just purely in change of Canada's cash flow policy.

MR. CHERNIACK: So, Mr. Ziprick, do you agree with me that this minimum of \$15 million could have been shown as an offset against the \$30 million which was deferred by the government?

MR. ZIPRICK: If we were working on an accrual basis of accounting, that's how it would be handled.

MR. CHERNIACK: May I ask Mr. Ziprick, how it will show in his accounting for this current year? Would not that \$30 million be shown as revenue to the province?

MR. ZIPRICK: The actual receipts from Canada will be reduced by that \$30 million as they're being sent across. So that the net amount will be shown this year.

MR. CHERNIACK: No, I wonder if that's correct, Mr. Chairman. If Canada should pay \$100 million to the province in this year but only pays \$70 million because of that 30 million being held back, would it not have to be consistent to show a receipt of \$100 million of revenue from Canada, not \$70 million?

MR. ZIPRICK: Now, getting . . .

MR. CHERNIACK: Well, what does Mr. Curtis say? Yes.

MR. CURTIS: Yes.

MR. CHERNIACK: Mr. Curtis agrees with me. So that in fact the \$30 million which was set up

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as an Account Payable, will indeed be added to revenue received from Canada in this current fiscal year.

MR. ZIPRICK: That's right.

MR. CHERNIACK: Yes. So that really whereas they show it as an Account Payable, really it's going to be shown as a payment to the province in this current year as if it came from Canada, and will increase the actual revenue received from Canada by 30 million?

MR. ZIPRICK: That's right.

MR. CHERNIACK: And that's the way it's going to be done. It was shown as a deficit — budgeted as a deficit — from last year's accounting, increasing the deficit from last year; it will be shown this year as revenue for this year and thus will increase the revenue received from Canada?

MR. ZIPRICK: That's right.

MR. CHERNIACK: Yes, and it would have been perfectly consistent if they were going to do the kind of forwarding of accounting to show that at least 15 million of that 30 million will yet be received from Canada and increase the revenue from Canada in this current fiscal year because of money that were payable from away back prior to March 31, 1977?

MR. ZIPRICK: Well, if you're working on the basis of a clean, accrual accounting with Canada that's the situation it would be in . . .

MR. CHERNIACK: Right.

MR. ZIPRICK: . . . that's the approach that I, personally, prefer. But it was not used consistently in prior years and it wasn't used consistently last year, and to that extent it presents difficulties.

MR. CHERNIACK: But again, are you aware of any occasion in previous years — any of them for 100 years — where expected reduction of Revenue from Canada is shown as an expenditure for the preceding year?

MR. ZIPRICK: As an expenditure? Well, last year it wasn't shown as an expenditure; it was just that the revenue was reduced but it was not shown on the expenditure side. . .

MR. CHERNIACK: A reduction of revenue?

MR. ZIPRICK: Canada's revenue was reduced. There had been . . .

MR. CHERNIACK: Is that the way it's set up in the books?

MR. ZIPRICK: That's right, that's right, it's not an expenditure item, it's a reduction of revenue. Am I not . . .?

MR. CURTIS: That's right.

MR. ZIPRICK: Yes, well . . .

MR. CHERNIACK: Where does it show that?

MR. ZIPRICK: Yes.

MR. CHERNIACK: And it's set up in a trust?

MR. ZIPRICK: And it's set up as . . .

MR. CURTIS: As an accounts payable.

MR. ZIPRICK: . . . as an accounts payable . . .

CHERNIACK: Thank you.

ZIPRICK: . . . or it's really a deferred item to be picked up in the next year.

CHERNIACK: Where does it show up, Mr. Ziprick? Isn't it shown as a payable?

ZIPRICK: Yes, it's shown as a payable but it's not shown as an expenditure for the year. It doesn't increase the expenditures.

CHERNIACK: It reduces the revenue.

ZIPRICK: It reduced the revenue.

CHERNIACK: Yes. There was money received but it's not shown as having been received.

ZIPRICK: That's right, that's right.

CHERNIACK: And it's set up as a payable for the following year?

ZIPRICK: That's right. **8MR. CHERNIACK:** And it will not be paid; it will be added to the revenue received from Canada this year?

ZIPRICK: That's right.\$

CHAIRMAN: Any further questions on this item of Post Secondary Education shared costs? If not, the next paragraph, Department of Education, Mr. Blake.

BLAKE: Yes, Mr. Chairman, I just wondered in view of Mr. Ziprick's expressed concern and recommendations over past years, if there is some improvement being shown in the rate that funds distributed to the various school divisions to eliminate the need for bank borrowing at the local level — which affects the local budgets considerably and of course reflects on the local payers.

CHAIRMAN: Mr. Ziprick.

ZIPRICK: There has been no change in policy as yet to my knowledge, and the Minister of Finance had told me that he was considering it, so he would be the one to know if there's any change.

BLAKE: Fine. I wonder, Mr. Chairman, then if the Minister could maybe comment on this particular item?

