



**Legislative Assembly of Manitoba**

**HEARING OF THE STANDING COMMITTEE**

**ON**

**PUBLIC ACCOUNTS**

**Chairman**

**Mr. David Blake**

**Constituency of Minnedosa**



**THURSDAY, May 5, 1977, 10:00 a.m.**

TIME: 10:09 a.m.

CHAIRMAN: Mr. David Blake.

**MR. CHAIRMAN:** Gentlemen, we have a quorum. The committee rose at our last meeting on Page 29 — Comments and Recommendations Concerning the Legislative Management System by the Provincial Auditor. Mr. Lyon was speaking and I had no one else on my list. Page 29—pass. Mr. Lyon.

**MR. LYON:** There's just one question arising out of the comments and recommendations for Mr. Ziprick. I wonder if he could advise if it would be possible for the Public Accounts and his Auditor's Report to be made available to the Minister sooner than has been the customary practice in previous years — before Mr. Cherniack says it — even going back into the previous administration — if that would be possible, for the Report to be forwarded and printed and made available for members of the Legislature; and secondly, arising out of that, if that would not dove-tail into the implicit suggestion that Mr. Ziprick has here that this committee might well consider meetings when the House is not in session and could well start its deliberations of the closed fiscal year something less than a year after the books had been closed.

**MR. CHAIRMAN:** Mr. Ziprick.

**MR. ZIPRICK:** Well, on the basis of my experience, I would see no difficulty in the Public Accounts being ready probably some time in July and then the Auditor's Report could be completed probably within about a month after that. My Act specifies that the Report must be submitted to the Lieutenant-Governor-in-Council by December 31st. Well, we have been holding it off pretty well to December 31st because if it is prepared before, it is just lying around until the Legislature meets and it is tabled in the House. The way my Act reads, I think there is no provision for a distribution — it doesn't forbid it — but there is no provision for distribution before tabling and I don't know just what kind of difficulties that would present. As far as the Public Accounts are concerned, they can be distributed just as soon as they become available. From a practical point of view, as much as I know, and of course the Department of Finance are responsible for the preparation of the Public Accounts and so they would be the people to really say, but on the basis of what I see, other jurisdictions do, and on the basis of my knowledge, I would say that a date sometime in July would not be unreasonable to have the Public Accounts completed. Of course, my report being on the Public Accounts largely, would have to be some time after that, probably a month after that, so that when the Public Accounts are finished, we could then do the final analysis and prepare my report.

**MR. LYON:** So, Mr. Chairman, Mr. Ziprick could then envisage a situation whereby the Public Accounts, without rushing it or doing a hasty job or anything like that at all, could be made available publicly by say the end of July. His Auditor's Report could be available say — and we were speaking only in general terms here — by the first of September or mid-September and this committee, if it were the will of the committee, could then actually begin the determinations and the discussions on the year's previous accounts sometime in September or October, even well in advance of the session but within say four to five months of the closing of the province's books.

**MR. ZIPRICK:** I think that that could be a practical situation if that was the desire.

**MR. LYON:** The Province of British Columbia, for one, and I think there are other jurisdictions now following the accepted practice of private corporations turning out a quarterly report on the basis of the activities, revenue and expenditure, of the government. Would that be a feasible practice to initiate in Manitoba?

**MR. ZIPRICK:** I would assume that there probably would have to be a few re-arrangements made but I can see no major difficulties in the way of establishing that kind of practice, but there again, the Department of Finance are much more close to that operation and they would be the more authoritative people to speak on that.

**MR. LYON:** Mr. Chairman, I'm not trying to involve Mr. Ziprick in policy determinations; I am merely asking from his standpoint as the Provincial Auditor, if there would be any over-riding technical or procedural or mechanical reasons why this — what I consider to be desirable — practice could not be initiated in Manitoba.

**MR. ZIPRICK:** No, I don't know of any. Of course, those quarterly statements would not be certified by the Auditor.

**MR. LYON:** No. Well, nor are they in business. They are all footnoted as being unaudited statements but they do give a running account of how the business of the province is proceeding.

**MR. ZIPRICK:** Yes, British Columbia has been doing that for a number of years now and Ontario has just recently moved into it. I've received one of their first quarterly reports recently and they have moved into the same kind of procedure.

**MR. LYON:** Would the idea of having Public Accounts convene say four to five months after the close of the fiscal year and begin the deliberations on the statements that we have in front of us here, would that be in consonance, generally speaking, with the recommendation that you made concerning a greater role by this committee in reviewing and controlling and having some more

responsibility for the manner in which public moneys of this province are administered?

**MR. ZIPRICK:** Yes, that would be in accord with my views. Of course, these are my views from an auditor's point of view and it is in this spirit that I am putting these views forward. I appreciate the legislative committee and members may have other views and whatever they are, naturally that's how it's going to be.

**MR. CHAIRMAN:** Mr. Cherniack.

**MR. CHERNIACK:** Well' Mr. Chairman, I am under the impression from previous years that the department was not able to produce public accounts anywhere near the July date that Mr. Ziprick seems to agree was feasible. I believe it took well until when?

**A MEMBER:** Until the middle or late December.

**MR. CHERNIACK:** That's quite a long time after July 1st. I suppose anything can be done given more staff man years and a bigger budget, which is something that has always been a point of contention between all departments and management committee and budgeting and all that. However, I couldn't quarrel with the desirability of having earlier information available. I would undertake on behalf of the department to have this portion of the discussion referred to the Minister for review and consideration to see what could be done in the future.

**MR. CHAIRMAN:** Page 29—pass. Mr. Lyon.

**MR. LYON:** On the recommendation by Mr. Ziprick, Mr. Chairman, concerning the legislative management system, I am wondering — and I am seeking advice as much from Mr. Cherniack as anyone around the table and/or the transmission of that to the Minister — whether this committee would be susceptible to a motion that would embody the suggestion that the committee do meet at the earliest possible moment when the House is not sitting, to begin the consideration of the Estimates. I don't know procedurally whether that is even necessary, this now being a Standing Committee of the Legislature and empowered to meet generally at the call of the Chair between sessions — whether or not a formal motion of that sort which would ultimately be reported to the House and presumably agreed upon would be in order at this stage or before this committee rises and makes its report to the Legislature, in order to register the feeling of the committee — if indeed it is the feeling of the committee — that that procedure would be at least one step toward the implementation of what many of us regard as quite a sound recommendation by the Provincial Auditor.

**MR. CHAIRMAN:** Mr. Cherniack.

**MR. CHERNIACK:** Since Mr. Lyon invited my comment, I would say that I think that it would be non-productive to attempt to have the committee pass any motion. The point has been made; there's nobody quarrelling with it; it's a matter really for government to consider whether or not it can be worked out and I have undertaken that the Minister will be aware of the discussion and I think that it would be unnecessary and as I say, non-productive to attempt to have a formal motion presented. Now, Mr. Lyon wanted my opinion; he has it.

**MR. LYON:** I wouldn't want, of course, to destroy the beautiful non-partisan agreement that we are having in the committee by formalizing a motion. But if we can have some understanding that there would be general concurrence, subject of course quite properly, to the Minister and his Deputy and the staff indicating, as Mr. Ziprick indicates, the feasibility of it, then we would be quite happy to know that the government would give favourable consideration to this. If, on the other hand, it requires formalization by way of a motion, I stand ready to make the motion at any time.

**MR. CHAIRMAN:** Page 29—pass; Page 30—pass. Mr. Lyon.

**MR. LYON:** Mr. Chairman, on Page 30, I imagine it could be raised here or elsewhere dealing with the activities of the Provincial Auditor's office. For some years now it has been, I take it, a matter of policy on behalf of the present government that audits of a number of the Crown corporations have been done internally by the Provincial Auditor rather than by private accounting firms who customarily did these audits in previous years. I was wondering if the Provincial Auditor would care to comment as to whether or not there is not benefit in terms of having audits done, particularly of operating Crown corporations — I think, for instance, of Hydro and Mantoba Manitoba Telephone System, the Liquor Control Commission, and some of the other corporations into which government has become involved in recent years — whether or not it would not be of value to have this kind of outside audit resumed in order that Mr. Ziprick's office and his staff could be assisted by the benefit of auditors who are customarily dealing with companies in the private sector and who could bring to bear upon those audits some of the expertise that they gain from the operation of — I hate to use the word profit-making — companies in the private sector and thereby not only bring that expertise to bear upon the books of the Crown corporations but aid and assist Mr. Ziprick and his staff in what must be a tremendously enlarged responsibility that he and his staff have had to take on in recent years.

**MR. CHERNIACK:** In the first place, Mr. Lyon used a term "that is now being done internally by the Provincial Auditor." I don't understand that term at all because the Provincial Auditor is an independent auditor before the Legislature and there is no "internal audit" by the Auditor of these

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Crown corporations. At least, there wasn't at the time when I decided to instruct the Auditor to do the audits.

