



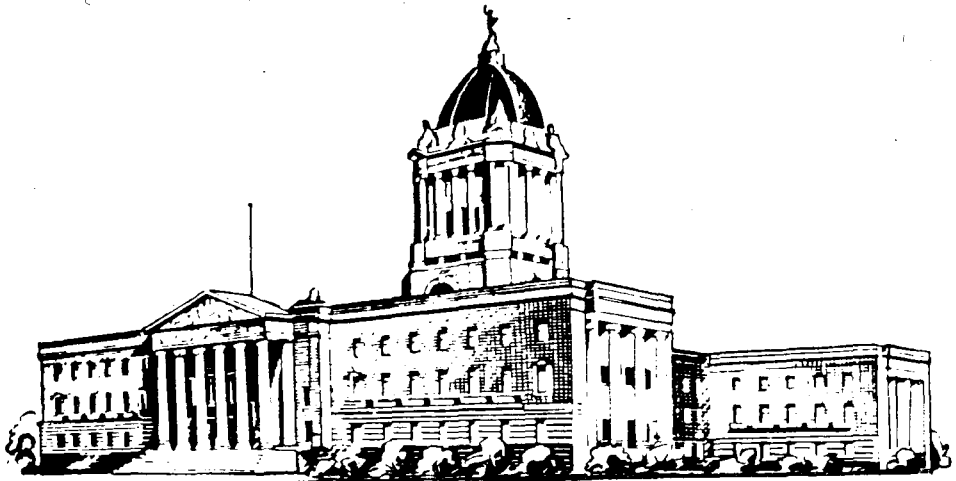
Legislative Assembly of Manitoba

HEARINGS OF THE STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

**Chairman
Mr. David Blake, M.L.A.
Constituency of Minnedosa**



10:00 a.m., Tuesday, March 25, 1975.

PUBLIC ACCOUNTS COMMITTEE
10:00 a.m. Tuesday, March 25, 1975

CHAIRMAN: Mr. David Blake.

MR. CHAIRMAN: Gentlemen, we have a quorum. I call the Public Accounts Committee to order. When the Committee rose last meeting, we were discussing the report of the Provincial Auditor and we were still on Page 1. I had two speakers on the list and a motion by Mr. Johnston had been held until the speakers had finished. I have Mr. Johannson and Mr. Spivak; and, Mr. Johnston, you want to be on the list right after that, eh? Mr. Johannson.

MR. JOHANNSON: Mr. Chairman, I'll pass right now. I can bring my questions up on a different page.

MR. CHAIRMAN: Very good. Mr. Spivak.

MR. SPIVAK: Well I'm not sure at this point why I asked for the floor but I gather it probably was a matter that was current at the time. I wonder, Mr. Chairman, at what page are we now?

MR. CHAIRMAN: We're still on Page 1 and we're finishing discussions prior to bringing in Mr. Johnston's motion.

MR. SPIVAK: Again I'd like to, if I may, put another question to Mr. Ziprick, and it's again - it's not hypothetical, it's real - with respect to McKenzie Seed, but I'm using it only as an example and I'm not talking about the specific case because it is a particular case in which additional information is now available. What I want to understand from him with respect to his function as he sees it in terms of the specifics or the specific power that he has, as an example, there is an announcement of an accounting error that is corrected, in which case the chartered accountants acknowledge that there was an accounting error, does he consider that sufficient to warrant an investigation by him or does there have to be some record of malfeasance or indication of some kind of wrongdoing before it would justify him requesting - because I guess he would have to request - the Finance Minister to give him authority to go in? Now how does he see his position in this sense?

MR. ZIPRICK: Well, I see my position in the case of a private company, and I would have no involvement of course if there was no provincial funds, but the moment that there's provincial funds going in it depends on what source they go in from. Now in this case the funds are going in through the MDC. Now we are the auditors of the MDC and so we look at the conditions under which MDC disperses its funds, and they have their investigators that go into these various companies and get information and feasibility studies and whatever have you, to determine that when they're advancing funds that there is reasonable control. During the course of the MDC audits, we look at the files on a test basis to see that the system is working and the controls are in effect. And if any time anything like this comes to our attention, that there's some difficulty in connection with an account that the government is involved in one way or another, we certainly take note of it and we would take a look at the sources where the money flowed from the government to see what's involved.

Now, as to our authority to go actually into the organization that's got the money, there we really don't have an authority. Now if I was very concerned and I felt that there should be a more in-depth investigation, I would certainly be recommending to the government that a more in-depth investigation be gone into, but whether the government would agree with that or not, I don't know, but I could not act on my own authority and move into that company. And so, you know . . . Now if that's compared with the Auditor General of Canada's position, then I am positively satisfied that he hasn't the same authority.

MR. SPIVAK: Well, it's not a question of comparing that authority. What I want to understand, and there really is a whole range of government-owned enterprises in which funding may come from either a direct government grant or from the MDC or from any other intermediary agency in which, insofar as the Provincial Auditor is concerned, even if there is some indication in the Legislature or through some public announcement or some action by a police force of something wrong, you would still have to request the Finance Minister the authority to go in. It would still be up to you to ask him for permission to go in to not necessarily audit, but even review the particulars of whatever the matter may be. Is that right?

MR. ZIPRICK: Well, the way it is now, the policy has been pretty well established and followed that anything that the government owns wholly, completely owns, we are the auditors and so there's no question, and then if there are any difficulties we're in there and we go in.

(MR. ZIPRICK cont'd) Now, anywhere that the government is involved but there are minority shareholders involved - and it doesn't matter how small - we have not been auditors, and in those cases that we are not auditors we do not move in and we don't have authority to move in, only with the permission of the government. That's the way the situation stands now.

MR. SPIVAK: So there would then have to be, in this case, some indication publicly of some information which would - whatever the information is - which would justify a request on your part to the Minister to be able to go in.

MR. ZIPRICK: Publicly or in the files that we examine of the agency that's intermediary to . . .

MR. SPIVAK: Or privately brought to your attention.

MR. ZIPRICK: That's right, or privately brought to my attention. That's right.

MR. SPIVAK: Thank you, sir.

MR. CHAIRMAN: Mr. Johnston.

MR. G. JOHNSTON: Mr. Chairman, with the concurrence of the Committee, I'd like to have my motion dealt with. Perhaps you should read the motion to refresh the members of the Committee, and I'll make a statement, and then get on with the debate.

MR. CHAIRMAN: Mr. Johnston is now introducing a motion that was given to us last meeting, and it reads:

WHEREAS in line with the recommendation of the Provincial Auditor to this Committee that departmental managers appear before Public Accounts Committee so that they could participate in providing accountability,

I MOVE that those departmental managers of organizations referred to under the section, "Comments on Specific Organization," Pages 18 to 26 inclusive, be called before the Public Accounts Committee for examination by the Committee.

MR. CHAIRMAN: Moved by Mr. Johnston and seconded by Mr. McGill.

MR. G. JOHNSTON: Mr. Chairman, I made the motion because of the fact that Mr. Cherniack had moved a motion which was approved by the Committee, to consider a report on a page by page basis, and if we did that - which is in order - then when we arrive at the Page 29 where the Auditor makes specific recommendations, we probably would not be able to institute the recommendations for the consideration of the whole report. For example, comments on specific organizations lists a number of government departments that operate either by loan or grant, or a combination thereof, of taxpayers' moneys, and in order that complete accountability be carried through, in line with the recommendation by the Provincial Auditor, I would hopefully like to have this motion passed now, so that when we come to that section of the Report we can have available to us the managers of certain organizations that are mentioned in the Report. This would give some lead time so as people could appear on a date desired by the Committee.

MR. CHAIRMAN: Mr. Graham.

MR. GRAHAM: Thank you, Mr. Chairman. Dealing with that same subject, I think that if this motion is passed, that it would be incumbent on the Committee to have a very realistic approach to this, and I would urge that if this is done that we would spell out quite clearly how many we would deal with in a certain meeting so that we would not have department heads coming and sitting and waiting and not being dealt with. I would suggest that, if this is passed, no more than two appear at any one meeting and we allot ourselves a specific time limit to deal with each one, so that they can be assured that we will deal with their affairs when the matter comes before the Committee.

MR. CHAIRMAN: Thank you, Mr. Graham. Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, there are two points I'd like to make. Firstly, Communities Economic Development Fund, I believe, reports to a committee of the House, and I believe that the Chairman of that Fund appears personally, as does the Hydro Manager or Chairman, as does Telephones and others. I don't know whether this Committee wants to go into a duplication of review, but I would not agree that that makes sense.

As to the others, they are more directly under departments themselves, and although in my experience this Committee has always had the opportunity to question the Minister of Finance, the Provincial Auditor, and, through the Minister of Finance, members of his department who can supply information, I think that it might be of some value that at the time we discuss these matters we invite the particular Minister responsible for whatever program

(MR. CHERNIACK cont'd) we are reviewing to be present with his staff. I do not believe that it is proper for a legislative - well, I don't mean "proper." This Committee has many powers that are built right into it to subpoena and examine witnesses, but I think that people who work within a department can be here to assist their Minister in responding to questions and discussions. The Minister is the responsible agent for each department. And just as I've had occasion in the past in this Committee in previous years to ask the Deputy Minister, or indeed one of his directors, to respond directly to Committee rather than through me, it still has been on the basis that the Minister is responsible to answer questions.

I would guess that we should not have a problem in having the Minister and his staff present during discussions on specific organizations that are mentioned Pages 18 to 25, as referred to by Mr. Johnston, but I would not myself support a proposal such as is in this motion with a blanket decision, "We will invite managers." I don't think that it's right to do so. I think that people work under the responsibility of the Minister; I don't know whether - and I've had discussions with the Provincial Auditor about it; this is one occasion where I've had disagreement with him on policy. I don't think that it's a managerial responsibility to appear before a Committee. It is a ministerial one, and indeed the Estimates include that kind of opportunity. The purpose of Public Accounts really is to equip, and the purpose for Order for Returns, if we really realize what an Order for Return is, is to equip a member of the Legislature with the information he needs with which to ask of the Minister what is going on in his department. And that's the way it should be used rather than on matters such as this.

Therefore I, for the two specific reasons - one is that another committee does deal with some of this, and the other that the Minister could well be present rather than people within his department, but they could be with him - would oppose this motion.

MR. CHAIRMAN; Mr. McGill.

MR. MCGILL: Mr. Chairman, speaking to the motion, I think it would be useful here just to review the terms of reference of the Standing Committees of the House, and I think they're appointed each year on the same basis, and Public Accounts is one of the Standing Committees which is appointed for the following purposes: ". . . and they shall be empowered to examine and inquire into all such matters and things as may be referred to them by this House, and to report from time to time their observations and opinions thereon with power" - and this is the point, I think, Mr. Chairman - "with power to send for persons, papers and documents and examine witnesses under oath."

I think the intent of the resolution clearly is to specify particular persons here that the Committee wishes to call before it, and the operative part of the motion specifies that those organizations which have come under special review and have suffered some critical comment by the Provincial Auditor, are listed in a certain part of his report and the motion would call for those specific people to appear before the Committee. And quite clearly the Committee has the authority now vested in it to call these people. So, Mr. Chairman, I think it's well within the powers and certainly the authority of the Committee to ask for these people to appear, and we're specifying the chief executive officers of particular organizations. I think this Committee should support the motion.

MR. CHAIRMAN: Mr. Johnston.