CHAIRMAN: Mr. Craik.

CRAIK: Well, it's under active consideration and with the different parties involved here, it's taken some time to work out and work through the municipal people as well as the school's people, to get some meeting of the minds on it, but I would trust we can bring it to some sort of better solution than has been practised and has been pointed out by the Provincial Auditor now, in some time.

It's not without its difficulties because of the cash flow periods in which this happens to try and equalize it, and also the provincial advancement of funds, to minimize the spread between the borrowing and the investing rate, which is causing the difficulty. So it's still under active consideration. We hope to find a better solution than what has been practised.

BLAKE: Thank you, Mr. Chairman, that's fine.

CHAIRMAN: Mr. Cherniack.

CHERNIACK: Well, Mr. Chairman, we're really talking about moneys that flow between three levels of government and because of the flow not being quite as exact as it might be, there is borrowing from the bank at a rate higher than the benefits received by those who are late in paying. In other words, if a municipality has money which eventually will be paid to a school board, then

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that municipality may invest that money at a rate of interest lower than the school board has pay. So it's the differential that we're talking about.

On the other hand, if the municipality doesn't have the money, then if the school board had to borrow it and says, "Here, pay us our money", then the municipality won't have to borrow and pay it to the school board, which means that the taxpayer would be paying it, in any event that it has to be borrowed somewhere and I suppose the same applies to the province.

Under these circumstances, Mr. Craik says "it's under active consideration and the matter dealing with other bodies," I'm wondering if the extent to which it's necessary to even discuss with the school boards or the municipalities, if the province decides in its wisdom, to accelerate the payments. Isn't that a unilateral decision by the province?

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Well, the province could tailor its payments to even the thing out across the file that's a possibility.

MR. CHERNIACK: Yes. So that's the unilateral decision, isn't it?

MR. CRAIK: If we go that particular route and just use that as the solution. We're not at the point yet though of having enough information on the cash flow pictures for the municipalities as opposed to the school boards to determine whether or not there can't be some better mechanism of transfer between the municipalities to the school boards before making that move by the province. So we're really dealing with, really, the municipal interests here as well as the school interests.

If the province could solve it unilaterally, I suppose you could still end up with the problem of the municipalities, though, would have money in the bank and the province had overfilled the bank in advancing to the school boards, and that's what we're trying to avoid.

MR. CHERNIACK: Well, Mr. Chairman, I'm now looking at the last paragraph which is on Page 27, dealing with this item, where Mr. Ziprick points out that, "Municipal Corporations require the permission of the Municipal Board". I don't think that's correct for Winnipeg, for half of Manitoba. I don't think that's a correct statement. I may be wrong, but I don't think that the Municipal Board has to give permission to Winnipeg, but regardless of that it seems to me that Mr. Ziprick is implying that the school boards ought to come under a supervisory body such as the Municipal Board. That's a correct interpretation?

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: No, I would personally sooner see that they follow the same procedures, or be placed under the same constraints as the universities, in that the only amount that they could borrow without the province's permission is to the extent of their working capital that they know that they are going to be receiving within a year, but any longer term borrowing, that they obtain approval from the province.

MR. CHERNIACK: Well, Mr. Chairman, since unlike the universities whose boards are established by legislation and by the government's appointments, the school boards are elected just as members of the Legislature and the members of the Cabinet. In the light of that I would ask Mr. Craik whether he agrees with the suggestion by Mr. Ziprick, that there ought to be some kind of limitation placed on school boards, as there appears to be with universities, and I ask that I be under the impression that the province picks up the tab on the capital expenditures — I believe that's correct — that the costs are added into the foundation program; I don't know. If they don't, then Mr. Craik would have possibly a different view and as a former Minister of Education, he would have a better — Oh, I'm sure he has a better knowledge than I have of it. What is his reaction to this suggestion?

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Well, I'd agree that there is a difference; one is an elected group and responsible to their electorate for a portion of their expenditures — the capital does come entirely under the Provincial Government — but there is a difference between an appointed body and an elected body which has to come into the picture.

I don't think, on that point, I really would want to make any further comment at this stage. Mr. Ziprick has made this comment before and it's certainly a valid point of view. I haven't any further comment at this point as to agreement or disagreement with it.

R. CHERNIACK: Mr. Chairman, that's fair enough, and this is not the question of the interest that was raised in the earlier paragraph, but can we expect one of two things, that Mr. Craik will, due course, announce a policy in regard to this second paragraph that will either satisfy or not satisfy Mr. Ziprick, to the extent that we will either have a variation in this comment or will it just continue? You know, there seems to be a disagreement by Mr. Ziprick of the existing situation and I like to know whether the Minister intends to clarify it or whether Mr. Ziprick can be satisfied by other way.