The second clarification I would like to have is what Mr. Lyon means by "assisting the Auditor." Is he proposing two independent audits, one by the Provincial Auditor and one by an outside auditor? Because in the past, the Provincial Auditor had nothing whatsoever to do with the audit of the Crown corporations. So I would like to understand whether Mr. Lyon is now suggesting two audits?

**MR. CHAIRMAN:** Mr. Lyon, can you clarify the points raised by Mr. Cherniack?

**MR. LYON:** Well, if I thought a clarification was necessary, I would. I am sure Mr. Cherniack understands completely what I am saying. Prior to Mr. Cherniack's becoming Minister of Finance of this province, a number of audits were done of Crown corporations entirely by outside audit firms. This having been thought, in previous times, as being an efficient way in the public interest of having this done. Subsequently, I take it from what he said during the period of Mr. Cherniack's occupancy of the Ministry of Finance, those audits were ceased and the Provincial Auditor was required then to do the audits of, I take it, Manitoba Hydro, Telephone System, etc., etc. I am merely asking whether or not there would not be some benefit in the public interest to have the private sector auditors resume some of that responsibility again, if that would be helpful to Mr. Ziprick and if the expertise that they have would be helpful as well in terms of bringing to the attention of not only Mr. Ziprick in his office but, indeed, to the members of the Legislature, any bench-mark comparisons that they are able to make that would be again helpful in the public interest.

**MR. CHERNIACK:** Mr. Chairman, again Mr. Lyon, although he assumes that I understood him, I still do not understand him unless he really means that there will be two audits. He keeps using the words "assist Mr. Ziprick." If we go back to the former system, then it means that private auditors or auditors from the private sector would be taking back — or "resuming" is his word — the audit of a Crown corporation, let us say Manitoba Hydro, and then Mr. Ziprick would have nothing whatsoever to do with it. So it is not a question of assisting him, it is a question of replacing him and I want to understand — and I would think Mr. Ziprick should want to understand — whether Mr. Lyon is talking about both being involved in the audit or one of the two. I think it is rather important for me at least, if not for others, to understand the question so that I could better understand the answer when it comes.

**MR. LYON:** Well, Mr. Chairman, I see no difficulty in understanding it at all. Mr. Ziprick is still the Provincial Auditor of the Province of Manitoba and would have over-riding . . .

**MR. CHERNIACK:** Never did. Never did.

**MR. LYON:** . . . No, but would have some over-riding overview of the quality of the audits, the appointment of the auditors, etc. etc. in the same way exactly as the Attorney-General can from time to time — and does from time to time — appoint outside counsel to prosecute particular cases but, at the same time, has an over-riding control with respect to how that is carried out in the public interest.

**MR. CHERNIACK:** Never did.

**MR. LYON:** Well, Mr. Ziprick is in a better position with respect to say that than I am.

**MR. ZIPRICK:** Yes, I can deal with that now. As far as the benefit is concerned, naturally if you bring a broader experience, there would be some additional benefit but as to quantifying or indicating to what extent there would be benefit, it would vary in different circumstances. Quite a number of our chartered accountants that are on these audits have had a variety of experience. They are not involved once they're with us on a day-to-day basis in that area so to that extent to have outside auditors involved would certainly be a benefit.

Now, as far as working with outside auditors, my office and outside auditors, that presents no difficulty and arrangements could be made that we would work with the outside auditors. We are now working with an outside audit firm with regard to the Museum of Man and Nature. The appointed auditors are outside auditors. By an Order-in-Council we have a responsibility to take a look at what they come up with and review whatever we feel is necessary and bring to the attention of the Legislature any matters that would warrant their attention — the Legislature's and the government's. So that there then is, in addition to an attest audit that is being carried out by the private auditors to certify to the financial statement, there is an involvement of a legislative auditor who then brings his message across to the government of the day and also to the Legislature to the extent that it is necessary. Now, the previous procedure — and our legislation now does not provide that — the auditors when they were doing the audit of Hydro or the Telephones, the Provincial Auditor had no responsibility whatsoever and the auditors just carried out an attest audit and put their certificate to the audit and there was no reporting provision either to the government or to the Legislature. To the extent if we went back to that system, I would say that there would be a reduction in accountability to the Legislature. The Committee on the Review of the Auditor-General of Canada was very emphatic in that area and the legislation that Canada is bringing in now, that British Columbia has brought in and Ontario is proposing, makes it very specific that when outside auditors are used, that the legislative auditor has still an involvement to ensure that beyond the attest function that all the various requirements to report to the government and report to the Legislature for accountability of

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public funds is being carried out. Now, taking that approach I would completely agree with it as being a workable approach, because we would have no difficulty working with the outside auditors.

Recently we were auditing all the wholly-owned subsidiaries of the Manitoba Development Corporation, and just recently arranged to have three smaller wholly-owned subsidiaries assigned to private auditors. It has been assigned on this basis, that even though there is no direct legislative authority for me, I understand that the government wanted it that way; that private auditors could carry out the attest audit, but I was to be involved to review their management findings and whatever else and bring it to the attention of the government and the Legislature, any matters that I felt warrant the attention of the government or the Legislature.

**MR. LYON:** Thank you, Mr. Chairman, that is precisely what I was getting at. That is the natural, I think, evolutionary process that has been going on in other jurisdictions and certainly would commend itself to me, as opposed to the previous system that you were mentioning, that the Provincial Auditor would have that overriding control, and in effect would have the benefit then of the advice of the outside auditor without losing the control for certification of that audit and the reporting channel into the members of the Legislature.

**MR. CHAIRMAN:** Mr. Cherniack.

**MR. CHERNIACK:** Mr. Ziprick, are you now recommending that that be the case, that we replace the detailed audit that you do with that of the auditors from the private sector, and you have an overriding view of it? Is that your recommendation?

**MR. ZIPRICK:** Oh, no, I agree there is some benefit, but to the extent of the benefit, the decision is really up to the Legislature and the government and not up to me. I find nothing wrong with the system of us auditing and reporting in totality. Now, if it is the desire of the Legislature and the government that we work in conjunction with outside auditors I also see no practical and workable difficulties in that. Now, as far as the costs are concerned in that regard I am not sure just where the situation would be — the organization that the audit has been carried out would pay for the outside auditors and, to the extent of our involvement, it would be picked up by the Consolidated Fund. This is the arrangement that we are working under now with regard to the one set-up that we have been working together with outside auditors, and that is the Museum of Man and Nature, for about three years now, I guess, and this will be a similar arrangement for the three wholly owned subsidiary companies of MDC that just have been taken over. But, I am not making any recommendations either way, I am expressing the views as I understand them, and my observations, the decision would be up to the Legislature and the government. Now, the independent review committee of the Auditor-General has gone into this and they have made a — I think there is a whole paragraph on this — and what they say in there I don't disagree with. They essentially say that if the Auditor-General has the staff to carry out the audits he should carry them out. On the other hand, if he doesn't have the staff, particularly in these companies like Hydro or ones that are corporations completely independent, that they could work together; whereas in the other areas where there are grants and subsidies involved, then their recommendation is that the Auditor-General of Canada carry out the complete audit.

**MR. CHERNIACK:** Mr. Ziprick, you debate various recommendations to improve the opportunity to give a full report to the Legislature, and you are responsible for the effectiveness of the audit, and I am rather surprised that you don't make a recommendation. You may recall that your predecessor had no problem making a recommendation as to whether or not the Provincial Auditor could, and should, handle these audits. Now, if there is any change in your approach then I think you ought to tell us, because, if in your recommendation it would be possible to make a change to improve the audit then we should know that. So, I think that we should ask you to tell us whether the present system is what you think is best, in terms of the audit, or if there should be an improvement. Surely we ought to — and when I say "we", we of the Legislative Committee ought to know, and the government ought to know, so that it can assess your recommendations and make a decision along that line. I know when I was the Finance Minister, the decision I made was a saving of money and also an improved audit, so I understood. Now, if the impression I had then has since become changed because of what you have learnt, then you ought to make a recommendation to us; it would be helpful.

**MR. ZIPRICK:** Well, as far as previously is concerned with regard to the improved audit, previously as the audit was designed there was no reporting to the Legislature, it was . . .

**MR. CHERNIACK:** What do you recommend today?

**MR. ZIPRICK:** Well, I recommend that there should be a continuing involvement of the Legislative Auditor in these audits.

**MR. CHERNIACK:** But, are you recommending any changes? Shouldn't we know that if you are?

**MR. ZIPRICK:** The government of the day feels that private auditors should carry out certain phases of the audit and be working very closely with the Provincial Auditor, as for instance is being recommended in the Ontario Legislation that is being brought in, or in the BC Legislation.