MR. G. JOHNSTON: Mr. Chairman, I respect Mr. Cherniack's line of thought, but if we were to carry it completely down the line to the way he intends departmental responsibility to be accounted for through the Minister responsible for that department, then we wouldn't even be sitting at this meeting talking to the Provincial Auditor, because the Provincial Auditor is reporting on matters in every department of government, and every department of government is responsible to a Minister. What I'm suggesting is that we take the Provincial Auditor's recommendation to examine certain departments where he feels he doesn't have the proper authority or the power. If I may quote the recommendation, or part of it, Page 29, the second paragraph - and I'll read the whole paragraph:

"At the last meeting of the Public Accounts Committee, a decision was made to direct the matters of Estimates review, etc., to the Special Committee on the Rules of the House for consideration and the possible implementation of a new system. We highly recommend a system along the lines explained in the preceding paragraphs. In my report to the Legislature last year we recommended that the departmental managers appear before Public Accounts

(MR. G. JOHNSTON cont'd) . . . " Committee so that they could participate in providing accountability for expenditures with regard to the administration of programs." And so on.

Now, if I may refer to another specific case on Page 19 on Comments on Specific Organizations at the top of the page, and this deals with the Communities Economic Development Fund, and I quote him, a part starting with the last line of Page 18: "Arrangements should also be made, before funds are advanced, for the appointment of an independent auditor, thereby making it possible for the auditor to participate in and to be consulted on accounting matters, etc., from inception. The auditor should also be required to report on the accounts to my office so that a regular procedure would be provided for an independent reporting to the government and the Legislature."

Now, Mr. Chairman, the fact that the Provincial Auditor says, the auditors should also be required to report on the accounts to my office, etc., means that the auditor in this particular department is not required to and there's no accountability, there's no accountability here. So I'm suggesting that we follow the recommendation and have these particular people account to this Committee.

MR. CHAIRMAN: Thank you, Mr. Johnston. Mr. Craik.

MR. CRAIK: Mr. Chairman, the motion results primarily from the recommendation of sorts from the auditor, as Mr. Johnston just pointed out here, so it would appear that it would have some virtue in perhaps asking Mr. Ziprick to indicate his feelings on the matter as well. He should be given the opportunity. In general terms these corporations are multiplying and we're getting more of them all the time, and by traditional standards a lot of them are fly-by-night organizations, operations; they have to be, there's too many of them showing up that way. Now it may just be that the auditor is not in a strong enough position to handle them and protect the public purse, so I would think perhaps there's darn good reason for asking that these people come before the accounts. I know that a lot of them do come before other committees, but we're asking here for those that are obviously in some sort of position where their financial administration should be examined more closely, and this Committee after all is responsible, not for the administration of the public money, but this Committee is responsible as a group of members of the Legislature to examine whether or not that public money has been administered in a satisfactory way. So I think that perhaps the auditor is protecting the public interest in doing this, and he's probably trying to tell us that with these types of companies where the government's getting involved with now in their efforts to develop a mixture of private and public sector through an injection of public money, we're in a whole new ball game and we perhaps should be looking at bringing people that are in trouble, in particular, have demonstrated their ability to get into trouble, to come to this Committee whether they're going to another one or not.

MR. CHAIRMAN: Thank you Mr. Craik. Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, I want only to deal with what has been raised, and the very last sentence by Mr. Craik would indicate that he wishes to have duplicate hearings going on. One in the committee whichever it is that deals with the Economic Development Fund and here. It means two separate committees dealing with the same subject matter, which even he should admit is a redundant operation. However . . .

MR. CRAIK: On a point of privilege, Mr. Chairman. I don't think they all go to committees.

MR. CHERNIACK: You mentioned the Communities Economic Development Fund

MR. CRAIK: Some of them do go to other committees, but they don't all go to other committees.

MR. CHERNIACK: All right it's clear that when he spoke earlier he spoke about a specific one. Other than that he talks about fly-by-nights --(Interjection)-- Well. I'm not going to enter into that kind of debate. I want to deal with points raised.

Firstly, Mr. McGill said that we had to realize the purposes of this Committee and then he didn't read the purposes but the powers. There's no question at all that this Committee has the power to summon witnesses but that's not its purpose. Its purpose is not to summon witnesses, its purpose is to hear the Report of the Provincial Auditor and discuss and investigate to its satisfaction the recommendations and the report that he makes. So it's not the purpose he read but the power. And nobody questions its power. The question is how does it

(MR. CHERNIACK cont'd) use or abuse its power. And I say that the opportunity that we've never had before that is available to us is to invite the Minister responsible for these respective departments when they are dealt with.

Now the next point is Mr. Johnston's and I'm not sure that I understood him clearly but I think he said that the Auditor General reports on all departments and therefore he may not be able to go beyond the Minister. Something like that, I wasn't clear but - well he's shaking his head so I'll drop what he said except to point out this: the Provincial Auditor is not accountable to any Minister or to the Cabinet. He's accountable to the Legislature only. Therefore he is not in any way unable to carry out his function because some Minister doesn't want him to. I think that has to be made abundantly clear, and if it isn't clear we should ask him again and again and again, as we've done in the last few years. He is not required to restrain from doing a proper audit on those departments and agencies assigned to his responsibility. He has power and authority, and when Mr. Johnston referred to Page 29 indicating that that would imply, the contents would imply, that he lacks power of authority, he's wrong.

He is talking about a method whereby he thinks this Committee can perform a function which he thinks it should perform. That's what he's talking about. He's talking about tools that this Committee can use in order to do what he thinks it ought to do. He is not saying that he lacks any power of authority or that this recommendation of his will give him any power and authority that he doesn't have. But I'm saying this in his presence because I think that I am right, and if I am wrong I expect him as a responsible servant of the Legislature to correct me. He has the authority actually to go into a department, he or his people in his department, to go into a department and to take records, look at records, examine people, talk to people, and indeed he goes further and makes recommendations, and every person to whom he makes a recommendation knows that if he is not in the end satisfied that he's getting proper information, that there's any obstruction, that he will then be in a position to hold them up to public light and report to the Legislature publicly that they have not responded to his requests. So I repeat again there is no problem as far as he's concerned.

In his report, Page 29, which I hope we'll discuss when we reach Page 29, is how the committee should operate, not that he has any restraints because it doesn't operate the way he recommends it. It does not affect him, that's my interpretation of what he said and if there's any doubt about it let someone ask him to clarify.

Now I go to Page 18, 19, pointed out by Mr. Johnston, and there is nothing there to indicate that the Provincial Auditor lacks an opportunity to do an investigation and therefore needs to have any examination carried on in this Committee. What he is recommending, and we discussed that last week, is that it would assist him if there were clearly an independent auditor appointed for funds for companies to which loans are made, where he does not do the audit, to require that that auditor give a report direct to him rather than to its shareholders, to assure him that there has been a proper accounting. I think that's a good recommendation, but that doesn't mean that we have to bring people here. He doesn't say that in this respect, nor does he indicate that he has any restraint or difficulty in doing his job. He's just talking about easing it. So that again does not relate to the motion before us, and that is that we bring people here.

It is clear to me why it is suggested that they be brought here. It is also clear to me what the Provincial Auditor means, and I believe that it's not for the purpose of cross-examining Mr. So and So about what were the defects in his operation. I think the Provincial Auditor knows what they are, and I believe that when we go to those pages, if we ever get there, we will find the Provincial Auditor elaborating on the problems he saw and the recommendations he has made, and the extent to which those recommendations have been acted on. We've stepped in here on Page 2, or is it Page 1, in order to, as Mr. Johnston said, to try and ease the way in the event that we decide later to invite these managers. I don't believe we should do that. Now it may be that when we get into Page 20-odd and we talk to the Provincial Auditor, that we become persuaded that we should have a person to come here to be questioned. But certainly at this stage I don't see the need, and I have not consulted with the Ministers involved but I have no hesitancy in stating I believe that they will be available to us with their staffs to answer questions. One of them is here, and I'm sure he will be here at the right time and he will bring whatever staff he feels best, sir.

One other thing. I have a note here. I wrote down Mr. Craik: Auditor not strong enough

(MR. CHERNIACK cont'd) position to protect the public purse. Mr. Chairman, we've been through this again. Mr. Craik says he's not in a strong enough position to protect the public purse. Mr. Ziprick has not said that.

MR. CRAIK: Mr. Chairman, I think it was in the form of a question.

MR. CHERNIACK: If he was . . .

MR. CRAIK: No I said that you could interpret that into it that the auditor may not be in the position to - well if he wants to read it he can read the Hansard when it comes out. -- (Interjection)--

This motion results from a statement made by the auditor in the report, and I think that that's one of the things that certainly can be read into it. The auditor goes in after the fact in all of these cases, which is the traditional role of an auditor to go in after the fact, and with the expanding number of cases that we're getting into where there are problems, one of the logical conclusions to draw is that these companies are in trouble before the auditor gets to them.

MR. CHERNIACK: Pardon me, Mr. Chairman. No, I'm sorry you're . . .

MR. CRAIK: Well, Mr. Chairman, I think that we have to find out why these companies are getting into trouble.

MR. CHERNIACK: Pardon me, Mr. Chairman, . . . I'm sorry, I'm still talking Don. You interrupted me, may I finish?

MR. CRAIK: Oh I was talking on a point of . . . replying to your suggestion that I said that the auditor was not in a position . . .

MR. CHERNIACK: . . . my note was that Mr. Craik said the auditor is not in a strong enough position to protect the public purse. It makes no sense for Mr. Craik or I to be debating an interpretation of what the auditor said when he is with us today, and he will be able to tell us. Now when we come to Page 29 where he talks about the procedures that he recommends to this Committee we'll find out. Or we can ask him now. I don't care which. But I think it's a fruitless exercise for us to be debating an interpretation of what was said by a person who is present with us today, and who is responsible to this Legislature.

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: Mr. Chairman, Mr. Cherniack was disappointed that I didn't read the purposes for which these committees were appointed.

MR. CHERNIACK: Not at all.

MR. MCGILL: The purposes are simply stated as Privileges and Elections, Public Accounts, Public Utilities, and Natural Resources. In other words, a listing of the names of the Standing Committees. I was more interested in the powers of the Committee to call persons before them to assist us in our examinations.

But, Mr. Chairman, I'm anxious to hear of course what Mr. Ziprick will say as to his ability to carry out these audits, and I think we'll find that perhaps one of the difficulties he has is that he's not able to, under his present terms of reference, to carry out a management audit, or an operational audit as it's sometimes called. Now this would be an audit of the management's competence or ability to carry out the policies of the Government in an efficient manner. And I think many of the criticisms that we're seeing in this report are related to this problem that we are not now getting from the Provincial Auditor a management audit, and until he has that authority then I think the only way in which we can examine directly and make our own assessment of the competence of the management of the various organizations that are using public funds, is to have them here in this Committee. And the purpose of this motion of course is to do that. I'd like to hear when Mr. Ziprick has an opportunity to contribute to this debate this morning, whether or not this is difficulty, whether or not his terms of reference do or do not include the authority to conduct a management audit.

MR. CHAIRMAN: Thank you, Mr. McGill. Mr. Spivak.

MR. SPIVAK: Well, Mr. Chairman, the best evidence we could have is that of Mr. Ziprick himself. He's accountable to the Legislature, and he accounts directly to this Committee and to the Legislature. A recommendation has been made. I think that it would be fruitless on our part to continue trying to interpret what he means. I think it would be very important that he be given an opportunity now to be able to address himself to an explanation, and whether this motion is in line with the explanation. And if it is, then I would believe that it would be incumbent upon this Committee to approve this motion.

MR. CHAIRMAN: I have Mr. Cherniack on a point of order.

MR. CHERNIACK: We have a motion before us. Mr. Spivak has invited Mr. Ziprick to comment, I think that would be useful, but I think the comments should be limited. I think we should ask Mr. Ziprick to restrict his comments to the effectiveness of the motion in relation to his work. That's the point that was raised. Because if we go into the whole question all over again about his work, and his approach, and his recommendations then we are skipping from Page 1 to Page 29 as contrary - well to some extent we've already skipped - to the intent of this Committee. So by all means I agree with Mr. Spivak, let's hear from Mr. Ziprick but let's not go beyond the motion, which is to bring certain specific, not named but identifiable people before this Committee, when we get to Pages 19, 20 whatever. That's the motion. And I think we should limit ourselves to the motion.