3. CRAIK: On the schools versus the municipal question in the earlier . . .

3. CHERNIACK: Yes, this second paragraph dealing with capital expenditures by school boards.

3. CHAIRMAN: Mr. Ziprick.

3. ZIPRICK: Well, I noticed or observed an inconsistency in control over credit in that municipalities are elected bodies, they raise the money and they are controlled to the extent that they cannot borrow except going through the municipal. Now, the City of Winnipeg point that you said, I think it's been changed fairly recently, so I don't think that they come under now, I agree; but all the other municipalities still come under that control and I think there has been something placed in the City of Winnipeg, that they're not completely free, but I'll take a look at that. But I observed that there was an inconsistency that an elected body, the municipality, is under a much more strict control than another elected body, the school board; so I point this out. Now, after the government and the Legislature have reviewed the situation and they feel that the control mechanisms that are in existence are adequate and no further action is needed, I will not pursue the matter. I just bring it more as an observation of inconsistency so that if difficulties did arise that I could point out that I did observe that inconsistency, and have pointed it out, and after due consideration the government and the Legislature in their wisdom decided that that's how it should continue and I would not take any further issue with it.

1. CHAIRMAN: Mr. Miller.

1. MILLER: Mr. Chairman, to Mr. Ziprick. Reading the paragraph here with regard to the loss, you put it, to the taxpayers of up to .5 million — a half a million — that's the difference between borrowing costs on the part of the school board and the lending rate of the province, let us say, or the municipality. However, you're lumping province and municipality together here and, as I first read it, it seemed to me that the province could somehow correct all of this. You're in no position to indicate how much of the shortfall in revenue, the cashflow to the School Boards, how much of that is because the municipalities between January and maybe June when their tax bills come up, also don't have the funds, and that instead of the School Board borrowing, if the municipalities were required by law to make monthly payments whether they had the money or not, that the municipality would therefore have to go out on the market and go to the bank and borrow the money, in which case the interest would not show up as a School Board cost but would show up as a municipal cost. But would it really make that much difference? It's the same group of people. The same taxpayers would have to pay that interest rate.

1. CHAIRMAN: Mr. Ziprick.

1. ZIPRICK: In taking a look, there is some element of that and without having access to all information in any conclusive way I cannot make any definitive observations, but there is some element of what you're saying. But I think that this can be easily resolved if the money flowed to School Divisions on the basis as it flows to the municipalities. The municipalities raise taxes and collect and as it's being received, if the money was sent across at approximately the same time as it's being collected, well then there would be another way of determining as to whether it would be advantageous for the schools to borrow or the province, and the province can adjust their cash flow to fill in. So I can see a pattern could be developed whereby the money from the municipalities would flow as it was collected and the province would adjust their cash flow so that the schools wouldn't have to . . . Provided they were staying within their budget, they wouldn't have to raise money by way of bank loans at all. On the other hand, if it was felt that a certain amount would be raised by them and the province would, in its cashflow, not fill in that shortfall, then it would be a policy decision.

MR. CHAIRMAN: Mr. Miller.

MR. MILLER: Well, Mr. Chairman, there are many municipalities that do have to borrow in the months, as I say, between January and the end of June. Some do have reserves and they can back on that, but others do have to borrow and they are always dipping into the bank, particularly towards the latter part in the Spring. So that whether they borrow it or the School Board borrow it, I suggest that the suggestion here is somewhat misleading. It was to me when I first read it because by reading it you would think that the province could somehow resolve it all and the municipalities were sitting on bags of money, which they were not turning over, but in fact I suspect that a study of the municipalities in Manitoba would indicate a fair percentage are borrowing to operate in that period, prior to the tax bills going out and the cash flow coming back in before the par date.

MR. ZIPRICK: Well, first of all, how the money flows is the province's responsibility because the province directs for regulation now as to how the money is to be sent along. So it's a provincial decision. As far as money in the earlier period of the year, there isn't that much. But at the end of the year, the municipal summaries show very, very substantial amounts of cash on hand, in millions, much more than the amount payable to schools and in the meantime the schools are borrowing this money. So that this is what we are pointing out.

MR. MILLER: Mr. Chairman, December 31st, indeed, the municipalities show an excess of funds but they still have to operate until next June before any cash flows from the tax bills — and some of them even later, some of them until August. And I'm suggesting that the municipalities request that money to fund their operation from January to July or August. It's true the province, by regulation by statute, orders the municipalities to pay moneys at certain times of the year but if that cash flow is increased or hurried in any way, then I suggest that the municipalities, which may show a beautiful picture at December 31st, if you struck their balance on May 1st you may find them in a deficit position and any funds that were paid to the School Board would simply have to be made up by bank loans by the municipalities. However, this can be, certainly, broken out because Mr. Ziprick has access to all municipal accounting, and it's a problem that has been with us for many years. I think regulations were amended in 1975, which I think improved the provincial cash flow position somewhat and I'm not sure that the problem can entirely be resolved, but certainly if the Minister of Finance says he is looking at it then we will wait to see how he can resolve the problem to the municipalities' satisfaction and the School Boards' satisfaction and the provincial Finance Department's satisfaction.