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Professionally it would present no difficulties for me, and the quality of audit would be the same because it would be carried out by professional people. Now, as far as the costs are concerned I am not sure just what the cost element is. This is something that would have to be taken a look at.

**MR. CHERNIACK:** Mr. Ziprick, you are saying, if the Legislature feels, and I don't have any opinion whatsoever, I have no knowledge of how to do an audit. I would have to rely on the Provincial Auditor to make a recommendation as to what he feels serves the Legislature and the people of Manitoba best. So, I for one, wouldn't care to hear anybody's opinion to any greater extent than yours, it is your opinion that would influence me, as a Member of the Legislature, and I think that you ought to give it, whether you think there ought to be a change from today's system.

**MR. ZIPRICK:** I see nothing wrong with today's system, but if we were short staffed and I would not hesitate in going to a private firm to get assistance, because they are qualified people . . .

**MR. CHERNIACK:** You have that right to, don't you?

**MR. ZIPRICK:** Well, I would have to get approval for the money, but once I got approval for the money I have that right, that's right I don't have to actually hire staff members on my staff, I could go and get assistance from firms. So, really, I feel that what we are talking about isn't that much different, it is just a question of should I get assistance or shouldn't I.

**MR. CHERNIACK:** I'm sorry, Mr. Chairman, it is rather important. If the Auditor thinks it would be advisable to change the present system then I would like to know it, because if it is then I think that should be a very serious consideration for government to make a decision. If he feels the present system is good, but would work within another system which he thinks is not quite as good, then, he should say so, so that we would know, because it is not what the Legislature "would" think, it is rather what appears to be the best for the system. Mr. Ziprick, I assume, is the best person to judge that, and as I said before, I would be influenced, so it is not a negative response I would like from him, it is a positive one. Do you think the system should be changed, and if so what do you . . . ?

**MR. ZIPRICK:** Well, it is not a question of changing the system Mr. Cherniack. I have already been approached, in the last six months, where three wholly-owned subsidiaries of the MDC, where the directors, and discussing with the Minister, asked if it was all right to bring in private auditors because they felt they could assist them in some areas. I said, "Well I had no objections, as far as I was concerned, provided we continued to have involvement to the extent that we could determine what was going on and report to the government and the Legislature." So, those steps have already been taken. I have agreed to them, and how many more could be taken, or should be taken, it is really not up to me to decide. Any situation that is brought forward with a request, we will judge each request on its merits and make a recommendation.

**MR. CHAIRMAN:** Mr. Graham.

**MR. GRAHAM:** Well, Mr. Chairman, I would like to ask Mr. Ziprick, he has put a statement in here, I think, which answers Mr. Cherniack very well, where he says — Page 32. "Although this arrangement is still in its formative stage there is every indication that it will develop and contribute significantly to a more effective control and accountability of public funds." Now, I take from that that you are trying something, and the indications that you have to date are that it will probably work out very well and will improve, because I think you have told us before that in your meetings with the Institute of Chartered Accountants of Manitoba that there have been various theories proposed on the ideas and the functions of auditors. And, the public sector in some cases may have different emphasis as compared to the public system. I think that as long as there is this continued dialogue that all sides must eventually benefit.

**MR. ZIPRICK:** To some degree, except that there is a lot of public money that is being paid over by way of grants to various semi-public or public institutions that we do not audit, and we do not have the benefit of looking, and to find out, to see what the audit findings are and having any contact with the auditors. And, therefore, to that extent there is no reporting to the Legislature, by a Legislative Auditor. So, these are the instances that I am working with the Institute and we are working with the Department of Finance, with a view to establish a system of communication whereby we can get direct input from the outside auditors as to what the situation is. I am here referring to the Public Schools Finance Board and all the various school divisions. We do the audit of the Public Schools Finance Board, all the schools divisions are done by private auditors. Now, I assume that they are making management reports to the school boards, but all we see is a report on the validity of the financial statements, only a test report, there is no report on the management review, the systems review, and the controllability of public funds. We have been discussing and have already arranged in this instance, for direct confirmations with the outside auditors. There are other areas where substantial grants are being made, like the various Childrens Aid Societies that are being carried out by outside auditors. We are discussing there, with a view to establishing communications.

Now, I don't have the legislative authority to do this, but within the terms of the Financial Administration Act there is the authority, and by working with the Department of Finance, myself and the auditors, we can accomplish this even without legislative authority. In the other places they are building in legislative authority. So, this would bring in not only the corporations, the various Crown

corporations that are already now under the legislative control; but also, grant moneys to various organizations We have no involvement at all now and have no communication, other than a financial statement that comes with an audit certificate on the attesting to the financial statements. So, it is much the same thing trying to bring in better accountability to the government and to the Legislature of public money that are being handled in different ways.

**MR. CHAIRMAN:** Mr. Lyon.

**MR. LYON:** Mr. Chairman, I think that is really the name of the game, what I think all members sitting around this table and in the Legislature, regardless of their party background, want to do, to ensure that where, as in the case of Manitoba today, we are actually spending \$1.3 billion-plus of public funds on an annual basis — that there be as great an accountability as possible through the office of the Provincial Auditor, which in my estimation does an excellent job, anything that I have said about outside auditors should not be read in any way whatsoever as being even an implied criticism of the Provincial Auditor. It is not that at all. It is rather to assist the Provincial Auditor in what has become, in the western world, never mind Manitoba, in Canada, in the United States and all other jurisdictions, a tremendously overriding problem of assuring to the taxpayer some better accountability for these mammoth amounts of public moneys that are being expended on an annual basis, hopefully, mostly in the public interest. So, it is in that context that the suggestion is made, and it is not a unique suggestion, I don't claim authorship of it or anything like that at all, it is merely to imitate and emulate the practices followed in some other jurisdictions, who are striving for the same desirable goal, greater accountability, that the question is asked.

Where it is particularly susceptible to utilization, one would think in an efficient way, is with respect to Crown corporations and the greater involvements, not only of this government, but the national government and the governments of some other provinces, in what used to be considered private sector types of operations, Autopac is a good example perhaps. What I deduce, from what Mr. Ziprick has said this morning, and unlike Mr. Cherniack, I am not trying to get an immediate answer from him, is that he would find and indeed is finding in his practice under the present administration that the utilization of outside auditors under his general suzerainty and control has a practical application in the report that he can make to this legislative committee. I deduce that Mr. Ziprick, Mr. Chairman, is also saying that that type of approach would be totally consonant with his legislative responsibilities and the responsibilities of his very able staff to carry out their statutory authority to the Legislature of Manitoba. That being the case and it being the case of course, that there is now some of this very activity going on. I'm happy to learn from Mr. Ziprick that that kind of cross-fertilization of expertise from the private accounting firms working in conjunction with his staff could helpfully benefit the public interest. Mechanical things such as the costs and the fees, of course, would have to be closely looked at as I'm sure Mr. Ziprick or any Minister of Finance would want to ensure. But if it is supportive of the general aim of achieving greater accountability to the public for these mammoth amounts of money that are being spent, then I read Mr. Ziprick as saying that it's a good thing and I agree with him.

**MR. CHAIRMAN:** Page 30—pass. Mr. Cherniack.

**MR. CHERNIACK:** Mr. Chairman, I think as Mr. Lyon said, it's very important we have the best possible accountability and I think that, as he says, nobody would do anything but encourage that we do that, within a sense of cost.

My problem is, and I put it very straightforward, that having listened to Mr. Lyon he's come to a number of deductions based on a number of statements which he made and which he thinks Mr. Ziprick replied to and he said, "it's a practical application and it's workable." Mr. Ziprick said those things. I still don't know whether it would be advisable tomorrow or next month or in three months' time to make arrangements to have Hydro or Telephones or the University or somebody else from the private sector undertake the audit, because if that were advisable then I would think it ought to be done. I don't get from Mr. Ziprick an indication that he thinks it is advisable. That's my problem. Just as I was influenced some number of years back to change the audit process, so would I, if I were in that position, be influenced by what Mr. Ziprick has to say. Now I did not deduce that and I would love to deduce anything that I knew was a correct deduction based on what Mr. Ziprick had to say. I'd rather not have to deduce it but hear it and Mr. Lyon suggested I need an answer today. I don't need an answer today. I, for one, would know that Mr. Ziprick had a positive recommendation to make, but until that happened I would still be in the area of deducing from what has been said mostly by Mr. Lyon and to some extent by Mr. Ziprick and to some extent by myself. I'd rather hear it from Mr. Ziprick but I would not press for any immediate response. I don't think there's a rush.

I would say that if I had the right to make a decision I would not be able to make one based on today's discussion and I would need some more firm opinions expressed by Mr. Ziprick before I would make a change. That's the way I would react. How the Minister will react I don't know, but no doubt he will be reading what was said this morning and attempt to deduce himself what may have been thought in the minds of whatever people have spoken.