MR. CHAIRMAN: I have Mr. . . . were you speaking on a point of order

MR. JOHANNSON: Yes. Mr. Chairman, if we're following any kind of rules of order, and so far we appear to be pretty lax, by definition any debate must be confined to this motion. Any talk must be confined to this motion. Otherwise we may as well scrap the rules entirely.

MR. CHAIRMAN: I have Mr. Johnston down. Did you wish to speak Mr. Johnston before we . . . ?

MR. JOHNSTON: Well before I begin my comments I just remind Mr. Johannson that a Committee of this type is rather informal. There are no formal rules of debate other than courtesy and allowing everybody to be heard. So I don't think he need worry too much about that, but in addressing myself to the remarks that Mr. Cherniack made I'm willing to concede that the Communities Economic Development Fund people, it would be repetitious and also time consuming for both them and the Committee, and another Committee, to have them appear twice on the same subject matter. I'd be willing to accept an amendment to the motion that would have the Communities Economic Development Fund people answer at the - I presume they appear before the Economic Committee, is that correct? So I'm willing to be reasonable on that point.

But the other point that mystifies me is how two people can read the same report and talk about them and come to different conclusions. Mr. Cherniack said, I believe, that the Provincial Auditor has the power to go into every phase of a department, he already has this power and really he doesn't need any more. I would refer Mr. Cherniack to Page 19 and the second paragraph of the heading, Department of Co-operatives Development and the Co-operatives Loans and Loans Guarantee Board, the second paragraph:

"Under my legislation, my office has no responsibility with regard to the department's supervisory function of credit unions and co-operatives in which the Provincial Government does not have a financial commitment." And note this: "It is only with regard to co-operatives in which the Provincial Government does have a financial involvement that we examine files on a test basis as a regular audit procedure to ascertain that reasonable administrative procedures are being followed by the department in the course of carrying out its responsibilities in that area. The co-operatives are legal entities incorporated under The Companies Act of Manitoba, and are not part of the Department of Co-operative Development. Therefore it is beyond our authority to audit the accounts of the co-operatives."

MR. CHERNIACK: Like Federated Co-op? Red River Co-op?

MR. G. JOHNSTON: I'm referring to the co-ops mentioned in the Comments on Specific Organizations. Now, nothing could be clearer than that, Mr. Chairman, and this is the type of accountability I'm talking about. And how Mr. Cherniack can ignore that paragraph when he makes the statements he did, it's beyond me.

MR. CHAIRMAN: Thank you Mr. Johnston. Mr. Spivak.

MR. SPIVAK: . . . Mr. Ziprick's, and I think we should hear from him.

MR. ZIPRICK: Well, as far as dealing with the managers and the question of getting the managers, our feeling is that we only are capable and qualified to audit from an accounting point of view, and really our concerns are that we don't have any expertise in any other areas. Now two years ago, I think in this committee, there was some concern raised about bridges not being in the right place, and questions were asked as to, you know, what our responsibilities were to see that these bridges were effected in the right place. Now, when you get into this kind of area where you've got traffic flow and you've got engineering expertise to determine just how the bridges were decided and where they were going to go and that, we can't really go into that and be much of assistance. So to get explanation as to how soundly the money was spent in regard to placing these bridges, you would have to . . . Now, I com-

(MR. ZIPRICK cont'd) . . . pletely agree with Mr. Cherniack that the control has to be that it's through the Minister, because otherwise you could get substantially out of control. But you really have to get these expert people over here to tell you on what basis the decision was made to place the bridges where they were and what the whole purpose of it was. Now, if we had expertise in our department that we could get at this information, then you could expect to get it from us, but if I got it for you, it would be just secondhand from the people that are expert in that area. So really, if you want to get informed in those areas as to how well their money is spent on these kind of projects, then you have to get those people and talk to them, through the Minister of course, but they're really the only ones that can provide adequate explanation as to what is going on, how it's being managed, and you can determine between yourselves and them as to what extent there is mismanagement or lack of management or improper management in those areas. In many respects, you will find that when you start discussing with these people, that there are all kinds of extraneous circumstances, difficulties and that, that the explanations come out much more reasonable than appears on the surface. So I think that it would be quite good information.

Now with regard to my powers, the Provincial Auditor's powers to go in in the departments and that, Mr. Cherniack is completely right. There's just no question in the departments and in all the areas, we can go in and verify all the funds to the extent we want. The portion dealing with Pages 18 and 19, that I am dealing with, is money given by the province to others to spend, either by way of loans or grants or whatever have you, to other organizations that are legal entities and have responsibilities outside of the government. They're not owned by the government and this money goes forward. What we're saying is that what we have to do is have some control over this money so that, in addition to accountability to the directors that run these companies, that there is a direct accountability through a joint accountability, so to speak, that in addition to the directors saying to the grantee, which is the government, "Look, we have done with the money what you had wanted us to do and there it is," that there is also an auditor that comes in and says, "Yes, I took a look at the accounts and what they're saying is right, that what has been done with the money has been done, the money has been used for the purposes it was given and intended," and that completes the link of accountability. Now as far as our responsibility now, this is what I'm trying to make very clear because there seems to be some confusion, and I just wanted to indicate very clearly that as far as the government supervision and administration over those moneys is concerned, we take a look at it. But once the money is in the hands of the other organization that then becomes another controlling element and in some cases there is no auditors and this is what we're complaining about, that we feel that there should be some form of an audit in every case and so it gets into this other area, and we feel it needs some strengthening. So I don't know, is that . . .

MR. CHAIRMAN: Thank you, Mr. Ziprick. Is the discussion completed. Mr. McGill.

MR. MCGILL: Mr. Chairman, I'd just like to ask Mr. Ziprick specifically, would it add to the ability of your department to maintain a complete check on the use of government funds if your authority extended beyond merely the accounting type of audit that you do now to an assessment of management competence, an operational type of audit. Do you think that that is a kind of extension of your authority that maybe is indicated as being necessary by the fact that you, some of your comments indicate that you feel that the people who are handling these funds perhaps are not entirely up to the responsibilities of the job they've undertaken. Could you comment on that please?

MR. ZIPRICK: Yes. This is a development that's going on as we discussed previously. For instance, the Controller-General of the United States has that authority and a number of the States have the authority where they have a section in their area that's staffed with expertise of various kinds and they really go in and check on the effectiveness of the management of the organization. Now I must say that it is expensive to go in and check in those areas and it creates a double check, so that you have an expression of an independent group on management in the areas outside of accounting in all the other various technical areas. Now this is the area, as I say, in the States, Sweden, this is the trend that they've been going into. The Auditor-General of Canada . . . you see, we're getting in . . . the former Auditor-General particularly was talking about non-productive expenditure and when you get into a definition of non-productive expenditure it gets really a pretty hairy situation as to whether you're really

(MR. ZIPRICK cont'd) auditing on the efficiency of management or you're just talking about some expenditure. So it got into quite a gray area.

As I understand it, the new Auditor-General when he was appointed became quite concerned that this misunderstanding would just lead to an awful lot of problems. So he's established this committee and this committee's inquiring into it and trying to determine how far the auditor should go, and this is what I try to convey in my report, that it is a gray area. And this committee has looked at the American system whereby they have this kind of approach in many areas now and some of the European countries that have this kind of approach. I personally on the surface, and I told that to the committee that's inquiring, I personally on the surface see merit in it because we are already doing a certain amount of investigative work and it could be expanded on, so I see merit in it. But it's something that I don't feel that I would go into on my own or would have a right to go in on my own, it would be absolutely wrong, there would have to be specific legislative approval of it. And the question as to what extent we should go, I think that here's a committee that's been appointed by the Auditor-General of Canada, is studying it. I noticed in the last Financial Post the report will be tabled in the House of Commons by, they feel, the 15th of April. It will be interesting to see what they say and the reasons they'll give behind any expansion of the auditor's role. And I think that we can really go from there. On the surface I see merit but I wouldn't want to, at this stage, go beyond that. Here's a committee that has been studying it and heard representations and the results of this kind of approaches from quite a number of areas and it will be very very interesting to see what they say and I think we should be guided quite substantially in our decisions as to what they say.

MR. CHAIRMAN: Thank you, Mr. Ziprick. Mr. Johannson.

MR. JOHANNSON: Mr. Chairman, I had a question for Mr. Ziprick.

Mr. Ziprick, you mentioned several states in the United States and Sweden has been moving into the area of widening the scope of the auditor's function to include management audit. Can you tell the committee whether this sort of thing has been done within - these countries of course don't have the British parliamentary system - can you tell me whether in the British parliamentary system there has been any movement into this area?

MR. ZIPRICK: Well as I understand it in Britain and most of the other countries like Australia that they so far have followed the . . . would only go in to the extent that the accountants are qualified, in other words the controls generally that evolve around financial controls, management and good business organization, in other words the ordinary internal controls. But as to how effectively - let's say the engineering groups were organizing the engineering for roads and whatever have you, that to my knowledge has not been gone into either by the British Government itself or the various other areas. The ones that have gone into, I must say some of them have gone into quite far in that the auditors are actually obliged in this case to comment on the policy as to how effective the policy is providing service to the people. So it's really almost a measurement to a degree of quality of life. It's quite an involved situation, so I'm quite anxious to see how this committee deals with some of these sort of in-depth problems that arise from these kinds of audits and investigations.

MR. CHAIRMAN: Thank you, Mr. Ziprick. Mr. Toupin.

MR. TOUPIN: Mr. Chairman, leaving aside the possible need of amending some legislation pertaining to the accountability of co-operatives, but talking about the resolution before us, I believe that the suggestion made by my colleague, Mr. Cherniack, that the Minister at the discretion of the committee be called to bring forth information either directly or through people that he may designate as having the information as desired by the committee and/or the auditor is certainly acceptable to I, and for that reason I'll vote against the resolution before us.

MR. CHAIRMAN: Thank you, Mr. Toupin. If there's no further discussion, are you ready for the question? Are you all familiar with the motion or do you wish me to read it again.

Question put Motion lost.

MR. CHAIRMAN: (Pages 1 and 2 passed) Page 3 -- Mr. Graham.

MR. GRAHAM: Mr. Chairman, when we're dealing with the evaluation of public buildings and public works, I believe the Auditor has stated that these assets are written off in accordance with the practice that the value of assets shown on the balance sheet is equal to

(MR. GRAHAM cont'd) the amount of outstanding public debt assigned to them. Is this a practice of evaluation of the worth of public buildings, is that a consistent practice throughout various jurisdictions in Canada?

MR. ZIPRICK: No . . .

MR. CHERNIACK: Did Mr. Ziprick deal with that or Mr. Anderson? You know, I'm just not sure.

MR. ZIPRICK: Well it really doesn't matter.

MR. CHERNIACK: If Mr. Ziprick wants to reply, by all means, but . . . All right, then Mr. Anderson will comment after.

MR. ZIPRICK: Well I can indicate as far as I understand, I understand that by and large probably we're the only province, there might be a few others. Most of them are not carrying any value except one dollar for all these kinds of assets, the Canada, Ontario, and they're working on the net debt position, that the debit side just balances out the debt. This is certainly not a valuation of the assets because it's just tied down with a debt write-off. Now what the value of these assets if you really valued them for marketability or otherwise, what they would be, nobody knows, but I would say there would be no point in valuing assets and trying to indicate what, you know, they are worth today either in replacement value or in market value because they'd be just a big expense, no particular purpose for it.

Would you like to add something.