MR. ZIPRICK: Yes, that's fair.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: I really feel I would like to make a comment on this, because I think Mr. Ziprick has got hold of something he doesn't know how to drop it. I don't think that it's really of the kind of moment that deserves as much attention as he is giving to it and as a result of his raising the question others are. The \$5 million estimate that he makes is merely a calculated estimate, based on the cash flow that he believes takes place within the School Boards, and he gives the figures on what he arrives at it. The total interest that they paid out was \$5 million, and he says, "Well, 10 per cent would be the differential between what they pay and what they receive." But we also know that there are certain benefits that are derived and, for all we know, the province or the municipalities are able to do a better job in borrowing and cut down this differential. I don't think it's so great. I think that it's something that the department should be looking into and dealing with it, but when one looks at the amount of time that has been and will be spent on these calculations, I don't know if it's worth \$5 million because I think the \$5 million is an outside figure. I don't know this, is it possible that the municipalities could be lending money to the School Boards to tide them over this kind of a period of time and getting a rate of return that is greater than what they would get from the bank? I don't know. Is there benefit to the province of delayed payments which is that? I don't know, but I'm just not sure that it's worth all this detailed review and investigation year after year, after year. Maybe Mr. Ziprick can be satisfied by the Minister of Finance, who is now conducting some active review, but I'm guessing, unless he changes his mind, it will be a year after year after year.

MR. ZIPRICK: I think that just purely from an allocation of cost accounting point of view, it's absolutely unreasonable to suggest that to pay the teachers' salaries and the expenses that cost every taxpayer of Manitoba \$5.00 a year to look after that, that's obviously loading costs on the schools that properly do not apply, if we associate the taxes that are being paid as being paid

to take care of the school costs. To me that kind of a charge is absolutely unreasonable and could not be justified within a cost accounting system of incurring that kind of cost to look after the teachers' salaries and other school expenses for the year.

R. MILLER: Well, what you're basically saying, Mr. Ziprick, is this: If you put it in the context that you're putting it, then what you're saying is that the municipalities and the province should increase the amount of taxation through the special levy, through the provincial consolidated fund or the Foundation Program, should increase it, taking into account that there might be this requirement to borrow on the part of the School Boards and they should, by looking ahead, say, "Well, we can save in the long run \$.5 million," your outside figure, "and therefore tax more in the current year and levy more in the current year, to set up a fund for the purpose, really, of obviating the need for bank borrowing."

R. ZIPRICK: No, I'm not saying to tax more.

R. MILLER: In one year.

R. ZIPRICK: These costs are already built into the tax system, and the taxpayers are paying them on an ongoing basis. Now, when the taxpayers are paying their taxes on an ongoing basis, basically they're not in arrears, and these are to defray these school costs. To me a \$.5 million charge for working capital and running their school costs is completely unrealistic.

R. MILLER: Half a million.

R. ZIPRICK: No, \$5 million. —(Interjection)— Well, that's the saving, but the actual operating costs of School Divisions for working capital is \$5 million, to pay their current expenses. Now, under that basis we have got to conclude that the cash flow is slowed up from the taxpayers to flow that is being paid in to take care of these costs has been slowed up and as a result this cost is inflated. And to that extent, to me it's unrealistic.

R. CHAIRMAN: Mr. Cherniack.

R. CHERNIACK: So, Mr. Chairman, what Mr. Ziprick is saying is remove the \$5 million cost from School Boards who turn over . . . How many hundreds of millions of dollars do they turn over? you know? Is it a billion?

R. ZIPRICK: Oh no, roughly around 300 million.

R. CHERNIACK: All together?

R. ZIPRICK: Yes.

R. CHERNIACK: That's all the schools together in Manitoba turn over, \$300 million. So out of that, you would reduce . . .

R. ZIPRICK: \$341 million in 1978 — the total school turnover.

R. CHERNIACK: The total school turnover. That's special levy and moneys received . . .

R. ZIPRICK: Yes, all their school turnover.

R. CHERNIACK: So, of that they will reduce that by \$5 million and then, according to your own estimate, the province and municipalities will increase their costs by \$4.5 million, at least. Isn't that correct?

R. ZIPRICK: Well, the allocation, I'm not sure. There may be a certain amount of cost that should be dealt with the School Division, but because the taxes in the municipalities, there is some delay, although most of the taxes are prepaid anyway. So even there, it's questionable.

R. CHERNIACK: But even there, Mr. Ziprick, there is \$5 million being expended. You say \$4.5 million is moneys that would be attributable to late payment by the municipalities in the province. Therefore if you reduce the \$5 million from the School Boards, you have to increase at least \$4.5 million, according to your estimate, of the expenditures of both the municipalities and the

MR. ZIPRICK: That's right.

MR. CHERNIACK: Yes. All right.

MR. CHAIRMAN: Are there any further questions on the Department of Education? If not, I
26—pass.