**MR. CHAIRMAN:** We've covered this topic pretty well, gentlemen. Maybe we can have a wrap-up

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on it when we get to the final stages of the report. Page 30—pass; Page 31, Mr. McGill.

**MR. MCGILL:** Mr. Chairman, I was looking at the Statement of Revenue and Expenditure for the Auditor's Department noting that more than half of the expenditures, the expense of operating in the Auditor's Department, is chargeable to the Consolidated Fund. I'm wondering if there are some practical difficulties to a total allocation of the expense of the Provincial Auditor's Department. Would it not be a more realistic reflection of the costs of operating each of the departments of government if there was an allocation of the Auditor's expense in proportion to the time that is required to complete the individual departmental examinations? Perhaps Mr. Ziprick could give us some idea of whether or not (a) he feels that this might be good accounting practice to have a complete allocation of this department expense, and (b) what difficulties might be encountered in achieving that payment if in fact he feels it's a reasonable one.

**MR. ZIPRICK:** There would be not too many practical difficulties but the departments now do not accumulate all the various costs in other areas to reflect a complete program cost. There is, for instance, the rentals and all the various services that are being provided by the Department of Public Works. So unless and until everything was accumulated — and I am not recommending even that because many of these costs are marginal — ours would not be a difficult cost to allocate. We already keep time sheets and our time is assigned to the various jobs, so it would be just a matter of costing that and applying it.

But in many other areas there would be very expensive accounting procedures to accumulate relatively insignificant costs to the total. So unless it was being done to get a complete very precise cost for a program — and I don't know just to what extent that can really be done to determine such precision for a program — but unless it was done for that purpose there is not much point in doing it otherwise. For instance, if we did allocate a cost to a department and put it in there there's nothing that the department can do about it because they have no control over us. So it would just be a matter of placing that figure in the total and arriving at a particular cost for that program. So on the present basis I would see no advantage. As a matter of fact the work that would be spent doing it would be just useless work.

**MR. MCGILL:** I appreciate the comments that Mr. Ziprick has made here particularly in respect to the Department of Public Works. We did have some exchange on that subject during the consideration of the Estimates of that department and quite obviously there are extremely complex situations which arise and which, as you say, would be more expensive to really resolve than the benefit that would accrue in having a direct allocation.

But I am wondering why — and the Auditor I think has said it wouldn't be difficult for his department to allocate expense and so not have a general charge to the Consolidated Fund — are there any other jurisdictions which use that kind of a procedure in respect to the expense of the Auditor's services?

**MR. ZIPRICK:** No, I don't know of any other jurisdictions in Canada allocating audit costs in the government. As a matter of fact Canada was not even making charges to the self-sustaining agencies and the Independent Review Committee of the Auditor-General's Office. That was one of the recommendations that they made, that the Auditor-General should be making charges to the agencies. As long as I can remember we have been making charges to the various self-sustaining agencies. Now as far as the allocations within the Consolidated Fund to the departments, I know of no jurisdiction in Canada that's doing it. If it was being done then you would be working on a program basis of a particular service to determine the total cost of that service. Wherever that was considered or recommended it was always on the basis that this be only sort of an arbitrary allocation of these smaller costs and would be done on some formula basis to arrive at these program costs, rather than going through to the responsibility centres and trying to devise within the responsibility centres some methods of keeping time and costs and working on that kind of allocation.

It's very costly and as far as the manager that's managing a particular area, he is concerned with only what comes under his control and he has control over. So that allocating any kind of charges to him is of no particular use because he has no say over them anyway. If it was going to be done it's usually done beyond the operating level and at the level where, for decision-making purposes, there would be a determination of a total cost of the program and it's generally done on some formula basis rather than on any kind of specific allocation.

**MR. CHAIRMAN:** Mr. Cherniack.

**MR. CHERNIACK:** Mr. Chairman, when we come to Page 32, just as sort of a wrap-up, Mr. Curtis is able to give us sort of an up-to-date report on what the department is doing in relation to the audit.

**MR. CHAIRMAN:** Page 31—pass; Page 32, Mr. Curtis.

**MR. CURTIS:** Mr. Chairman, I thought the Committee might be interested to know that the comptroller of the province, who is in the Department of Finance, one of our ADMs, is actually involved and working with the committee of the Council of the Canadian Institute of Chartered Accounts, the committee that is reviewing government accounting, and that is where he is today, this

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week. He is in the Yukon working on that committee, exploring the different systems that are in use with the various jurisdictions and looking for ways of improving government accounting. So we feel quite heavily involved and certainly our Minister has given us full support and is interested in what recommendations we hope to come up with, with respect to improvements in our systems.

**MR. CHAIRMAN:** Thank you very much Mr. Curtis. Page 32—pass; Page 33—pass; Page 34—pass; Page 35, Mr. McGill.

**MR. MCGILL:** Mr. Chairman, I think we can hardly go past the statement of the Provincial Auditor on Page 35, where in (e) as I read it, in effect, is unable to approve the accounts of the Government of Manitoba. He says in paragraph (3), "I am only in a position to express an opinion on the results of the province's operations on a combined basis, as commented on in the preceding paragraph, and not on the basis of segregation between the revenue and capital divisions." It seems to me that this is a reservation that is almost a complete one, and I would like to hear the Provincial Auditor comment on the specific problems he has between the segregation as between revenue and capital divisions in the accounts of the Province of Manitoba.

**MR. ZIPRICK:** Well, there is no definition of expenditure as to what is capital expenditure and what is revenue expenditure in the Financial Administration Act or any other Act. So the practice that is being followed is that the same kinds of expenditures are charged to the revenue division and also to the capital division. And for me to express in accordance with the requirements of the Financial Administration Act, that that segregation presents fairly — I have no yardstick to be guided by as to whether it is fairly allocated or not — because they are the same kinds of expenditures, so there I can only deal in the total combined. Taking both kinds of expenditures they total up to that amount. Now, the segregation is not based on any kind of laid down yardstick, but purely on the basis of the decisions of the Department of Finance and government. So for me to certify, there is really nothing to certify on the segregation, but it doesn't mean that I disagree with the combined expenditures. We have audited the combined expenditures and that is what they come to. It is just the breakdown between revenue and capital that I am not in a position to say whether it is fair or not, because there are no ground rules whereby I could judge as to whether it is fair or not.

**MR. MCGILL:** Mr. Chairman, Mr. Ziprick must have some specific areas in which he feels that it is a very dubious kind of allocation between revenue and capital, otherwise he wouldn't feel that it was necessary to make this reservation which is a very strong one I feel. Mr. Chairman, could Mr. Ziprick give us some examples of the area in which there is a real difficulty in saying that these are capital items, rather than items which belong in the operating division?

**MR. ZIPRICK:** Well, if we turn to Page 55 of the Public Accounts, and in there you would see under General Purpose, there are various kinds of substantial — what I would call major maintenance or improvements — to the existing buildings. Now, if we go to the Department of Public Works we would also find that there are substantial expenditures for major maintenance and improvements. Now where is the dividing line? I wouldn't know.

Then you go into Lease Renovations, further down you see substantial expenditures for lease renovations. Now, there is also lease renovation expenditures in the revenue division. There again, now the way the Legislature has voted the General Capital, \$80 million, and most of this is from that area, I don't know what the Legislature voted that \$80 million General Capital. Then the voting in the revenue division is for under headings of Salaries, others for Maintenance and Operations of Buildings. So it's difficult to try and determine. There is also equipment purchases. Then there's grants; further down on Page 58, for example, there's grants to Saunders Aircraft, there's grants to Churchill Prefab Housing. Now the capital nature of this grant . . . I am not sure. There are also similar grants that are being paid out of the revenue account. This is really what presents me difficulties because there is no guideline or no definition of what is revenue expenditure or what is capital expenditure. I have no way of determining the segregation.

Then you take Highways; on Page 55 there is almost \$20 million spent on Highways. Well \$8 million is recovered from Canada but there is \$11.2 million that is spent on highways that is provincial share. Now, if you turn to Page 64 in the Public Accounts you will also see expenditure on the highways of \$30.5 million in the revenue account. Well I have no way of determining and saying that the allocation is fair. I don't just really know what it means and yet I'm required, under the Financial Administration Act, to say that the operation presents fairly.

Now on a combined basis the total expenditures present fairly. If I have to express an opinion on the split, I have no way to be guided, no accounting standards to be guided by to express that opinion. And this is all, really, I'm saying.

**MR. MCGILL:** Mr. Chairman, on some of the items you mentioned, Mr. Ziprick, you could be a little more specific, could you not, on some things of maintenance and so forth? Would you not be able to say that these are the kind of things that should not be in capital, that they are normally operating expense?