MR. CHAIRMAN: Mr. Anderson

MR. ANDERSON: Only to say that in my term of office we've had a couple of Ministers who, faced with this same set of circumstances, looking at this asset statement of ours, have observed of course that the highways and the buildings that are everywhere in the province must have greater value than these, thought that we should in fact be setting up, as a private corporation would, the total values and run depreciation accounts against them, but finally after thinking long and hard about it, I think they all realize that there really wasn't very much point. How do you set a value on a highway that can't be sold to anyone? We're not in the business of private corporations paying taxes where we have to be concerned about depreciation and allowances or capital cost allowances in our income tax statements; so since there is no real reason for it, the only concern that we really have, and we're concerned about this to the extent that records are kept everywhere on the subject, our only real concern is to know the buildings we do own, the land we do own and all the properties that the province has and there are separate memo accounts kept of that, also the service.

MR. CHAIRMAN: Thank you, Mr. Anderson.

MR. GRAHAM: Well, Mr. Chairman, following along that same line, I'm sure there are differences of opinion in many of those fields and I know while it may not be chartered accountants that would express their opinion, there are many in the Province of Manitoba that would consider the highways in some cases to be liabilities rather than assets.

MR. CHAIRMAN: Thank you, Mr. Graham. Page 3--pass; Page 4--Mr. Craik.

MR. CRAIK: Mr. Chairman, I guess we can't go by Page 4 without asking Mr. Ziprick if he has any further comments he would wish to make in relation to the Manitoba Development Corporation. There is an increase from 39 million to 56 million of accumulated deficit which doesn't include in any way a possible write-off for The Pas Forestry Complex as indicated here. And I suppose a member of the committee could make any number of statements regarding the operation of the Manitoba Development Corporation but I think it would be best to hear from Mr. Ziprick, give him the opportunity to tell the committee what he makes of this.

MR. CHAIRMAN: Thank you Mr. Craik. Mr. Ziprick.

MR. ZIPRICK: Well we've expressed the difficulties of accounting on this basis for two years now and I did indicate that it's been acknowledged that there are difficulties and that steps are now being taken to reorganize these. Now as far as the reorganization of course that will come forward in due course through the normal channels as to how the reorganization will take place. But I think it's been acknowledged that this system is not satisfactory and changes are being made.

Now as far as The Pas Forestry Complex, there again the report's been out and it's in the process of being completely or substantially reorganized and financing and this again will, I understand, be coming forward to the Legislature in the proper time.

MR. CRAIK: Are you referring now to the whole operation of the MDC or to The Pas Forestry Complex or . . .

MR. ZIPRICK: The deficits that arise in the MDC arise through the lack of interest being paid on the investments in The Pas Forestry Complex and losses and lack of interest on other investments. Now the way it's organized, right from the start really, it required a subsidy. Now in the first instance, there was a \$5 million share capital placed into the Fund that was, in effect, interest free and to that extent it was a subsidy. Now it only lasted for a short while when that kind of subsidy was inadequate so it required a bigger ongoing subsidy by the people of Manitoba, because the way it's organized, it's just not possible to charge the users in this small group to recover all the costs. So what we in effect are saying is that a subsidy is needed and we understand that now the finances will be organized, that an appropriate subsidy will be made available to put this on a self-sustaining basis, that is taking a subsidy into account.

MR. CRAIK: There's just one other feature that you mention here where the Manitoba Development Corporation is taking in money from the Provincial Government to the . . . well in this case \$12 million, which in actual fact is, I suppose, a write-off of interest but shows as income into the company, as a revenue rather than showing the interest as an expense.

MR. ZIPRICK: The corporation has an obligation to pay, or cover its share of the debt load and the interest that the province pays to the public for the debentures. Now in its operations it doesn't have money to pay it so the province borrows some more, sends the money across and then the money comes back as a credit and a reduction of that interest. So in effect it's a capitalization of interest and it keeps accumulating, and if you go on for a long period of time you could have a very very large account with no way of bringing it into any kind of debt control and management. So this is the whole issue and this I understand is in the process of being corrected.

MR. CRAIK: That \$12 million there then, you would be happier if it was included and it would actually increase the deficit by \$12 million that would show up over in (a) part, eh?

MR. ZIPRICK: No, see the MDCs deficit includes that lack of revenue because they wrote that off their books. If the province rather than treating it as income from MDC had put it into the appropriation and charged the 12 million to the taxpayers of the day as something that is not covered by income, then we'd be happy. But because it was not charged in the province's books to the appropriation for that year, but put in as a recoverable item from the MDC as an advance, it means that the taxpayers are not picking up the tab when we feel they should be.

MR. CRAIK: Okay.

MR. CHAIRMAN: Mr. McGill

MR. MCGILL: Yes, Mr. Chairman, it was on that second point of Mr. Craik's that I wanted to ask Mr. Ziprick a question and I find it very difficult to understand how the government can lend money to an operation to pay back the interest charges on money previously borrowed. And I ask Mr. Ziprick, if the Manitoba Development Corporation were borrowing its funds from a bank, would there by any bank that you know of that would lend money to that corporation to pay the interest which it owes the bank?

MR. ZIPRICK: Well, you know, if Manitoba Development Corporation were not part of the government and they tried to raise money on their own, I don't think that they would raise very much.

MR. MCGILL: But surely there just couldn't be this kind of an operation from an ordinary lending operation simply to provide funds . . . when a loan is made to the Manitoba Development Corporation it should be made for the purposes of extending credit to some economic development in the province I would think. Now how does the government, even the government, I know a bank couldn't justify it, but how does the government even justify lending money for the purposes of paying interest on previous loans.

MR. ZIPRICK: Well, you know, I can see justification in some instances in this kind of accounting. In other words, if there was a charge being created that in due course some large incomes will materialize, then it would be quite justifiable to defer, and that's been deferred in a number of instances where you're doing something, it's in the process of development and the anticipation of large incomes into the future will take care of it. But in this situation it cannot be said that this would hold true, at least as we . . .

MR. MCGILL: This kind of accounting and this financial statement is becoming more and more of a sort of Alice in Wonderland operation, Mr. Ziprick, if this kind of accounting is going back and forth between MDC and the government. Isn't that so?

MR. ZIPRICK: Well, we took exception to it and it's now being corrected, we understand.

MR. CHAIRMAN: Thank you, Mr. McGill. Mr. Spivak.

MR. SPIVAK: First I would like to deal with the advances and other receivables and just want to understand the comparison between the figure that you have in this year's audited statement and the figure you had last year so that I have some idea of being able to reconcile it. I just want to understand if I'm correct. I assume you have your last year's Provincial Auditor's statement as well. You say that the advances and other receivables mainly consist of amounts advanced to the province's boards, commissions, corporations, agencies, being \$548 million out of a total of \$571.4 million. Now if you refer to the '73 audited statement, are the comparable figures the ones that are shown on Page 3 of '73 which are the capital . . . advances, secured accounts . . .

MR. ZIPRICK: We didn't isolate a figure in '73 as to how much was to other organizations. You see the total advances in addition to boards and commissions involve advances to organizations which are not directly government controlled.

MR. SPIVAK: But those you consider to be receivables, that are legitimate receivables, and there may be some question about one particular amount as you've done with the MDC, but those are legitimate receivables to the government, is that correct?

MR. ZIPRICK: The difference between 548.7 and 571.4 is amounts receivable that are not from government agencies, Government of Canada mostly, I think.

MR. SPIVAK: Well, do you have a comparable figure for what that would have been in '73 - and if you don't have it right now, that's not . . .

MR. ZIPRICK: I don't think we have it.

MR. SPIVAK: But I wonder if you could get that so that we'd be able to make a comparison between what '73 was and '74?

MR. CHAIRMAN: Are you finished, Mr. Spivak?

MR. SPIVAK: No, I'm not.

MR. ZIPRICK: No, we don't have . . .

MR. SPIVAK: Now dealing with the Manitoba Development Corporation you say that the deficit is exclusive in number (a) of any allowance for possible write-off of the net recorded asset value pertaining to The Pas Forestry Complex. Can you indicate whether you've given a recommendation to the government as to the way in which the debt load of The Pas Forestry Complex should be handled, or to Man-For or to the government?

MR. ZIPRICK: No, the way it's been developing, the Chairman of Man-For and I discussed a number of ways how these things could be handled and then if I remember correctly, the Chairman had arranged a meeting with the Deputy Minister of Finance, or the two met and I was present, and a number of ideas were discussed and after that meeting, on the basis of these discussions, I pulled together a bit of a statement to indicate what entries would be required to reflect this kind of an approach, then I understand the Chairman met with the Ministers and after meeting with the Ministers, certain kind of decisions evolved that I had organized a meeting with the accountant to see just what kind of statements would flow from that decision. Well then it's been going to the board and the thing is evolving in that way. So I participated but I couldn't say about recommendations.

MR. SPIVAK: Then you're saying that there was no specific recommendation from yourself as Provincial Auditor?

MR. ZIPRICK: I was involved in the discussion but I didn't sort of say well this is how it should be done.

MR. SPIVAK: But was your proposal that one-third should be by way of share capital, one-third by way of preferred capital, non-interest bearing, and one-third debt load?

MR. ZIPRICK: I don't recollect any specific proposal as that. There was a variety of discussions as to what would be the most appropriate situation.

MR. SPIVAK: But your recommendation wasn't as I suggested, or your inclination as Provincial Auditor was not to recommend that?

MR. ZIPRICK: No, I don't recollect any kind of clean-cut . . . I had a variety of ideas.

(MR ZIPRICK cont'd) Now there's certain kinds of capitalizations and certain kinds of accounting which would be acceptable to me without qualification of the report and there's other kinds that would not be acceptable, and this I indicated. But within the parameters that would provide the proper accounting without my qualification, there was a lot of discussion as to what would be the best kind of approach.

MR. SPIVAK: Well was there consideration given to a \$50 million capitalization, a \$50 million preferred share non-interest bearing and a \$50 million debt load. Was there consideration given . . .

MR. CHERNIACK: Mr. Chairman, a point of order.

MR. CHAIRMAN: Mr. Cherniack on a point of order.

MR. CHERNIACK: If Mr. Spivak wants to get the Provincial Auditor's opinion, that's one thing. Now he's starting to insert himself --(Interjection)-- I have a right to complete my point. His starting to insert himself into the current government's assessment of the problem which is posed in this report, which is admitted, and there has been a statement made by the Minister of Finance, the Premier of this province that it will be brought into the Legislature for review. Now, Mr. Spivak seems to be asking - well he is asking the Provincial Auditor what has been discussed as between government and Mr. Ziprick, and he's already got a formula, 50 million, you know, he's got figures. Now if he wants to pry into what is now in consideration and not yet presented as a fact, I don't think he has a right to use the Provincial Auditor for that purpose, he could use him to report to the Legislature and to this committee on his opinion and his findings.

MR. CHAIRMAN: Mr. Spivak, on a point of order.

MR. SPIVAK: Yes. I just recognize certainly some of the validity of what Mr. Cherniack said. Mr. Ziprick is an officer and responsible to the Legislature and if he indicates to me that as an officer and responsible to the Legislature, that the consideration of what I have mentioned did not take place or is not consistent with what he believes is the proper course of action, then I'm quite prepared to accept that from him.

And if I framed the question incorrectly, let me frame it another way. Would he consider that a proper manner of handling this would be \$50 million by way of share capital, \$50 million by way of preferred shares and \$50 million by way of debt. Has that been considered by himself or any members of his department?

MR. ZIPRICK: Those are ballpark figures that would make the situation seem pretty reasonable, but I don't know what the final result will be.

MR. CHAIRMAN: Thank you, Mr. Ziprick. Mr. Cherniack.

MR. CHERNIACK: I want to make some comments but first I want to ask Mr. Ziprick: Would he feel that 142 1/2 million in equity and 500,000 in preferred and the balance as a loan, would that be a method by which this could be corrected?