Before we adjourn, there was a question raised at the beginning of the meeting today concerning the composition of this committee and the Clerk has advised me that in 1977 for the Fourth Session of the 30th Legislature there were 12 members of the Public Accounts Committee, of whom 7 were government members, 4 from the official opposition and 1 Liberal. For 1978, the Second Session of the 31st Legislature, there were 11 members of this committee, of whom 7 were government members and 4 opposition members.

MR. CHERNIACK: Mr. Craik should take that to heart, because they changed the proportion against the opposition.

MR. CRAIK: I think the committee decided that, Mr. Cherniack.

MR. CHERNIACK: The non-partisan committee.

Mr. Chairman, I'm glad we got that report because, seriously, and I'd ask Mr. Craik to look about it, when the opposition gives a member from its caucus to the chairmanship, which is a policy which I think was established under the former government, in this case actually it means the proportion 7 active members of the committee from the government and 3 from the opposition. I don't know whether that isn't a matter that should be looked at as being not right. Maybe the chairmanship ought to be changed and that way have a greater proportion; the burden distributed amongst the opposition. Anyway, it's a matter . . . we have no control.

A MEMBER: I think that would be unanimous.

MR. CRAIK: I think we should have a vote of confidence in the Chairman.

MR. CHERNIACK: You like that.

A MEMBER: I second it.

A MEMBER: You don't need a seconder.

MR. CHAIRMAN: Is it the will of the committee to move onto the Department of Finance? It's 20 past 12 and I've had an indication that the committee does not wish to continue this afternoon. Can that be confirmed? Mr. Craik.

MR. CRAIK: Yes. There'd be a desire from the point of view of a number of us to not sit this afternoon, so whatever he wants to do with regard to the termination time, it's up to the committee.

MR. CHERNIACK: Mr. Chairman, I do have some questions to raise under the Department of Finance so that I . . .

MR. MILLER: Well, is it the suggestion that we adjourn at 12:30, that we call it a day at 12:30 or at 1 o'clock.

MR. CRAIK: That suits fine. Mr. Miller asked earlier about further scheduling before the end of the year, it won't be possible to have a meeting before the end of December. It's possible that all depends on when the session of the Legislature is, I suppose — but it's possible that we may not sit again until that time and that depends on when it would be called, I presume, but we may be able to sit again in January; we may not sit until early February as far as the schedule goes now.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: There are 5 pages on the Department of Finance. That doesn't mean that all are interconnected or inter-related but I doubt if we can do it in half an hour, but I'm v

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to try, Mr. Wilson is anxious to continue. But it should take some time because the first part deals with the whole Estimates' review and the work of this committee. I wouldn't like to feel rushed about it but by all means, it's up to the members.

MR. CRAIK: Just gathering from those comments, Mr. Chairman, I don't know whether this was the part that Mr. Wilson wanted to dwell on, it sounds like you wanted to dwell on it in a fairly lengthy sort of a way. We can get started into it. It doesn't make any difference to me whether we go to 12:30 or 1 o'clock; it's up to the committee.

MR. CHAIRMAN: Well, shall we go along until 1 o'clock and see how far we get? Mr. Parasiuk.

MR. PARASIUK: I move adjournment.

MR. CHAIRMAN: Adjournment has been moved. Is that agreed? Agreed and so ordered.

ADDENDUM

PUBLIC ACCOUNTS COMMITTEE MEETINGS
INTER-DEPARTMENTAL MEMO DECEMBER 12, 1978

To: Members of Public Accounts Committee:
Hon. Messrs. Cosens, Craik,
Messrs. Blake, Cherniack, Einarson,
Miller, Minaker, Orchard, Walding, Wilson.

From: W. K. Ziprick, C.A.,
Provincial Auditor.

REQUESTED INFORMATION

Enclosed herewith is the following information requested at the Public Accounts Committee meeting of November 24, 1978:

1. Fleet of vehicles serviced at the Provincial Garage.
2. Particulars concerning certain funds held in the Special and Trust Division of the Consolidated Fund.

(Signed)

W. K. Ziprick, C.A.,
Provincial Auditor.

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FLEET OF VEHICLES SERVICED AT THE PROVINCIAL GARAGE

PUBLIC ACCOUNTS INFORMATION REQUESTED

As requested at the Public Accounts Committee on November 24, 1978, particulars of the provincial fleet of vehicles are as follows:

The Construction of the Provincial Garage commenced during the fiscal year ended March 31, 1947 and was completed during the fiscal year ended March 31, 1948. Government Agencies' vehicles were also serviced in the Provincial Garage up to and including the fiscal year ended March 31, 1961. Since 1961 the vehicles of only the smaller government agencies have been serviced by the Provincial Garage and are included as part of the provincial fleet.