**MR. ZIPRICK:** Well, in a commercial world that is the area where there is quite a grey line. In major improvements to the buildings it is quite permissible to put them into capital and charge them off

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Now, the reason it is being done in a commercial operation is because the costs are being deferred to be amortized to future income, so you are generally guided by . . . if the additions or improvements will improve the capabilities to increase future income it is generally quite acceptable to capitalize them and amortize them over future years. In the province we don't have depreciation systems — and I'm not recommending that we do because it's a different ballgame altogether — so you don't have the same kind of guideline. The same way with leases, the leases in the private sector, there is nothing wrong to amortize leases over a period of years. So when I look at it, let's say to try and judge and say, "Well, these have a lasting value," in other words, they have value to the future, these expenditures, and these do not, I find probably there is some of these that are in capital that I could quarrel with as to the lasting value. For instance, there is investments of \$300,000 in Channel Area Loggers and \$300,000 in Moose Lake Loggers in shares. Well, you know, it could be construed as capital but the financial position of those corporations . . . I doubt whether there is any value to those shares. But there again it's a grey line that I wouldn't want to get involved unduly arguing one way or another on these various points because I would much sooner see a decision made as to, one, if we are going to separate capital and revenue expenditures then there should be a definition of what is capital and if there is a definition then we would ensure that whatever is paid out of capital falls within the definition. On the other hand, what my recommendation is is to go to what most of the other jurisdictions have gone to is working the expenditures on a combined basis.

**MR. MCGILL:** Mr. Chairman, Mr. Ziprick mentioned one point there and I was going to ask him if, in his meetings of Provincial Auditors, if this is a difficulty, the difficulty which he finds himself in now, is it common to other Auditors of provincial jurisdictions? Do you discuss this matter, is your problem unique or is it one that other Auditors in other provinces are facing at this time?

**MR. ZIPRICK:** There are other provinces that have the same problem; it is something that has been receiving a substantial amount of consideration and discussion. Ontario for example, a number of years ago they have gone to a completely combined basis. Saskatchewan has been on a combined basis, and so essentially pretty well all the western provinces, Ontario and Quebec are on a combined basis, to my knowledge. And the maritimes; I think most of the provinces in the maritimes are not on a combined basis, they are still on this basis. These are difficulties that are fully appreciated — being considered — and I think that this committee that Mr. Curtis is referring to, the Canadian Institute of Chartered Accountants, will be devoting a fair amount of its time into this area.

Canada had a committee review their accounting fairly recently, their report just came out about a year ago. And of course Canada has been on a combined basis and they recommend that it should be continued to be reported on a combined basis.

**MR. MCGILL:** So, Mr. Chairman, the trend is for those provinces who are not on that basis now, to consider this as the answer to this sort of difficulty that continually crops up under the present system.

**MR. ZIPRICK:** Generally speaking, the feeling is that this combined presentation is the desirable one, although I have seen some accountants, particularly in the United States, expressing the view about the possibility of governments going to this commercial basis of accounting and actually capitalizing and depreciating to determine, sort of, the annual cost of operations on somewhat of a commercial system. I personally am very dubious about that kind of approach but I appreciate that there are some accountants that are seriously arguing about going to the commercial kind of a system. So generally speaking in Canada and other places to my knowledge, the tendency has been to move into the direction of a combined approach but there are people in the accounting profession who have expressed views about doing it the other way.

**MR. CHEIACK:** Mr. Ziprick, the problem of not having any guidelines, are you aware of any guidelines that have been established anywhere that are of use, that are not arbitrary?

**MR. ZIPRICK:** No, I am not aware of . . .

**MR. CHERNIACK:** You never had guidelines?

**MR. ZIPRICK:** No.

**MR. CHERNIACK:** And this problem has existed for 20-30 years or more?

**MR. ZIPRICK:** Yes it has.

**MR. CHERNIACK:** The solution of a combined statement which I believe has attraction to me, but in any event, the solution of using the combined would be in removing this as a problem. It wouldn't change the accounting in any way, would it?

**MR. ZIPRICK:** It would change the accounting to the extent that you would be showing your surplus or deficit on a combined basis.

**MR. CHERNIACK:** And you would not then be faced with having to recognize a decision as to what is capital and what is current expenditure.

**MR. ZIPRICK:** That's right. Both current and capital would be in the appropriations . . .

**MR. CHERNIACK:** Thrown together.

**MR. ZIPRICK:** . . . voted and would be spent.

**MR. CHERNIACK:** So that my impression is . . . and, you know, I can see an easy way out of

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removing this paragraph entirely from your report, is by making it combined and then you would not have to say that I don't know the difference between the two because there is no difference, now they are all in one, capital and current combined, right?

**MR. ZIPRICK:** That's right.

**MR. CHERNIACK:** It wouldn't make your accountability, or the accountability to the Legislature, any more knowledgeable, would it? It would really confuse the issue, wouldn't it?

**MR. ZIPRICK:** No, I think that it would then show the actual income deficiency on a year's operation.

**MR. CHERNIACK:** Does that appear on Page 25 of Public Accounts?

**MR. ZIPRICK:** Yes, that combined statement.

**MR. CHERNIACK:** Is that the one?

**MR. ZIPRICK:** Yes, the combined capital and revenue division, revenue and expenditure access(?) is the actual net deficiency of revenue for the year, as against expenditures.

**MR. CHERNIACK:** So that is the kind of a statement that would come out if you had a combined . . . ?

**MR. ZIPRICK:** That's right.

**MR. CHERNIACK:** And the fact is that the Finance Department is producing that kind of information.

**MR. ZIPRICK:** This statement has been placed in the Public Accounts for the first time this year. We have carried it in our Provincial Auditor's Report for a number of years, purely for this reason, so that this position would be disclosed. It is an important position and we feel it should be disclosed.

**MR. CHERNIACK:** So now it is available.

**MR. ZIPRICK:** Yes, and I can certify to that figure; it's the allocation of the expenditures between the two that present me the difficulty.

**MR. CHERNIACK:** So, if the government changed from the present system to the combined — which is in other jurisdictions but not all of them — if it changed then, without doing anything more, you would not have to make the decision of expressing opinion on the results on the segregated basis?

**MR. ZIPRICK:** No, no.

**MR. CHERNIACK:** And then you wouldn't even bother to refer to the fact that you couldn't because of the absence of guidelines.

**MR. ZIPRICK:** No, no, none whatsoever.

**MR. CHERNIACK:** So, that's what I'm saying; that really does not change the weight of your certification as to the expenditures by the province, does it? Let's get it clear; does it or doesn't it?

**MR. ZIPRICK:** Well, see, I cannot certify to the surplus or deficit of the revenue account. And, you know, you said it has been done that way for many years previously and I appreciate it, but we are getting to the stage, in the last number of years, where we are involved with investors and certifications for investors and the question is being raised, you know, what is the position and what are you certifying? And this is where it is very important that I am not certifying, in this case to the \$11 million surplus or deficit, but I am certifying on \$98 million deficiency of annual income over this year's expenditures.

**MR. CHERNIACK:** Right and that is on Page 25 of Public Accounts.

**MR. ZIPRICK:** That's right and I want to be very fair in my certifications with regard to the province's financial statements, particularly keeping in mind that it is the investment people that are very interested in it. This is why I indicated very clearly that there are lasting assets that are being purchased on both sides so that the investment people do not get confused and feel that there are some major difficulties, that this is not just a deficit arrived on the basis of total operating expenditures that would normally be considered in the private sector, but include expenditures on assets of a lasting nature. And they exist in both places; in what is considered as revenue expenditure and also what is considered as capital expenditure.

**MR. CHERNIACK:** Well I assume that the investor, or anybody who reads these statements, knows that the asset side of a balance sheet for a government are very much understated in terms of the actual value of the assets of a more permanent nature that are in the province owned by the people. Wouldn't they have to know that to understand this?

**MR. ZIPRICK:** Well, I don't think that they consider that particularly because it's not looked at or any commercial basis as these assets are the producing assets of revenue. They are assets that have a lasting benefit for the people. But as to what extent they produce revenue or don't produce revenue it's difficult to evaluate. So their evaluation is more on what changes took place during the year with regard to increase or decrease for the need of borrowing, and then what is the debt position *vis-a-vis* the ability to raise taxes and the productivity of the entity as a whole, because of the government's taxing powers and the ability to raise money. You cannot look at it on the basis of a commercial situation where you are dealing with these particular assets earning; there is the whole base that has to be taken into account.

**MR. CHERNIACK:** Is not that information available?

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**MR. ZIPRICK:** It's available; there is just a question of certification to ensure that what we are certifying, we are not taking it too lightly, that it is being certified on a basis that is backed by either some accounting conventions or by some logic. And this is the reason that I point this out because I've had investment people come to see and talk with me and get the feeling as to how we operate. I just want to make sure that the position is fair but in no way are they going to — after going through — miss some very important points because this is when they get pretty uptight is if they don't find out as they go along.