MR. ZIPRICK: That's another method. As far as I'm concerned any kind of method that's employed that discloses the proper accountability of the organization presents me no problems. Now it may not be acceptable to the Legislature but as far as we're concerned, whatever kind of system has to fall within good accounting standards that presents the accountability in a proper, logical manner and fully discloses what happened, that's very important. But once it's been fully disclosed as to how much subsidization should be involved, or whether the whole thing should be completely subsidized or whatever have you, I don't think that falls within our consideration, because that's a government decision and a legislative decision. But it's very important that whatever subsidization goes in discloses that and if it's not disclosed we'll make a point to make sure that it's disclosed. And that's where - when I mention that certain things would not be acceptable, if certain kinds of steps were taken that would have accounting flow that would not reveal the situation properly in our judgment and fairly, we would just not accept it. We'd have to qualify it. Now if the government is prepared to live with the qualification, that's fine with us, then it just becomes a matter of debate further down. But this is very important, that whatever is decided has to be disclosed fairly and effectively.

MR. CHAIRMAN: Thank you, Mr. Ziprick. Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, I asked that question, and he has clarified I believe what is really involved now. I don't claim to have a perfect memory, but I do recall a meeting of the Committee of Public Accounts last year, which was held in Room 200 and I have the

(MR. CHERNIACK cont'd) . . . feeling, the recollection, that it was largely a discussion between Mr. McGill and me about this very issue. That's my impression. Mr. McGill should remember that we discussed the fact that once - and I suggested that there was no point in our making a rearrangement of the capital structure of MDC or the Forestry Complex until we have the recommendations of the CFI Commission, which we didn't have then. And I really am under the impression that I undertook, it seems to me I undertook that after that report was in that we would then be in a position to review the form of accountability and come back to the Legislature and report on the decision of government. That's my recollection. Mr. McGill today expressed so much amazement to learn that interest was shown as income, that I, you know, wonder as to whether his memory is the same as my memory what happened last year.

What Mr. Ziprick pointed out last year and maybe the year before and now and what was clearly admitted, was that it is not a good idea once you know that there is clear-cut moneys lost which are not likely to be recovered, to continue to lend that money to be used to pay interest on it. He said it, he's qualified his reports, the world knows it - and I mean the world knows it, because when we issue a prospectus wherever it is, these statements are available.

The amazement Mr. McGill expressed should not be completely an amazement, because he should know that every business that goes through a construction or start-up period capitalizes its interest. He may be surprised to know that Manitoba Hydro capitalizes its interest on the projects before they are completed and start to earn. Now Mr. Ziprick is the auditor for Hydro, and surely he would know. I'm sure Mr. McGill must know that, that until a capital asset starts to produce revenue, the interest which is payable to the banks, to the bond holders, to whatever the lenders are, is capitalized, and that was done here. Now it was done here knowing that it would have to be reviewed, and Mr. McGill must remember that last year we said that that would be done. And he must also know that the Premier only recently in the House said that it was being done and would be prepared.

May I tell Mr. McGill that, when I was in opposition I made a practice of making certain searches of public records, and I was interested to find that loans made by MDC to that - was it Sprague, I forget the name of the - Columbia Forest Products, that there were a number of loans that seemed to be coming in, I think there were three loans one after the other in increasing amounts. And I thought, boy, that must be a big business, that's really growing and developing, and MDC with faith in it is continuing to support it and help it build up. It was only after we got into government that I discovered that these loans were being made to refinance a bad situation, and that what was indeed interest owed to MDC was being refinanced with the original loan into a new loan, which included the first debt plus interest on that debt, and it was loaned again to Columbia in order for Columbia then to be able to pay the interest it owed and start its payments all over again. And I believe it happened once more. That's my recollection. That's how the MDC did it in that time, and that's something we didn't know. And of course Mr. Ziprick couldn't know, because he didn't have access to MDC books and neither did - let me say the Cabinet - I don't know what the Minister knew, but the Cabinet at that time made it clear to us in the House that they didn't know, because they weren't allowed to know, because under the Act the information was not available to them. But we found it out later, so it's done. That's my point, it's done. But the fact that it's done doesn't mean that it's right. Mr. Ziprick said it's wrong, I said it's wrong, I think everybody said it's wrong, and we said it will be redone. And Mr. McGill knows that the Premier said that there will be a report, the matter will be brought in.

Now I want to close by suggesting that it is not the function of the auditor to decide on the method of capitalization. It is the function of the auditor to comment on management's decision as to capitalization. It is further the function of the auditor to point out anything that is not apparent, that is if a recapitalization is so constructed as to conceal the picture, then it is his function to reveal it, and that's what he means when he says qualified statement. Now the point he makes has great validity. If there is a loss, if interest cannot be paid, then it has to be shown in some way. Now, Mr. Spivak has a formula, 50-50-50, that's his formula, or he thinks it's somebody else's formula, but it's a formula. If that formula were brought in, then it would be revealed that to the extent that there is equity put into the company - and that's why I said it is 140 million or whatever figure I used, in equity acceptable

(MR. CHERNIACK cont'd) . . . to him - it would be, because obviously whatever interest is not received but is yet paid, as it would have to be paid, will then show up as an increase in expenditures of Government in payment of interest. And indeed when MDC was first set up by Mr. Roblin way back when, there was a capitalization of five million. Was that the original capitalization? That \$5 million was set up as equity in MDC. There was still interest being paid in one of two ways, either out of annual levies on taxpayers, that is out of public revenues, annual revenues - it was being paid and showed up as an interest expenditure - or else it would have been paid on moneys borrowed, which is still the same thing, one way or the other it would show up. And that's the function of the auditor.

Now the only final comment is, it so happens that the Premier answered Mr. Spivak - was it two weeks ago or less - that the Provincial Auditor did not make a recommendation on the recapitalization, but that he was consulted in the discussions and was continuing to be consulted, and when the report would be brought in his comments would be available. Isn't it interesting that Mr. Spivak forgot that the Premier had told him that and found it advisable to ask the Provincial Auditor the same question, which was answered by the Premier only recently.

MR. CHAIRMAN: Thank you, Mr. Cherniack, Mr. Spivak.

MR. SPIVAK: Mr. Ziprick, can I ask, your consultation with the Government with respect to this matter has been only to determine from you what would be acceptable. It has not been a discussion with you as to amounts that may be capitalized, that may be taken as debt. The only discussion I gather then that you've had has been with the Government official, has been on the principle that the debt load or the amount has to be in some way substantiated. If it's a subsidy, that's a Government's decision, you have not been involved in any way with any of the possible alternatives that could be considered by Government.

MR. ZIPRICK: Oh yes. Well you see, the amounts in the principle are all interlocked. In other words, the method of subsidization, whatever it will be, and the method of accounting and disclosing this subsidization you can do it any number of ways. You can do it by just picking up the debt as being the province's debt and . . .

MR. SPIVAK: I understand that, Mr. Ziprick. But I'm simply asking you, was your involvement with the Government only to indicate that no matter what form they took, whatever decision they made, so long as the principle followed was this, that's all that was required.

MR. ZIPRICK: My involvement in government has always been as a legislative auditor and what my position would be if they take certain steps with regard to the Legislature, and as to whether this would be an adequate and a proper disclosure to the Legislature or not. And it's always been in that capacity in any advice that I've given, and that is always to ensure that my independence would not be infringed on and I would not be drawn on into a position that I have to defend because I come forward with certain proposals. And this is what we're always very careful to ensure, that we will give assistance and advice in whatever form, but it's got to be appreciated that we are independent, whatever is done, that we are going to criticize it if we have to criticize it. And if there's some reference afterwards to say well, you know, you've said that, or something like that, unfortunately if I have, it's too bad; but at that moment in time that there are certain things that I have to disclose regardless of how it may reflect on me in proceeding with it, I will disclose it. But we always try to be very careful to make sure that our independence is not jeopardized.

MR. SPIVAK: Can you accept though that that's a management decision by government, or a policy decision by government and not a decision by yourself, Provincial Auditor.

MR. ZIPRICK: Right.

MR. SPIVAK: But then, may I ask you, have discussions been held with you of various possibilities, without getting - and either by the government or by the chairman of Man-For or the members of the board?

MR. ZIPRICK: Oh, yes, yes.

MR. SPIVAK: They have discussed possibilities with you?

MR. ZIPRICK: Oh, quite a number of possibilities.

MR. SPIVAK: All right. Have you in the discussion of the various possibilities discussed what you think and consider would be the most advisable? - without in any way of putting you in a position of asking what that would be. But in principle, have you yourself as Provincial Auditor discussed the decision that should be made by government, recommending what you think would be advisable?

MR. ZIPRICK: Well, you know, there's one maybe preferable from our point of view

(MR. ZIPRICK cont'd) . . . over another, and I would indicate that from our point of view as legislative auditors this may have preference, but this other one gives us no trouble. But then you get to another proposition and you say, well, if it was handled in that way, it was not acceptable, because for these reasons it would not reflect the proper picture. And then of course that's either discarded or then they actually invite a difference of opinion.

MR. SPIVAK: Was that ever discussed before a Board of Directors of Man-For with yourself present at all?

MR. ZIPRICK: No, I don't recollect. I've attended at the board meetings and we discussed financial controls and that, but no, no, we haven't discussed the . . .

MR. CHAIRMAN: Thank you, Mr. Ziprick, Mr. McGill.

MR. MCGILL: Mr. Chairman, I just want to refer briefly to Mr. Cherniack's remarks on the subject of the interest accounting that we discussed just a moment before. I think the important thing is that Mr. Cherniack agrees that it's a wrong accounting method and that the lending of additional moneys to cover interest charges in arrears by the government to MDC is not a proper method to proceed. The reference previously to this having been done in re-financing in the forestry operation at Sprague was something that, as he points out, they knew nothing about. On the other hand, in this instance -and your recall, Mr. Cherniack, is probably much better than mine at what took place in this conversation on the same subject a year ago. But I think it was brought up with the understanding that this was a temporary arrangement, that it was going to be corrected. But a year has gone by, and this is our concern at the moment, that we're apparently proceeding on the same basis, knowing it to be a wrong basis, and you have agreed that it isn't a proper way to operate. So, Mr. Chairman, I merely point this out, that we're not succeeding in correcting the situation, and time is going by, and I think that we should have some assurance from the government that it will be a corrected situation. We expected that by this year it would have been changed in the statements that are being presented to us. That hasn't happened.

MR. CHAIRMAN: Thank you, Mr. McGill. Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, two points. Firstly, I don't think I made it clear when I spoke because I thought it was self apparent. But I think I should make it clear that banks would certainly lend money to borrowers to enable the borrowers to pay interest on the bank loan when it is used to create an asset of a major nature. But let's get that clear. And I believe I have the authority of the banker whose opinion, banking opinion I respect. Clearly that is done. Mr. McGill suggested earlier that banks wouldn't do it. The answer is, if the security is good, banks would certainly do it, and the fact is that both banks and bond lenders have done it in the case of the Province of Manitoba because our credit has never been better than it is now.

So I just wanted to make sure that there was no misunderstanding about banks lending money to provide interest with which the borrower could repay the bank until an asset is developed and going. And that's why I'm sure - well if I did, I was wrong in using words such as the system used was not proper or wrong. Nothing is wrong if it is known and clear, and let's make it clear also that no change that takes place will change the fact that the province has to pay interest on its investment and that the province has to finance the operations or whatever it does. It is accountability that we're talking about. There's nothing wrong or improper in the way it is done unless it is not exposed and open; and here it is as open as can be. The fact that it was concealed in the case of Sprague is only a question of attitude of a government who refused to know what it's appointed people were doing. That in our case we insisted that the Legislature do know -- that's why we have the Committee on the Economic Development where we do have reports of that kind.