<u>Fiscal year</u> <u>ended March 31st</u>	<u>Fleet size</u>		<u>Total</u>
	<u>Prov.</u>	<u>Agencies</u>	
1948	350	325	675
1949	407	425	832
1950	453	496	949
1951	474	551	1,025
1952	491	612	1,103
1953	513	613	1,126
1954	532	637	1,169
1955	557	653	1,210
1956	563	672	1,235
1957	610	742	1,352
1958	668	754	1,422
1959	736	793	1,429
1960	878	807	1,685
1961	920	825	1,745
1962	927	-	927
1963	934	-	934
1964	973	-	973
1965	1,028	-	1,028
1966	1,097	-	1,097
1967	1,172	-	1,172
1968	1,363	-	1,363
1969	1,450	-	1,450
1970	1,478	-	1,478
1971	1,579	-	1,579
1972	1,805	-	1,805
1973	1,847	-	1,847
1974	2,016	-	2,016
1975	2,163	-	2,163
1976	2,287	-	2,287
1977	2,365	-	2,365
1978	2,415	-	2,415

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PARTICULARS CONCERNING CERTAIN FUNDS HELD IN THE SPECIAL AND TRUST
DIVISION OF THE CONSOLIDATED FUND

PUBLIC ACCOUNTS INFORMATION REQUESTED

As requested at the Public Accounts Committee on November 24, 1978, explanations of trust balances re Reserves, working capital and other sundry accounts as at March 31, 1978 are as follows:

1. Manitoba Health Services Commission - \$23.4 million

This account is used to record receipts from Canada under cost shared programs. An amount of \$12.8 million was allocated from the Province's revenue to this account as explained in the Provincial liability to the M.H.S.C. as disclosed in the Public Accounts, Note 1(b) - page 26. From April 1, 1978 to October 31, 1978 the M.H.S.C. has drawn \$16.4 million and \$5.3 million has been credited, being receipts from Canada under cost shared programs, leaving a balance in the account as at October 31, 1978 of \$12.3 million. No interest is paid on this account.

With the establishment of "block funding" effective April 1, 1977, the only credits being recorded in this account after April 1, 1978 are the clearing up of prior year claims and cost sharing receipts for programs not included in the "block funding" program.

The M.H.S.C. has drawn \$276.1 million of its appropriation of \$444.7 million to November 30, 1978.

2. Manitoba Hydro-Electric Board - \$5.7 million

This balance is the offset to the "Manitoba Hydro Contingency Reserve" of \$5.7 million shown in Schedule T2 on Page 22 of the Public Accounts. These investments were acquired by Manitoba Hydro when they took over the Manitoba Power Commission and Winnipeg Electric Company. These companies were required to maintain investments against their reserves. There is no requirement for Manitoba Hydro to maintain investments against its reserves.

The Province pays interest on the cash balances which are periodically paid out to Manitoba Hydro.

3. Manitoba Crop Re-Insurance Account - \$4.8 million

This account is required because of an agreement between Manitoba and Canada providing for reinsurance of a portion of the liability of the agency for the payment of indemnities under contracts. Refer to section 26(1) of The Crop Insurance Act Cap C310. The agreement requires the M.C.I.C. to make annual payments to the re-insurance funds maintained by Canada and Manitoba. Should the general reserve fund of the M.C.I.C. be depleted, these deposits would be available to the Corporation to cover indemnities.

There is no interest paid on these funds by the Province. The rationale used is that should Canada or Manitoba ever be required to make any advance to the re-insurance fund the agreement provides that no interest is to be charged to the fund. Therefore, no interest is paid to the fund on a credit balance.

School District Reserve Fund - \$3.6 million

This represents funds paid to the Minister of Finance by School Districts under section 215 of the Public Schools Act Cap P250. These funds are held by the Minister of Finance in accordance with section 216 of the Public Schools Act and the details thereof are set out on Pages 239 and 240 of the Public Accounts. These funds are being used to retire outstanding debt of the related school districts. School districts may withdraw any surplus funds not required to retire the related debt. The final debenture to which this fund relates matures in 1985.

The Province pays interest on the cash balances.

The Mining Community Reserve - \$2.7 million

This reserve was established under Part V of The Mining Royalty and Tax Act, (refer to sections 37-43 Cap M180). Funds from this reserve are used for the welfare and employment of persons residing in a mining community which is adversely affected by the total or partial suspension, or the closing down of mining operations attributed to the depletion of ore deposits.

Interest is paid on the reserve balance by the Province of Manitoba.

The following commitments were outstanding against this reserve as at March 31, 1978:

O/C 773/77 i) Manitoba Housing and Renewal Corporation re Community of Wabowden 11 annual payments of \$35,383.88 to December 31, 1988	\$389,223
ii) The Manitoba Water Services Board re Community of Wabowden 18 annual payments of \$14,754.40 to August 1, 1995	265,579
	\$654,802

Manitoba Lotteries Commission re Cultural and Recreational
Development - \$2.5 million

This represents funds received from the Lotteries Commission which have not been allocated as yet for cultural and recreational development. The particulars of this account are shown on Pages 218-220 of the Public Accounts. There is no interest paid on these balances by the Province.