**MR. CHERNIACK:** So you are recommending the combined?

**MR. ZIPRICK:** Yes, I am.

**MR. CHERNIACK:** And when we have the combined then they will all be together.

**MR. ZIPRICK:** That's right.

**MR. CHERNIACK:** And you won't have the problem of segregation but the fact is that all the information is available.

**MR. ZIPRICK:** Oh, all the information is there. As a matter of fact . . .

**MR. CHERNIACK:** And it's in the paragraph just before the one we are dealing with?

**MR. ZIPRICK:** Yes, yes.

**MR. CHERNIACK:** And there is no problem in your mind about that being correct?

**MR. ZIPRICK:** Which . . . ?

**MR. CHERNIACK:** Your statement; the combined position is reflected in the statement and the changes, and all that. You have no problem that is correct?

**MR. ZIPRICK:** No, I am certifying on the combined basis and with just minor qualifications.

**MR. CHERNIACK:** Right. All right. Thanks.

**MR. CHAIRMAN:** Gentlemen, I have Mr. Lyon on the list but I have to leave and vacate the Chair. I have to catch a plane. I have arranged to have Mr. Graham takeover the Chair in my absence if that is an agreement with other members of the committee.

**MR. GRAHAM:** Mr. Chairman, I would suggest that Mr. Walding take the Chair.

**MR. CHAIRMAN:** It has been suggested by Mr. Graham that Mr. Walding take the Chair. It would appear to be an unanimous decision, Mr. Graham, that you assume the exalted position at the head of the distinguished group present with us this morning. I wish you Godspeed in your deliberations.

**DEPUTY CHAIRMAN, Mr. Harry Graham:** Well gentlemen, we are still on Page 35. Mr. Lyon.

**MR. LYON:** Yes, Mr. Chairman, in dealing with the same topic. I don't know whether it is necessary to take the time of the committee but I would like this certification of the Provincial Auditor's Report to be on the record. I can read it into the record or if we could agree that Page 35 appear on the record, after my having read it, or whatever is your wish. I will read it if it need be and I have got another one to read.

**MR. CHERNIACK:** You mean, you want this entire page to be in Hansard.

**MR. LYON:** On the record.

**MR. CHAIRMAN:** Is that agreeable?

**MR. CHERNIACK:** It's the same as in Public Accounts, isn't it?

**MR. LYON:** The same as in Public Accounts, yes.

**MR. CHAIRMAN:** Page 35—pass.

**MR. LYON:** No, I just want Page 35, by agreement, to be included in the record. I can read it if it is necessary for that purpose. And also, by way of comparison, I would like the Provincial Auditor's Report for the previous fiscal year, dated December 5, 1975, signed by Mr. Ziprick, and it appears on Page 9 of the Public Accounts for the year ended March 31, 1975. I would like that to appear on the record. Again, I can read it if need be.

**MR. CHAIRMAN:** Can those arrangements be made to have that included? We are informed that that can be done. Is the Committee agreeable to that? (Agreed)

(See insert — last pages of Committee.)

**MR. LYON:** Now, assuming as we can of course, Mr. Ziprick, that you are familiar with the statement that you made in 1976, November 25, the statements —(Interjection)— Well, I am assuming that the committee read it last year as I did and it appears on Page 9 of Public Accounts of 1975. Again, I will read it if anybody wants me to read it through. Can you tell us, first of all, Mr. Ziprick, if this is the first occasion on which you have had to attach this kind of rather formidable caveat to your report?

**MR. ZIPRICK:** Yes, this is the first time that it was presented in that way but in a longer form, we tried to indicate over a number of years that that's the situation and each year, we put in a statement — Source and Use of Funds Statement — which produced the positions as we saw them.

**MR. LYON:** But you're saying that this is the first year in which you have made your certification subject to that caveat.

**MR. ZIPRICK:** In this way, yes.

**MR. LYON:** Yes. Now, is the first occasion in your memory that the certification by the Provincial Auditor has been made subject to that caveat, that he could not certify as to the expenditures and revenues of the government?

**MR. ZIPRICK:** Well, I would say that there was an inference over the years of the difficulties but was never put in this form and, as I said before, the reason that I went to it this year is because of the investment people and to make sure that the thing is not misunderstood.

**MR. LYON:** Well, we note by way of comparison, Mr. Ziprick, that in the report that you made on December 5, 1975, the final paragraph of the Auditor's Report said: "In my opinion, the statements of the Public Accounts, being the Balance Sheet, and the Statement of Revenue and Expenditure, the Statement of Revenue Surplus and the supporting schedules, together with the explanation outlined in the foregoing paragraphs, present fairly the financial position of the government as at March 31, 1975 . . ." and carry on. Whereas this year, to quote again, you say: "Subject to the foregoing" — and you put a distinct caveat on it, the foregoing being particularly the two previous paragraphs in your report of November 25, 1976 — "Subject to the foregoing, in my opinion, the statements of Public Accounts" etc. etc. "are in agreement with the accounts maintained by the Minister" etc., and so on.

So, you do treat that as a formidable caveat?

**MR. ZIPRICK:** Oh yes, that's right. That's right. Because it is very important to indicate that we cannot certify to the allocations. . .

**MR. LYON:** Right, right.

**MR. ZIPRICK:** . . . and we couldn't certify before, the situation has not changed. The reason we used different approaches was, well, that was the approaches we used. After having some discussions, I reconsidered and felt it would be better to do it this way as I have done it this year and particularly when investment people are involved and as up-tight as they are now and have been the last two years with regard to disclosures.

**MR. LYON:** Having to do with such places as the City of New York and others.

**MR. ZIPRICK:** That's right. That's right. SCC is getting to be quite demanding and I think that for the first time about a year ago, the statement that was in our Auditor's Report, it was for the first time included in the Public Accounts this year, was required to be included in a condensed form but to be included in a prospectus because they felt that it was necessary to be included. Prior to that, they didn't concern themselves. So, whatever the conditions, in prospectuses they are getting to be much more concerned about these various disclosures.

**MR. LYON:** The statement Source and Use of Funds, of course, is a common statement that appears in all financial statements of all private companies that are traded on the public market. It is not an unusual . . .

**MR. ZIPRICK:** No, it is not unusual but it is unusual for governments. As a matter of fact, Canac for instance, was not using it. Very few organizations to my knowledge right now, I don't know if any of them were using it and . . .

**MR. LYON:** It's governmental.

**MR. ZIPRICK:** Yes, that's right. In the Independent Review Committee the Auditor-General recommended that it was a vital statement that should be included and is now being included in Canada and others are including the same kind of statement.

**MR. LYON:** And isn't it a fact that in a private commercial organization a Statement of Source and Use of Funds is even included in the unaudited quarterly reports in order that the cash flow can be demonstrated on a quarterly basis.

**MR. ZIPRICK:** Yes, I think that's correct.

**MR. LYON:** And the inclusion of it on Page 55 of Public Accounts this year, you say is new, but was included previously in the report of the Provincial Auditor.

**MR. ZIPRICK:** That's right. It's been included in the report of the Provincial Auditor for about four or five years.

**MR. LYON:** I'm sorry, Page 25, I think it was — Statement of Source and Use.

**MR. ZIPRICK:** Yes, it's Page 25 of the Public Accounts.

**MR. LYON:** Page 25 of the Public Accounts.

Now, just so that we will understand the significance of the caveat that you've attached, I've just pulled out of the files the auditor's report relating to International Nickel, their 1976 Annual Report. It's a brief auditor's report as most of these are, and it reads as follows: "To the Shareholders of Inco Limited, We have examined the financial statements appearing on Pages 25 through 32 of this report. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In our opinion these financial statements present fairly the financial position of Inco Limited and subsidiaries as at December 31, 1976 and 1975 and the results of their operations and changes in financial position for the years then ended in conform-

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with generally accepted accounting principles applied on a consistent basis." And that's signed Price Waterhouse and Company, dated February 17, 1977.

I realize that the certification that you make as Provincial Auditor does not follow those exact words that are used in the private commercial world, Mr. Ziprick, but I point out again that that is, even up until 1975, you attach no caveat or condition as you do in 1976, where you say, "Subject to the foregoing." Those four words are extremely important and I would expect you would want the Members of the Legislature and indeed the public at large to understand how important they are.

**MR. ZIPRICK:** Yes, they are important but I don't want to indicate that — nothing, as far as the accounting procedures, has significantly changed. So the same kind of observation probably should have been made two or three years ago, particularly when the volumes became larger. So it's the thinking-through process to ensure there is no misunderstanding, particularly on the part of the investment people, that this is the situation so if any difficulties ever did arise that I feel I'm protecting myself.

**MR. LYON:** And forewarning the Legislature that you can't make the usual kind of certification that you have made previously. You can only make it subject to those distinctions as between Revenue and Expenditure and the combined approach to governmental accounting being fully and completely understood by whomever shall read the report.