Now, Mr. McGill expresses disappointment that a year had gone by. Firstly, he does know, he certainly knows that this report before us that we're dealing with ostensibly is the report for the year ending March 31, 1974, almost a year ago. He also knows, he knows that not only today, but a week or two weeks ago, the Premier said that the report will be brought in how it's being done, how the recapitalization is being done. For him to express disappointment that it's not being done is to ignore the fact that he has the report, and that he's been told that it is being done and the report will be brought in. I'm told it'll be brought in as of this fiscal year. Now I don't know if that's the case because I'm not close to the situation. But I do know that it's so close that it probably will be as at the fiscal year ending March 31, the 31st of this month, which is the year that we have yet to close and yet to review. So his disappointment is, I don't think it's real, because he knows the situation. And the assurance by the

(MR. CHERNIACK cont'd) government that it will be done, he has received; I don't know why he's asking for it again, unless he doesn't accept the statement of the Premier which he made just recently, the statement I made a year ago.

Mr. Chairman, I want to point out that in the estimates for the forthcoming year which starts on the 1st of next month, there is an item on Page 35, paragraph 5, Resolution 82, Manitoba Development Corporation, \$287,500.00. That is interest on \$5 million at 5 3/4 per cent, an interest rate established by Mr. Roblin, I'm told, many years ago, and recognizes the fact of purchase of shares or an equity in MDC of \$5 million. It therefore will be obvious that if it were \$50 million at the same rate of interest established by Mr. Roblin, then out of current revenues it would show an expenditure of 2,875,000; or if it were interest at 11 1/2 percent on \$5 million, it would be double 287,500. But clearly year after year after year it has been shown in the estimates, and that was established I believe by the former government and continued by this one, because you can't avoid it. And that's what Mr. Ziprick said earlier this morning, that it's got to be shown, and it was being shown, it will be shown.

I would ask Mr. McGill to have patience until he gets the report. It'll be fairly soon and certainly before the end of the session.

MR. CHAIRMAN: Thank you, Mr. Cherniack. Mr. Craik.

MR. CRAIK: Well, Mr. Chairman, I think that there's never been any question about this capitalizing of interest when you have a sound investment. And of course, the best example in Manitoba is Manitoba Hydro who has used this technique for I suppose decades, or ever since the beginning of its development program. It has been done by them, because they have had to pay interest charges before their capital that they've invested, long before their capital they've invested starts to pay out. In other words, when they're building a dam, they're paying interest charges on last year's money with still no water flowing over the dam. And I think that we found out last year that Kettle Rapids, for instance, had just been at that time transferred into the position where the interest charges on it were coming out of current, that they were no longer borrowing to cover the interest charges. Of course that's probably five years' period where they were borrowing money to pay the interest charges on the previous four years' investments in the dam.

But this is a different case here where there is no evidence, in fact there is very substantial evidence that the MDC has no ability, foreseeable, of paying off its interest charges. And the recommendation isn't just this year, as has been well discussed here, it was made last year, and it was made last year I presume because it probably was evident even before that, probably well in advance in that. We have here a case of \$12 million not showing up as a deficit on behalf of the Provincial Government.

Now I don't think you can take two wrongs and make a right out of it, and Mr. Cherniack is taking one example here of a case of Columbia Forest Products where capitalization was done, and that is being extended as a basis for it happening in all these others. That's one single case. But there's a whole list of companies now that the MDC is involved in that has put the MDC into the position of it not being in a position for the auditor to assume that it can carry its debt, and this move is long overdue. So I don't think it's exactly putting it in the right perspective to take one example in history, namely the Sprague Plant, and apply it as a rationalization for what's been going on in the last few years, and that seems to be the position the government's in.

Mr. Cherniack also made another statement here that I think should be discussed. He said that the province's credit has never been better. Well, Mr. Chairman, if you look, this is worth pursuing to find out why. It certainly can't be because the province is treating its debt any differently, and as a matter of fact, all the evidence is that there has been a transfer out of current and into capital borrowing to cover things that before in previous governments was not done. Now the answer we've had to this previously by the former Minister of Finance, is that, well governments previously would sometimes borrow for university buildings and sometimes they'd pay it out of current, but they went back and forth. So the present government wasn't setting any precedent by borrowing for things that may have been previous to that taken out of the current revenue column. But all our evidence is that it has been a one-way street in recent years. You have this shift always out of current and into capital borrowing for many things that have traditionally been considered simply and straightforward out of current revenue. In last year's capital borrowing estimates, we had things like Xerox machines and office supplies, all these things coming under the borrowing column rather than

(MR. CRAIK cont'd) paying it out of current revenue. So when you add to it the loss position that has been created by a number of companies by the MDC, and the involvement of the Communities Economic Development Fund, which this report says are not on a sound financial basis and that it cannot be expected to recover it, well, interest charges and risk losses, the evidence out of this shift from current into borrowing, the operations of the MDC, the CEDF, one wonders why the Member for St. Johns can say our credit has never been better. It must be because, it's not because of any of the doing of the government, but simply because Manitoba Hydro, for instance, is now in the energy crisis, is in a good position, a much better position than it was say two or three years ago when we had a real cheap energy. Now if that's the case, let's not have the government saying that Manitoba's in a good credit position, because there's no evidence that the moves that have been made by the government put it in that position, it's simply a world situation may have shifted. Now, if we at some point could get an explanation of that statement, it would be worthwhile, because you can't look at the debt position on Page 7, an 80 million dollar increase in the provincial debt, and come to a conclusion simply on what's happened in Manitoba, that our credit position has never been better. Quite the opposite is true if you look simply at the operations of the government.

MR. CHAIRMAN: Mr. Cherniack, on a point of order.

MR. CHERNIACK: On a point of order, I would like to suggest that we have the person present in this room who is responsible for borrowing, and that's one case where his expertise is greater than mine. I made a statement, I am prepared to offer him - I don't want to describe the members of committee other than as members of the committee, to comment on my statement as to the credit of the Province of Manitoba, which Mr. Craik is suggesting is in doubt. Would Mr. Craik, or members of the committee want to hear from Mr. Anderson? On the credit of the province

MR. CRAIK: This is the opportune time to do--(Interjection)--

MR. CHERNIACK: I think it would. I'd be glad to do it any other time. I just don't want to leave it hanging that Mr. Craik has thrown doubts on my statement that our credit has never been better.

MR. CRAIK: Right. I'm saying, Mr. Chairman, that the operations and the moves made by the government with regard to financing debt and financing the operations of government, show no evidence that this conclusion could be drawn. If there is a reason for the credit of the province being approved I think we'd be happy to hear why. (Hear, Hear).

MR. ANDERSON: If that's an invitation, Mr. Chairman, for me to speak, I could only say this, that over the years that I've been in the Treasury and now the Department of Finance, it's been a great pleasure to see the way the market has responded to Manitoba debenture issues, whether it be Manitoba Telephones, Hydro, or the province itself, and I think that since we disclosed quite fully the position of the province in all our prospectus work, I think that the total judgment of the market is that Manitoba with any warts and pimples it may have is still a first-class credit and our interest rates show that because we are getting closer and closer all the time to the banner province of Ontario in rates that we get on the market. The only thing I can offer really is the test of the market itself.

Now there are other reasons. We are running a very good sinking fund operation, which means that when Mrs. Jones who bought a bond last year wants to find a market to sell it, why fortunately we have enough buying power in our own sinking funds to be able to keep the market pretty well swept clear of bonds that are offered by holders who need cash for some reason or other, and this in itself is a great element in credit worthiness, the extent to which the secondary market, so called, can take up the, temporarily at least, unwanted bonds of the original buyer. Because a lot of people buy a 30-year bond and decide after 5 years, you know, they want to build a house, and they're embarrassed if they find that they are locked in for 30 years when they need really to get out.

So there are many things that go to make a market, but the general behaviour of the province, the general financial picture that we present apparently to the world, is one that the world is reasonably satisfied with. Lots of people know about CFI. They know about it in New York, they know about it in Europe, they certainly know about it in Canada.--(Interjection)-- In Switzerland they certainly do know about it. I'm not too sure that some of the people that lend us money in Switzerland may not be lending us our own money, but regrettably in the name of somebody that isn't a Province of Manitoba official. That's only a rumour and I don't know. But in any event, I think that all of us, certainly I as a citizen of Manitoba, and I think all

(MR. ANDERSON cont'd) people both in opposition - and all the oppositions here have been in office at some time themselves in the time I'm talking about, they have been in government themselves - should really take pride in the fact that the credit of the province has probably never been higher. To give you an example, last fall we borrowed some money in a market that had just seen an Ontario and a B. C. issue floated two weeks before us at 10 1/4. As I recall it, we were able to get by - true the market had improved a bit - but we were able to get by with a lesser interest rate even than the two great provinces of Ontario and B. C.

So it really would be very difficult to find any one aspect of our financial affairs, even the ones with which we've had difficulty like CFI, it would be very difficult to prove that any one of those things had in fact, deteriorated our credit.

MR. CRAIK: . . . while we have Mr. Anderson on this, I raise the question here. It's pretty easy to understand, particularly in the American markets right now why someone with a good resource like water power could not, you know, it's pretty easy to see why they would show up as a very good, strong, sound investment in this day and age, and I wonder if Mr. Anderson would want to comment whether that's an influence on the borrowing power of the province.

MR. ANDERSON: I don't suppose it really affects the borrowing power of the province. I would say though that we've taken advantage of that very fact that Mr. Craik has drawn attention to, and the last three issues that we've done in the States we've deliberately shifted it over to call it a Manitoba Hydro issue, guaranteed by the province. But the moment you take that guarantee off you can't sell those bonds. It's still the Province of Manitoba that the buyers look to.

Well, when I say you can't sell them, you could probably sell them at one or two percent more interest rate than we pay ourselves. But the combination of investors being interested in Hydro-Electric potential and their development, and being quite impressed by them, because we've taken people up to see them, we've had many of the American investors right up on the Kettle and Long Spruce sites - that combination with their . . . and also their evaluation of the province itself has certainly meant that we've had some very successful issues in the American market, and I certainly wouldn't minimize for a moment what Mr. Craik has said. People in the States have been very very interested in things that sound as though they have some solution to the energy problem apart from oil or fossil fuel generally.

MR. CRAIK: What, Mr. Anderson, is it over the last, say, three or four years, what proportion of the province's borrowing has been for Hydro?

MR. ANDERSON: I would think, Mr. Craik, about half, approximately half our borrowing has been hydro. Half to three-fifths last year - I know I've got the figures right here. Last year I think 200 and some odd millions out of . . .

MR. ZIPRICK: Page 8 shows the guarantees as they . . .

MR. CRAIK: Let me ask Mr. Anderson one further question on the . . . I made the statement here that from all appearances the shift from current into capital borrowing for government spending purposes appears to have been pretty much a one-way street in the last few years, and when we get capital supply bills coming before us with things like office supplies in it, paper for Xerox machines, a breakdown of that sort, isn't this getting to the point of some concern when you're borrowing money to supply the Xerox machine with paper? I mean, where do you draw the line on these things?

MR. ANDERSON: I'm sorry, I'm . . .

MR. CRAIK: Yeah, is that the way? You know, all the evidence is that we're capitalizing operating expenses.

MR. CHAIRMAN: Mr. Anderson.

MR. ANDERSON: I'm just wondering, Mr. Craik, could you give me an example of . . . I realize that over time there's been a shift with all governments that's in - and I've worked with all three - from time to time between capital and current account - sometimes it's a little amazing to me, but I don't think there's been a massive shift and I'm curious. Have you an example of this Xerox thing?