Manitoba Crop Insurance Corporation - \$2.4 million.

This is the operating bank account of the Corporation. All receipts are deposited thereto and all disbursements are made through this account using the Province's central voucher processing system. The Province allows interest on the minimum monthly balance.

8. International Nickel Company of Canada - \$2.3 million

This amount represents a refund to the above company as the result of a court decision against the Province. These funds were deposited into the Trust Division pending disposition of possible appeals to the courts. This is commented on under the Department of Finance on Page 22 of the 1978 Provincial Auditor's report to the Legislature.

9. Manitoba Beef Producers Assurance Plan - \$1.8 million

This represents funds charged to Department of Agriculture appropriation III-1-b and deposited in trust because the Province's commitments were firm as at March 31, 1978 but the level of Federal subsidies was not known as at that date. Therefore, the payments were held up pending clarification of the matter. These funds were disbursed to the producers in July, 1978.

10. Court of Queen's Bench - \$1.2 million

This account represents the funds held in trust by the various Courts of Queen's Bench in Manitoba. The transactions are not processed through the Province's central voucher processing system. At the year end, an entry is made to reflect the activity in the account for that year. Interest is paid on the individual balances by the Province.

11. Manitoba Agricultural Credit Corporation - \$1.2 million

This account is the operating bank account for the Corporation. The Corporation's receipts are deposited in this account and all disbursements are made through this account using the Province's central voucher processing system. The Province pays interest on the minimum monthly balance of this account.

12. Law Society and Solicitors' Trust Funds - \$.6 million

This account represents the interest received on solicitors' trust accounts under section 30(2) of the Law Society Act which has not yet been allocated for the purposes of the Legal Aid Services Society of Manitoba, educational programs of the Law Society of Manitoba and costs incurred by The Law Society of Manitoba in the administration and enforcement of this section. The Province does not pay interest on this account.

13. Other - net - \$9.5 million

This represents all other sundry accounts not categorized under the other three main headings. Comments on balances in excess of \$.5 million are as follows:

- i) Page 224 of the Public Accounts shows miscellaneous trust funds on deposit with the Department of Finance and other Government Departments totalling \$108.3 million. The Workers' Compensation Board (92.6 million) and The Public Trustee (\$12.5 million) are shown separately leaving a balance of \$3.6 million. The main item therein is \$1.4 million representing funds held by the Department of Attorney General which represents funds held by various court officials and county courts, etc.

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i.	ii) Local Government District trust accounts.	.9
	This represents investments held for various L.G.D.'s. The Province pays interest on cash balances which are paid out annually to the L.G.D.'s.	
	iii) Manitoba Lotteries Commission - Fitness and Amateur Sport.	.6
	This represents unallocated funds and details of the transactions through this account are shown on Pages 221-222 of the Public Accounts.	
	iv) Sundry amount held for distribution re Fitness and Amateur Sport.	.6
	This represents monies received by the Advisory Council on Fitness and Amateur Sport as its share of lottery ticket distribution profits and is commented on in Note 2 on Page 222 of the Public Accounts.	
	v) Balance of sundry accounts less than \$.5 million in Schedule T4 on pages 23-25 of the Public Accounts.	3.8
		<hr/> 9.5
		<hr/> <hr/>

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ADDENDUM

PUBLIC ACCOUNTS COMMITTEE MEETINGS

INTER-DEPARTMENTAL MEMO DECEMBER 11, 1978

To: Members of Public Accounts Committee:
Hon. Messrs. Cosens, Craik,
Messrs. Blake, Cherniack, Einarson,
Miller, Minaker, Orchard, Walding, Wilson.

From: W.K. Ziprick, C.A.,
Provincial Auditor.

TRANSLATION OF FOREIGN CURRENCY

In accordance with a request at the Public Accounts Committee meeting on November 24, 1978, I am providing particulars concerning translation of foreign currency and my views thereon.

In September 1978 the Canadian Institute of Chartered Accountants issued a directive on translation of foreign currency applicable to entities preparing their financial statements in accordance with generally accepted accounting principles in Canada. The directive prescribes that bonds payable or other long-term debt is to be translated at current rates as at the date of the Balance Sheet. The foreign exchange translation treatment for debt payable would be an addition of the translated amount as at the Balance Sheet date to the debt payable with a portion of this amount being charged to operations for the year and the remainder shown on the asset side of the Balance Sheet as "Unamortized balance of unrealized exchange losses". In subsequent years the difference between the new amount of debt payable established at exchange rates as at the date of the Balance Sheet and the book amount would be added to or deducted from the book amount of the debt payable and of the unamortized balance of unrealized exchange losses. This adjusted balance would be amortized over the remaining life of the debt payable to determine the charge or credit to operations for the year with a corresponding entry in the unamortized balance of unrealized exchange losses account.