**MR. ZIPRICK:** That's right. And to remove that qualification there would have to be changes made either combining, in other words putting capital and revenue into the appropriations and arriving at a combined statement, or if there's going to be a segregation, that there be some distinct definition as on what basis the segregation has been made and the principles behind it and then I could certify that these positions present fairly, based on those principles.

**MR. LYON:** Right, now so as not to tweak Mr. Cherniack's partisan sensibilities can we talk in general terms about why this comes about. Tell me if I'm wrong. It comes about because of the arbitrary decision that a government — not talking about this government — a government under the Expenditure and Revenue basis of accounting, a government can make a determination in a year in which it wishes cosmetically to display a balanced budget or a low deficit budget, it can do that by virtue of an arbitrary decision of transferring what ordinarily should be Revenue Expenditures into Capital Expenditures. Is that really not the nub of the problem?

**MR. ZIPRICK:** I would say that's probably a pretty good assessment, and the reason difficulties are arising now with regard to this kind of operation as against prior is because the involvement is much larger and as a result requires much more care and attention. So that where 20 years ago things were not too important because of the size in the development over the years, they are taking on substantial importance and this is why the changes are requested and coming about.

**MR. LYON:** And to be quite fair about it, all governments under the existing system of Expenditure and Revenue from time to time in your experience in the Office, have credited certain items to Revenue Expenditures one year and perhaps have capitalized some of those similar items in another year, that is going back through the Bracken government, the Campbell government, the Roblin government and so on, that was done but not on a large scale you're saying. The amounts were smaller.

**MR. ZIPRICK:** Yes, it's a procedure that was followed all through the years. It's at a stage now where this kind of procedure requires more precision.

**MR. LYON:** Well, the volumes of moneys being expended as we indicated before, for instance this year the Minister of Finance has already indicated Capital borrowings in and around one-half billion dollars. We're getting now into what many of us would regard as mammoth amounts of money and you're merely certifying that an arbitrary decision is being made outside of your office as to whether these will be considered as current expenditures out of revenue or whether they will be capitalized, and that boils it down does it not to what your concern is.

**MR. ZIPRICK:** That's right and it's something that is not only going on in Manitoba but it's been going on in other jurisdictions and there has been a changing process going on to, so I wouldn't want to say that it's something that's peculiar to Manitoba because it isn't.

**MR. LYON:** So that where you say in paragraph 2 of your certificate: The deficit of \$11,015,277 shown in the Revenue Division, Statement of Revenue and Expenditure reflects only partially the results of the Province's operations for the year. It is when the revenues and expenditures of the Capital and Revenue Divisions are combined that a meaningful net expenditure not covered by revenue is established. Such a combined position is reflected in the Statement of Changes in Financial Position, which shows the excess of expenditure over revenue on a combined basis as \$98,358,014 for the year ended March 31, 1976."

So what you're saying in effect is that you cannot certify that the deficit on the Revenue Division last year was \$11 million, but in fact on a combined basis the deficit was in reality \$98,358,014.00.

**MR. ZIPRICK:** That's right.

**MR. LYON:** And that's a significant statement.

**MR. ZIPRICK:** It is, yes.

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**MR. LYON:** Now, on Page 55 of the Public Accounts for 1976 that was referred to by Mr. Cherniack, I was wondering if you could take us through some of those items on Pages 55 and following, and indicate to us some of the areas of concern that you would have about items that are shown as Capital Expenditures which might well be shown as Revenue Expenditures. I am not an accountant, but I raise, for instance, items such as we find on Page 56, albeit small items, near the bottom of . . .

**MR. CHERNIACK:** Mr. Chairman, on the question of order. Are we now going to go into Public Accounts, because these pages have yet to be dealt with, I mean the whole book. At what stage do we want to work with these different paragraphs?

**MR. LYON:** Well, I think it all flows from the certification of the auditors.

**MR. CHERNIACK:** The whole book flows from the . . .

**MR. LYON:** Well, I can undertake not to ask the same question when we come to Page 56, on Public Accounts.

**MR. CHERNIACK:** But, I don't think that will pass the page we're on. Mr. Lyon wants to proceed his way, I just want, Mr. Chairman, for you to decide what is the orderly way in which to deal with the Auditor's Report which still has some pages to go, about 20 pages to go, and then the entire book.

**MR. LYON:** Well, Mr. Chairman, if this would be helpful in your making a decision, I refer to this page only because Mr. Cherniack referred to it, and/or the Deputy Minister of Finance, and while it is a page we have read before I was intrigued by the comment of the Provincial Auditor that he can't certify, for instance, that Minago Contractors on Page 57, receiving \$526,146 should be considered as a capital item, anymore than it can Channel Loggers.

**MR. CHAIRMAN:** Mr. Lyon you have asked just for a few examples, you are not dealing . . .

**MR. LYON:** I am not going through it item by item.

**MR. CHAIRMAN:** If it is just one or two examples I think it is quite all right.

**MR. LYON:** Thank you. So, that we can demonstrate the point that concerns Mr. Ziprick.

**MR. ZIPRICK:** Yes, well I have already referred to that page myself when Mr. McGill asked me for some specifics as to where the difficulty arises, and so, I again, refer to such items as improvements to buildings. Now, in commercial practice, if an improvement to a building enhances its capabilities to earn income that is not uncommon to capitalize it. On the other hand, if it doesn't then generally you charge it off. The point I am making here is that there are improvements to existing buildings in here, and you turn to the Department of Highways or Department of Public Works, and there are improvements to existing buildings in another section. Now, the differentiation between whether it should be in the revenue or the capital it is pretty difficult to establish. Now, trying to apply a commercial criteria to this also becomes difficult. So, I could say commercially I could make a case for saying that it is all right for them to be capital. On the other hand I could also make a case, if that building was not functionally improved that it may not be revenue, but that would get involved into a very sort of, detailed research and argument, on a point that as far as I am concerned doesn't have too much validity, because we are still not going to be depreciating and it is still just going to be an expenditure just like some of the other expenditures in the revenue division that have future benefits. And' if we are going to try to determine which ones have future benefits and to what extent, then we would have to go through all of the expenditures, and I am sure I could come up with an awful lot of expenditures in the revenue division that have future benefits. So, then there are others, a person could argue more that they are not capital. But, there again, I never considered it as a very useful exercise to get involved in that type of argument. The Legislature votes general capital and it has been used general capital. So if we got involved into a big argument it wouldn't be difficult to make a switch and say, Okay, we will throw this into revenue and we will take some other item that has a lasting benefit, now in revenue, and move it over to capital. So it would be not a very fruitful exercise.

So, the point that I was just trying to make, that there are similar kinds of expenditures in both places and I have no way of really dividing them on any kind of established standard.

**MR. LYON:** That determination, Mr. Ziprick, I take it is made by the Minister of Finance and comes to you as a *fait accompli* and you are not able to pass any judgment on that at all.

**MR. ZIPRICK:** Oh, I could raise objections, but because of the difficulty that existed generally in this principle of shorting out, I have never taken these allocations too seriously, because if we did get involved into an argument there could be all kinds of opportunities to make a switch from the other side, and the net result would still be the same. So, the way most of these arise is that there is a general capital vote, which is quite substantial, \$80 million, or \$70 million or whatever it is, and whenever the programs are approved a document is issued, allocating from general capital for this specific expenditure, and then it is treated just like an appropriation for control purposes. A program has been approved by the Management Committee of Cabinet, and Finance makes the cash allocation, and then for internal control and accounting purposes and for recording it in here, then it is handled just like any other appropriation expenditure.

**MR. LYON:** What would be regarded as the fair and equitable way, for instance, of treating the

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purchase of office equipment and furniture? Would that ordinarily, in accounting practice, be treated as a capital item, or be treated as a revenue item?

**MR. ZIPRICK:** Well, in commercial circles, there again, sort of the ordinary additions of equipment here and there, and replacements, in most instances are just treated as current expenditures. But, when you are refitting a complete building generally it is capitalized. So, you have to exercise substantial judgmental values in the commercial world, but in the commercial world the principle is do you amortize it or do you put it into expenditures the one year. Now, you shouldn't put anything into expenditures, or amortize anything that really does not have any future benefit, it should be charged off. Now, immaterial items are treated in various ways because they are not material to the total result, so you can't just put a hard, fast rule in there, you have to do evaluation individually.

**MR. LYON:** And without having the benefit as governments cannot have of a profit and loss statement, which is the inevitable disciplinary statement in any private venture, some of these considerations, as you point out, become rather academic. The government in the generalized term being considered non-productive.

**MR. ZIPRICK:** No, I wouldn't class that in that way, there are a lot . . .

**MR. LYON:** Non-productive in a profit generating sense.

**MR. ZIPRICK:** Yes, but there are a lot of expenditures that produce very very beneficial services to the people. It is true there is not the profit and loss line. So the important line as far as I can see and the trend is, to what extent do you have to finance, either in the future or draw on money that was raised by some other ways previously. So you determine your operational deficiency for that year not on the basis of how many buildings you built or not; you determine the operational deficiency for that year, and to what extent do you have to go, either borrow or cover it off in some other way. So, that becomes an important meaningful figure.