MR. CRAIK: Well, it was filed in the House last year on their supplementary capital supply. I think it was in the final stages of the House when the supplementary bills were brought in for capital supply. We asked for a breakdown and some of these items were included in that, and a lot of them were what you would normally be categorized as operating type of budget included in capital borrowings.

MR. ANDERSON: I don't know whether that was a . . . I'm sorry, I don't know whether that was a belated requirement of the university from the University Grants Commission, which arrived too late to have been treated by the University Grants Commission on a current basis and may have been included therefore in the capital supply that was asked for by the university through the UGC; and I just don't, sorry, I just don't know the answer. You know, to me it sounds, as it does to you, a little odd. Bill, do you know of anybody . . . Do you recall it?

MR. ZIPRICK: I could offer some comment on this, and this sort of falls in line with what we were saying, is to defray or try to tie up the debt with specific assets within the kind of accounting that the Province of Manitoba is doing or any other government.

You know, in some instances there are these minor, or assets that have very little durable life that are being sort of designated as being bought from capital funds. But if you take a look on the other side, in the current expenditure, there's all kinds of expenditures that have a long lasting durable life. So it's hard to say, well you know, if you're designating this here and that there, so the differentiation between capital and current in that regard is in my way of thinking a poor measurement. The way I try to sort of guide myself was more, how much is the capital debt going up, and probably more in relation to the provincial product or something, the ability to carry, rather than trying to associate it as differentiating between durable or lasting assets, or otherwise. Because when you try to do that you know, there is so much in the current expenditure that in a normal conventional private accounting you could say it's got a life over many years, so you should probably only take part of it. Then the capital designation in some instances is lower, so it's just most difficult to try to determine whatever shift there would be, but you can certainly assess on the basis of how is the capital debt going up as a whole in relation to other growth factors, and is it manageable within that area. And I think this is why we're suggesting that it would be wise to depart from this splitting and trying to associate specific debt dollars with specific buildings. A dollar is a dollar whether it is raised from debt or from revenue, and the expenditure on the other side has its other validities.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: No doubt many of the things that have been shifted they can be justified. University buildings, for instance, I think you can make a very rational case for borrowing for those purposes. But they were at one time, a large portion of them were paid out of current revenue.

MR. CHERNIACK: Because you overtaxed at that time.

MR. CRAIK: Well, it was . . . But, Mr. Chairman, they also - I think some roads were at one time. Now are there any of these things like that that are now still in the current column, or are they all over now? Are all roads in the capital borrowing? Are all university buildings in capital borrowing? Because once you've done it once, what it meant by having it in the current column, that you had some leeway as far as budget was concerned. But once you've eaten that up, it helps you one year. But from thereon in when you're making the transition, you've got a, really, what may be billed as a balanced budget, is in fact a deficit budget. But the relative position, unless you continue to do it every year on the same basis, the budgets really don't mean anything.

MR. ZIPRICK: Well, to a degree this is what we have been trying to indicate, we've been trying to get across in our report that it's most difficult to try and rationalize a budget, budgeting of this kind where you have capital and current unless you combine them in total, and we've been trying to indicate through a special statement as to how the position is in total, because when you try and determine consistency on roads and that, well then you'd have to determine consistency of the road activity from year to year. But that's not practical to be consistent. In some instances there is good reason why a road expenditure should be increased for that year, it was in the public interest. And if it is, I see nothing wrong with the borrowing going up, or vice versa, so for an auditor to try to rationalize the measurement under this basis, and try and compare consistency between specific segments, and when there's half a building built on one side and half on the other, it gets to be really almost a hopeless situation, and I think that it's got to be rationalized on the total rather than on any individual basis. And the controls over expenditure, be they capital or current, have to be brought into a budget control and controlled in that way as expenditures without regard as to whether they're lasting or not lasting, because in a government sector when we get involved in terms of lasting, its continuing effect, and that it is not considered in the same way as commercial accounting, because in commercial you're trying to measure income, and in this case it is what effect does

(MR. ZIPRICK cont'd) it have on the quality of life, and whatever have you, and what's in the public interest. And that's only the Legislature and the government that decides that, and if there's certain years that certain programs should be increased, and that's the decision, that's fine.

MR. CHAIRMAN: Gentlemen, I have a comment from Mr. Anderson. I have three speakers and then maybe we can get back on Page 4.

MR. ANDERSON: I have asked one of my officers about this university thing, which had slipped my mind. Apparently a year ago there was a very heavy charge for a computer, we think for a computer and Xerox rentals, and this is why I think the detail perhaps shows up the word Xerox, I think amounting in all to about \$2 million, and that was the item that was capitalized last year. I think that you'll find in examination of the university grants commission budget this year, that item has come back into current account.

MR. CHAIRMAN: Thank you, Mr. Anderson.

MR. ANDERSON: There's always a debate about it, you know, if you bought a computer outright and paid \$10 million for it it would be capital, so when you pay for it really on a rental basis, is that an appropriate thing to capitalize as well. But in any event I think you'll find this year, in examination of the estimates appropriations that in any event it's been brought back to current account.

MR. CHAIRMAN: Thank you, Mr. Anderson. Page 4, the Auditor's report. Mr. Spivak.

MR. SPIVAK: I believe, Mr. Chairman, we're talking about 4 and 5 because essentially, at least under MDC, because previous discussion had been on the matter of the interest factor. I would like to ask, and this is just for clarification, because it's not indicated directly in the record, I assume the Provincial Auditor is the auditor on Man-For?

MR. ZIPRICK: Yes.

MR. SPIVAK: Is this not indicated at this point, in any case, as under the boards and commissions and government agencies, and I guess that's because it was through the MDC that it was . . .

MR. ZIPRICK: Well, the schedule that we have is a listing of reports issued. We're just in the process of auditing now and our first report will be for the fiscal year ended October 31. So . . .

MR. SPIVAK: I'm assuming that from the time of the receivership, as the Provincial Auditor you have been involved with respect to the whole CFI complex, from that time on. Am I correct on that?

MR. ZIPRICK: Yes, I've been involved from the MDC but the Receiver's accounts were audited by Touche & Company, not by me. But they have given me reports and I was active and was familiar with whatever difficulties were encountered and whatever have you, so I . . .

MR. SPIVAK: Touche & Company . . .

MR. ZIPRICK: Yes . . .

MR. SPIVAK: Let me understand that. I just want to understand this. Touche & Company have given you reports and they in turn, I assume, have filed reports with the court. Is that correct?

MR. ZIPRICK: The reports were filed in the courts and those reports were tabled in the Legislature, I understand.

MR. SPIVAK: Well, that's something I'll have to check. I'm not sure that the last report was tabled.

MR. ZIPRICK: I'm not sure but . . .

MR. SPIVAK: Can I ask at what point you became the auditor for Man-For, at what point Touche & Company stopped and you started.

MR. ZIPRICK: Well, Man-For is organized under the Natural Resources Development Act. Under that Act, any corporation that's formed under this Act where the government has more than 50 percent interest, I'm automatically auditor . . .

MR. SPIVAK: I'm sorry, Mr. Ziprick, I'm just simply trying to determine at what point Touche stopped and you started. That's all.

MR. ZIPRICK: Well Touche are still auditing the Receiver's account to the extent that he's carrying on activity. Now whatever assets were transferred over from the Receiver and the MDC to Man-For in line with this transfer we have taken over and we're carrying out the audit on Man-For.

MR. SPIVAK: Well, I wonder, to Mr. Cherniack, whether he can determine whether

(MR. SPIVAK cont'd) in fact Touche's reports, the latest reports have been tabled. I can certainly find out from the Clerk. But if it hasn't, whether that can be tabled so at least we'll have an examination of that.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Well that's a matter for the minister responsible. I will undertake on behalf of somebody here to make a note to inquire from the Minister as to whether or not it has yet been filed. I think that's a . . .

MR. ZIPRICK: I just might add that in the transition audit, this first year audit, we had employed Touche to a certain extent to assist us in the transition and the follow through. So we've got complete access to their work papers and they are giving us their assistance so that we minimize the familiarization as much as possible amongst the auditors and maximize the return on the audit.

MR. SPIVAK: Do you mean recommendation (c) with respect to Manitoba Development Corporation, in which you stated: "We recommend procedures for accountability by organizations in which there is substantial financial input by the Communities Economic Development Fund, as explained under the heading Communities Economic Development Fund, in the comments of specific organization section of this report, we feel that the recommendation procedures also apply to this corporation." And without going onto Page 18 and dealing with it specifically, what I want to understand from you, are the recommendations with respect to the MDC for those situations in which there are substantial loan capital that's been made available, or are you talking about those cases in which MDC have equity capital?

MR. ZIPRICK: I would say in both instances, both loan and equity. I find that if there's substantial loans by way of working capital, that the control has got to be quite firm in the day to day operation. If the loan is for a specific durable asset and you've got that secured, well then you've got a protection for that particular loan. But the moment that the loan is a general loan for working capital, it's only through audit and controls that you can ensure that the capital is not being depleted in a way that would be detrimental to the security of that account.

MR. CHERNIACK: Do they reserve the bad debts? Does the MDC reserve the bad debts?

MR. SPIVAK: Mr. Chairman, I haven't finished my question. I wonder, Mr. Ziprick, if you can indicate, have you found specific examples in which the MDC was involved where the concern that you've expressed has in fact been brought to your attention or has been discovered by you, in which case whatever appropriate action was taken, was taken?

MR. ZIPRICK: Well, I look at it not as much from specific examples but on the basis of the control over-all. And I think that if the CFI has taught us anything, it's taught us that an astute chap can take advantage of us by realizing how, you know, we work in various segments and things are not tied up, and so what I'm suggesting here is that we get a better tie up, we get a more direct reporting from the auditors, in addition to their other obligations there be more direct reporting to the auditors, and thereby preclude these kind of difficulties, because I would not want to see me sitting before a commission of inquiry and explaining why the difficulties had arisen.

MR. SPIVAK: Well, in the CDF, and you mention that the Honourable Sidney Green has written me concerning the implementation of the aforementioned suggestion. Now do I take it that that is really referring just to CDF or is it referring to both MDC and CDF.

MR. ZIPRICK: No, I haven't had anything as to what the decision is on MDC.

MR. SPIVAK: I see. Okay. So then you feel that there's certain recommendations that you've made with respect to CDF that should be applied to MDC with respect to what you've just suggested. I wonder if you would be prepared to submit to the Committee for consideration a written memorandum with respect to those recommendations so that we are in a position to understand in detail the kind of thing that you think should be undertaken with respect to this matter to ensure proper accountability.

MR. ZIPRICK: Well, I could elaborate on it but essentially I've stated already that really what we're suggesting is that every case there's a loan where it's not secured by anything durable that you're protected, and, for instance, if in real estate, and if you only make a loan that's 70 percent of the value of the real estate and you've got a mortgage on it, well, there's no point in involving yourself in the other chap's business to see how his business is run and how he's depleting the working capital, because if he goes bankrupt you just realize on your security and you're finished. But on the other hand, if you give a business a loan for working capital of X dollars, well the only protection that you have basically on that security is that it will not be depleted to the point that you can't realize on it. So the accounting and the

(MR. ZIPRICK cont'd) auditing and the controls and the proper business approach is very very important.

So, in every one of those situations we say that first of all there should be an audit, and in some cases I must admit, in MDC, although there are agreements required, there is no audit by an independent auditor. There are clarifications carried out by the MDC inspectors, and we don't dispute them, they're quite satisfactory, but as a matter of principle we feel there should be an independent audit in those cases. And then in the cases where there is an independent auditor that there should be a system of communication directly from the auditor to me, so that we can carry whatever messages we feel to the Legislature and to the Government; because the way the system is geared up now the independent auditors if they run into any kind of difficulty to carry a message across, there is no system and they would have to go into a very difficult situation of a squealing proposition, and that becomes quite difficult and puts the auditor in a difficult position. So I think that this kind of system would enhance the power of a private auditor and put him more into the power that we have.