A variety of complex calculation methods can be used for calculating the amortized amount chargeable to operations for the year. Therefore, we have not determined for demonstration purposes to what extent the Province's foreign exchange translation of \$89.7 million applicable to debt serviced from the Consolidated Fund as at March 31, 1978 would have been charged to expenditure for the year and what remaining amount would have been shown on the Balance Sheet as unamortized balance of unrealized exchange losses.

Canada has changed its policy with regard to translation of foreign currency for its fiscal year ended March 31, 1978. The change in policy was explained in note 3(i) to its financial statements and the Auditor General's observation on the financial statements.

Note 3(i) to the financial statements:

"3. Changes in accounting practices

- i. Translation of assets and liabilities denominated in foreign currencies.

A change has been made in the practice of reporting assets and liabilities denominated in foreign currencies which are now translated at the year-end closing rates of exchange. Previously, such assets and liabilities, other than cash and short-term liabilities, were reported at historical values. Cash and short-term liabilities have always been translated at year-end closing rates of exchange.

This change has been made to introduce consistency in the translation of assets and liabilities denominated in foreign currencies and to reflect more accurately the current value of the financial claims and obligations of the Government.

This change has been reflected in the accounts as follows:

- Revenue has been increased by \$170 million, including \$162 million attributable to previous years, and \$8 million attributable to 1977-78;
- Assets have been increased by \$320 million, including \$255 million applicable to assets of March 31, 1977, and \$95 million to those of 1977-78; and
- Liabilities have been increased by \$150 million, including \$63 million applicable to liabilities of March 31, 1977, and \$87 million to those of 1977-78."

Editor General's observations on the financial statements:

"Change in Accounting Policy

As explained in Note 3(i) to the financial statements, all assets and liabilities denominated in foreign currency are translated to Canadian dollars at year-end closing rates of exchange, with any gain or loss recorded as revenue or expenditure in the year. In prior years, only cash and short-term liabilities denominated in foreign currency were translated to Canadian dollars at year-end closing rates of exchange, all other assets and liabilities denominated in foreign currency were translated at the exchange rates prevailing at the time such assets were acquired or liabilities incurred.

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"Change in Accounting Policy (continued)

This change in accounting policy, with which I concur, provides for a more current measure, in Canadian dollars, of those financial claims and obligations of the Government denominated in foreign currency."

It appears that Canada has not followed the C.I.C.A. recommendation Canada's accounting policy being on a "net debt concept basis," this is understandable. The C.I.C.A. recommendations do not apply because amortization is meaningless within this concept. Since Manitoba is adopting the net debt concept as stated by the Minister of Finance in the 1978 Budget Address, Pages 43 to 45, the same situation would apply. If Manitoba had followed Canada's policy for its fiscal year ended March 31, 1978, the pertinent restated amounts in the Public Accounts would be as follows (in millions of dollars):

Direct public debt:	
Per Balance Sheet	\$ 1,869.7
Foreign Exchange Translation	<u>260.4</u>
Restated Amount	<u><u>\$ 2,130.0</u></u>
Advances and Other Receivables:	
Per Balance Sheet	\$ 1,082.1
Foreign Exchange Translation applicable to Crown agencies	<u>170.7</u>
Restated Amount	<u><u>\$ 1,252.8</u></u>
Combined Capital and Revenue	
Division Deficit:	
Per Statement of Changes in Financial Position	\$ 191.3
Foreign Exchange Translation	<u>89.7</u>
Restated Amount	<u><u>\$ 281.0</u></u>

I have difficulty in rationalizing the reflection of the foreign exchange translation gain or loss through revenue and expenditure for the following reasons:

1. Under the net debt concept the "bottom line" represents the excess of expenditure over revenue for the year being passed on to future generations by way of funding from public debt proceeds. An addition to the expenditure of a charge arising from changes in potential future foreign debt liabilities departs from the aforementioned concept and is an attempt at measuring something undefined, incomplete and arbitrary. This arises because of the reflection of only one item, the change in potential future liabilities arising from foreign exchange translation, and not others such as a change in pension liability.

2. Furthermore, if one clearly defined and consistently applied this kind of an accounting concept, the fairness of the treatment of the foreign exchange translation in the public sector on the proposed basis would be questionable. The size of the foreign exchange translation gain or loss is mainly influenced by economic conditions. When the economic conditions are depressed, the charge to expenditure generally increases and the reverse position generally arises when economic conditions are favourable. It seems that an accounting policy which produces this kind of a result is inconsistent with reality. Such an accounting policy would seem to detract rather than add validity to the operating result. If anything, a more realistic position would be for charges to be reduced during unfavourable economic conditions and increased during favourable conditions.

Subject to any change in my assessment because of further information, I believe that the foreign exchange translation should be disclosed by way of a note to the financial statements. The note should show, on a comparative basis, the amounts of the foreign exchange translation as at the end of the fiscal year and at the end of the preceding fiscal year. The amounts of the foreign exchange translation applicable to the debt due and payable in each of the, say, three years after the Balance Sheet date should also be shown.

(Signed)

W. K. Ziprick, C.A.,
Provincial Auditor