And in the area of public money, as a matter of system, he could tell the board of directors, look gentlemen, regardless of what you say, I have a direct obligation and I must report it. What the Provincial Auditor is going to do with it, and how he is going to carry the message across, that's up to him, but I must report to him. That takes him out of controversy but puts him in the position of really getting the message across if there are difficulties.

Now I don't know whether there are difficulties. I know if the difficulties were grave enough that the private auditors would certainly take action. But there is a . . . Just as the CFI has taught us, when you have to get involved into this miserable area of going out of your way to draw attention to certain things, it places an awful lot of pressure on the auditors to comply and there can be a lot of persuasion applied by the directors, whereas if there is a direct obligation to do that then a lot of that disappears, and the auditors just . . . the directors and everybody know that there is an obligation, and there's no way the auditor is going to make direct statements where he's obligated to make direct statements without disclosing these kind of difficulties. This is really what is inspiring us to ask for those kind of controls.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: I wonder how far you really are talking about, Mr. Ziprick, because I want to take Saunders Aircraft as an example.

MR. CHERNIACK: Here we go.

MR. SPIVAK: And I want to, Mr. Chairman, by . . . but I want to follow through on your example. The Provincial Auditor will be able to . . . an auditor will be able to audit it. You're saying that if there is depletion of the working capital and, in the judgment of the auditor, it is something that is of a nature that should be investigated by you, or should be considered by you, he would have the right to be in contact with you as a result of this. So that in his judgment, if there is a non-productive account, or there is a waste and inefficiency with respect to particular items, then that could be brought to your attention and you in turn could bring it to the attention of the Minister and the Legislature. Is that right?

MR. ZIPRICK: That's right.

MR. SPIVAK: So that the valued judgment that, in this particular case, that the government would give to saying that the moneys should be funded, or money should be available and funding should take place, that there would be a check and balance on that by the auditor having the right to come to you and saying, notwithstanding the financial statement which is accurate in our opinion in this particular area and that particular area, we believe there is excessive waste, mismanagement or unnecessary expenditure, and what is happening is the loan capital that is coming in is being depleted and as a result there is a greater request or a greater demand for more money. Now I am correct, is that the procedure that you're talking about?

MR. ZIPRICK: That's the procedure. Now to start with, I can see that we would just not go into too much detail in the form of regulations and communications, but I can see us developing a procedure where the auditors would look for guidance to my office as to how far they should go in, and we would give them that guidance and within that guidance they would be reporting to me because, you know, any other approaches we would carry out the audit but then it expands our empire pretty broadly and that gets into other problems.

MR. SPIVAK: Under the present situation then, an auditor who would be examining it would suggest that there is a substantial expense that was unnecessary, he would not have an obligation, nor would he have any authority, nor would he be responsible to reporting that to you at all?

MR. ZIPRICK: No, they don't report to me . . .

MR. SPIVAK: They report to their own directors?

MR. ZIPRICK: They report to the directors and then the financial statements come out, they certify in the financial statements the position of that.

MR. SPIVAK: But are you aware that the kind of function that you're talking about is in fact being performed even to a certain extent by the auditors that are involved for the various ranges, or the whole host of companies in which the government's involved and are at least reporting that kind of information to the present board of directors?

MR. ZIPRICK: I don't see the reports, the reports of the auditors to the board of directors are not . . .

MR. SPIVAK: They could be but you don't know, and they may not be?

MR. ZIPRICK: I could say this, that it's a standard practice for auditors to submit management reports just like we do to the ministers and some of them as we've brought forward here into the Legislature that we felt . . . it's standard practice for the auditors to go into these areas and to make reports. And knowing the firms that are auditing I could guarantee pretty well that there are management reports and they are quite specific and with recommendations and everything else. But we don't see them, we don't have access to them.

MR. SPIVAK: Can I frame another hypothetical case without mentioning a specific one, I want to be able to understand correctly. Would you consider that the auditor who would be the external auditor for a company in which the government's involved, would have an obligation under these new arrangements to be made to report to you if projections that had been presented to the board by management, to the board involved in a company, were either incorrect or had not been met or were inaccurate, would there be an obligation under these arrangements for the external auditor to draw this to your attention, or would that be entirely a management decision in which the external auditor would have no responsibility whatsoever?

MR. ZIPRICK: Well it would depend to what extent that there was direction to the auditor.

MR. SPIVAK: Let me put it another way. Projections which would be used for additional funding to be provided by government, would there be an obligation on the part of the external auditor to draw this, under these new arrangements, to your attention to indicate that those projections were either inaccurate or misleading or based on false information?

MR. ZIPRICK: Well in this new arrangement that we're suggesting, we have not developed any kind of guidelines or directives. Now if we established and it was a direction that this is what the auditor must provide and it was agreed as a term of condition of the loan in the first place that the directors must agree to it and not have objection to the auditor making that provision, then I would say that this would be a condition. But we haven't worked out . . . first of all, the policy has to be established then as to how far it would get developed along those lines. I would have to be in consultation with the auditors to determine if there's too much demand put on them in that area, just what position would it put him in with their directors and whatever have you. But offhand I see no difficulty for auditors having to comply with this if they were specifically asked to do it and I see no difficulty in us working out that kind of arrangement. But that would have to be an arrangement that would have to be worked out. Under the ordinary audit assignment there would be no obligation to carry that out. But of course under the ordinary audit assignment there's no obligation to report to me either, but this would be outside of the ordinary audit assignment as part of conditions of the loan that the funds would be made available and the conditions of public accountability for public funds.

MR. CHAIRMAN: Thank you, Mr. Ziprick. Mr. Graham.

MR. GRAHAM: No, I'll pass this time.

MR. CHAIRMAN: Mr. Toupin. Mr. Cherniack.

MR. CHERNIACK: I see we only have a few minutes left, Mr. Chairman. Firstly, I have an impression which I would like Mr. Ziprick to confirm or qualify in any way. That other than the CFI, The Pas Complex, that the MDC has in its annual report and in its statements, reserves for bad debts for other loans made. Is that correct?

MR. ZIPRICK: Yes, they have made reservations as disclosed in their financial statements they've made.

MR. CHERNIACK: That's in all cases, to your knowledge, except The Pas Complex?

MR. ZIPRICK: That's right. In all cases . . .

MR. CHERNIACK: I point that out, Mr. Chairman, and leave it at that because there's another Committee of the Legislature that will be dealing in great detail with CFI and MDC and I don't want to develop it.

(MR. CHERNIACK cont'd)

I now want to check on this. Who is the auditor for the Saunders project?

MR. ZIPRICK: Price Waterhouse, I think, I'm not . . .

MR. CHERNIACK: Well, I leave it to Jack if he says it is.

MR. ZIPRICK: We know who the auditor is because we examined the financial statements of the auditor ourselves in the files of the MDC so I just . . . when I say I don't know, it's just I haven't got the information but I know.

MR. CHERNIACK: Well what you are saying clearly is that you have access to the reports of the Price Waterhouse that are filed with the MDC?

MR. ZIPRICK: That's just the annual financial statements. There are no other auditor's reports to my knowledge filed with the MDC.

MR. CHERNIACK: The loans that are made by MDC do they have in their loan contract the right of the lender to get more detailed statements of the operation of the company than maybe the annual statement?

MR. ZIPRICK: The loans are such that the MDC can send its own inspectors and they can look at the accounts any time they so wish and there are monthly statements brought in on the position and being considered.

MR. CHERNIACK: And you have access to this information?

MR. ZIPRICK: The information that's in MDC files, we have access, and then of course if we see some information that's missing we would ask the inspectors to really go and get it.

MR. CHERNIACK: Have you ever had an instance where you have made a request for more information about the accountability of borrowers and have not received that co-operation from the MDC or the lender to try and get that?

MR. ZIPRICK: Well there's one area that we have some difficulty, and that is in some cases there are not independent auditors appointed, even though the agreement says, they are not independent auditors, the statements that are brought forward are verified by their inspectors but they are not audited by independent auditors. We have suggested that independent auditors be brought in. There's a feeling by the MDC officials that that would put an undue burden on some of these businesses to do that. So there's some difference of opinion and maybe I am, as an auditor, being over cautious and demanding something that's excessive, but in my view there is a provision in all the MDC agreements, I think, that there's got to be statements supplied, verified by independent auditors, but in some cases this is not complied with and the MDC feel that that would place an undue burden on the business to do this, so they've waived it, we don't fully agree with it, but this . . .

MR. CHERNIACK: Are these on large companies or small?

MR. ZIPRICK: No, they're smaller companies.

MR. CHERNIACK: I see. Again I leave that . . .

MR. ZIPRICK: But that's something that the MDC people . . . that's why I say that we haven't tackled this problem. We've had discussions on the Communities Economic Development Fund and there's general agreement on the Communities Economic Development Fund that we can make some arrangements for audit and the more difficulty in there is the accounting and having the accounts ready rather than the audit. But in the Development Corporation, there is some difference of opinion in there.

MR. CHERNIACK: Mr. Chairman, in both the case of the MDC and the Communities Economic Development Fund, they will be before another committee and therefore I don't think that we ought to explore further the specific details that Mr. Ziprick referred to, especially since at that time their representatives will be there.

I'm under the impression that we have dealt now with all of Page 5 except the Manitoba Mineral Resources Limited which may or may not be a matter of interest. I'm wondering whether we couldn't pass those so that we start the next meeting with Page 6, but if we can't, we won't.

MR. CHAIRMAN: Mr. McGill.

MR. CHERNIACK: I have one comment to make. At the conclusion of last week's meeting, I posed a question which again has arisen through something Mr. Ziprick said. Does this committee, and I point my question directly to the Opposition, do they think that the Provincial Auditor should be legislated into the authority, responsibility of being the auditor for all associations and companies to which this government makes grants or loans?

(MR. CHERNIACK cont'd) Because it is clear from his report that he does do the audit, and I said I've been criticized in the past for making that decision, for all government departments and government agencies, he has told us something I didn't really know that clearly, and those Crown corporations which are wholly owned by the province. He does now. Now this line of questioning raises again the question in my mind, and Mr. Ziprick did mention it. Does the Opposition believe that Mr. Ziprick's scope should extend to auditing Children's Aid, Mount Carmel Clinic, I can't think, maybe I shouldn't bother to think of the names of companies that are - yes, the YMCA - borrowers from the MDC, school boards, co-operatives, do they think he should do it or should he not, because let's get down to something pretty realistic. What do they feel we ought to do? --(Interjection)-- Not under the Provincial Auditor, that's my point.

MR. CHAIRMAN: I have Mr. McGill on the list.

MR. MCGILL: Mr. Chairman, my point was not on this matter. I merely wanted to reserve the opportunity to comment on the Manitoba Mineral Resources Limited statement on Page 5, I believe it is.

MR. CHAIRMAN: On Page 5. I believe that Page 4 was passed. Mr. Craik.

MR. CRAIK: In relation to Mr. Cherniack's comments, we think that it's, you know, a thing of prime importance is that the auditor's powers and terms of reference be such that he can work more towards a management or efficiency type audit in those areas that are now demonstrated to be problem areas. To divert his attentions into auditing school boards and other things would be to go in a direction that's likely to take him away from the ability to more adequately do a management or efficiency audit in those areas that are demonstrated to be problem areas.

MR. CHAIRMAN: Thank you, Mr. Craik. We're on Page 5.

MR. CHERNIACK: Have we agreed to Page 5 down to but excluding Manitoba Mineral Resources Limited?

MR. CHAIRMAN: Yes, pass Page 5. Mr. McGill and Mr. Spivak are on the list. Is it the committee's wish to adjourn? Committee rise.