**MR. LYON:** Yes. Could we consider, for instance, on Page 57, one item that has caught my attention. Society for Crippled Children and Adults of Manitoba, \$112,000. Should we be able to consider that that is a capital improvement that went to that Society, or what would it be?

**MR. ZIPRICK:** Well, again, they probably may have used it for benefits that will accrue to future generations. So if you use the criteria of does it have benefit for a future generation it could well be considered of a capital item. This is why it is so difficult in the government sector to make any kind of definitions of that nature. For example, there is a substantial amount there for Grants Commission, which goes to the University Education. Now, in the education process people become informed and it is certainly a future benefit. Now, being a future benefit should it be amortized against future generations or shouldn't it? I think that when we try to work on the basis of this capital operating expenditures comparable in the private sector, we are getting down at a different kind of pass and I think to try and segregate these using a commercial criteria becomes somewhat of a fruitless operation. On the other hand, for us, for example, to make extensive inquiries as to where it was going — that \$112,000 when the Children's Aid Society got that money — whether it was going to be put into a building or some kind of education of the children that was going to have some benefit, or whether it was just used for maintenance and that. But, even there that's all part and parcel of developing people. It gets into a very difficult area and you could debate for a long time and have points on either side that could be quite justifiable.

So this is why I think that if we were going to work in that area it would require a substantial research and some kind of a decision would have to be made, not on a commercial basis but on some other basis, that this would be a desirable determining factor as to what is reasonable to accumulate and pass on to future generations, and what is not.

**MR. LYON:** Now, using your example, Mr. Ziprick, of the University Grants on Page 58, \$6,334,964.11, do you have any way of determining what proportion of that is capital and what proportion of that is going, for instance, to pay salaries to academic staff and so on?

**MR. ZIPRICK:** No, this money goes to the Universities Grants Commission, and both from the revenue and general section, it is all combined and then the Universities Grants Commission have a budget from the university and their budget shows what they will spend the money on. Some of it is what is considered ordinary operations of the university, some of it will be buildings. Now, as to whether there was that many dollars worth of buildings built in that year or not, we couldn't associate that because the money is not tied up with, for instance, specific buildings. This money goes forward to the Universities Grants Commission for the university purposes, and it is put in the fund and then made available.

As far as the Universities Grants Commission, they control capital construction of the universities very closely by projects, and then the other operations are controlled by what is called an operating budget. But, even that operating budget is certainly educating people and you could argue that it does have a lasting benefit. So, as to whether a school, in a public school, is only a small portion of what is beneficial to the public and to the future, and to try and determine as to whether . . .

**MR. LYON:** But, on that item of universities, for instance, \$6,334,964.11, what guarantee do we

have, either from you or from the Department of Finance, that that amount which is shown as a capital division item, is actually going into what you or any other reasonable person would consider to be capital items, buildings, even renovations, even office equipment?

**MR. ZIPRICK:** Well, you know, I could, I am sure, without any doubt, go through the university budget and accumulate enough items to match these amounts that would be of a lasting nature. But there again they don't operate on a depreciation basis, it is a debt retirement basis. So even the money used for retirement of debt — and there is substantial money used for the retirement of debt that buildings that were built previously could be at this point said, well it is going towards building. So you get into another argument again.

**MR. LYON:** And, for instance, as you mentioned yourself, grants to Saunders Aircraft, \$1,120,000 those could be operating grants, as opposed say, to any addition to their capital.

**MR. ZIPRICK:** Oh, there is not much doubt. As a matter of fact, this is the one that I have more doubt about because it would only be a capital item if, on the winding up process, there was a chance of recovery, but it is doubtful that there will be recovery. So technically, I guess, you can say until it is wound up there is always the possibility. But from a realistic point of view I would say that there would be no value behind it. But within the province's system of recording assets, and that has been a practice all through the years, that are offset by borrowing, then it is just another item because in the total assets shown on the balance sheet there is all kinds of items that could be considered as non-capital.

For instance, there are items going back to the expenditure made with regard to the relief during the depression, that money was borrowed and it was recorded as a capital asset, it's called intangible, and being written-off as and when the debt is repaid. So, on the principle of matching the specific debt against the asset, and if we go through the assets, there is all kinds of them that have value whatsoever, but they remain there as an item because that money was borrowed for that particular purpose and until that debt is retired they are there. Once the debt is retired then they are removed. But, of course, there are all kinds of other assets that have been built from revenue monies that are available and being used by the public that are not in here. So, that is why I doubt even the validity of this matching of assets against the debt as having an exercise that has any particular meaning. I would sooner go to the system that Canada uses and just have it at \$1.00 period at the back behind that there are substantial assets and they are the same way here. Just because they don't have a value on the balance sheet, there is still a record kept of them to maintain accountability as we point out in our report. So they're not removed and forgotten, completely out of the records. The records are maintained to ensure accountability of those assets.

**MR. LYON:** One final question, because I think you demonstrate the dilemma that faces you as an auditor very clearly. One final question: I see at the bottom of Page 55 an item "Employee Housing Northern Manitoba \$312,484.63." Now, one would presume, seeing that item, that that is an actual capital expenditure being made by the government to build or to purchase a house, the title to which will be held by the Crown and then leased back presumably to the provincial employee. Is that the case?

**MR. ZIPRICK:** I would say that that's the case, but we'd have to get the details. We can look up the details.

**MR. LYON:** Fine, when we come to that page, perhaps you can use that as an indicator. Thank you, Mr. Chairman.

**MR. CHAIRMAN:** Mr. Cherniack.

**MR. CHERNIACK:** Mr. Ziprick, you do the University of Manitoba accounts?

**MR. ZIPRICK:** Yes.

**MR. CHERNIACK:** And you do the University Grants Commission account.

**MR. ZIPRICK:** That's right.

**MR. CHERNIACK:** Now, would you check me on my recollection, that is, that when the University Grants Commission gives current moneys to the university, it loses control on how it is spent, that the university has its own budget and works within that sum. But when the University Grants Commission allocates a capital amount, then that money can only be spent on that capital item. That's my recollection; can you confirm that?

**MR. ZIPRICK:** Yes, I wouldn't say it loses control because the University Grants Commission gives a budget that the university submits to the University Grants Commission. They go through that budget, review it and establish it as a budget, then any payments towards that budget are given over to the university. But then they do not watch, that they can't shift from one item to the other.

**MR. CHERNIACK:** Or increase or reduce wages, or pay more in wages and less on supplies.

**MR. ZIPRICK:** That's right. As long as they have an offset. But the moment that they are going into a deficit position beyond what has been declared and agreed to — create an expenditure they're not supposed to do it. They are supposed to get back to the University Grants Commission and establish that that's all right.

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**MR. CHERNIACK:** But they did do it, didn't they?

**MR. ZIPRICK:** What's that?

**MR. CHERNIACK:** In the last few years, the university over-expended, didn't they?

**A MEMBER:** The U. of M.

**MR. ZIPRICK:** Yes, they did over-expend and this was when the controls were tightened up to get the information flowing more.

**MR. CHERNIACK:** So I'm right in saying that once the grant is approved by the University Grants Commission, the manner in which the moneys are expended are that of the university's decision?

**MR. ZIPRICK:** That's right.

**MR. CHERNIACK:** But in capital, it must be spent in accordance with the agreed upon terms by the University Grants Commission.

**MR. ZIPRICK:** In Capital, the budget is presented of what they feel a capital cost would be, and if it meets the University Grants approval, then more detailed work. When it's finalized, this is the final cost and then, yes, the University Grants Commission only pay on the basis as the expenditures are made on that project.

**MR. CHERNIACK:** So that when a capital expenditure is approved by the University Grants Commission, that money cannot be used for salaries or supplies or ongoing expense, that's correct?

**MR. ZIPRICK:** That's correct.

**MR. CHERNIACK:** Are you aware of any occasion when the capital for universities was greater than the capital expenditure by the universities? Let me put it a different way. Would you agree that the capital expenditures by the universities was always greater than the capital portion of moneys allocated for universities that Mr. Lyon referred to?

**MR. ZIPRICK:** Yes, the province's. I would say that that's true but I would have to refer to the records to refresh my memory.

**MR. CHERNIACK:** It's not that important. Now, Mr. Ziprick, you agreed with Mr. Lyon that the caveat you put into this last year's audit was a fundamentally important one.

**MR. ZIPRICK:** Yes.

**MR. CHERNIACK:** I believe that you said that it was put in because of the more recent stringent requirements of the SEC and of the potential bond buyers.

**MR. ZIPRICK:** That was my main concern and consideration for being more specific.

**MR. CHERNIACK:** And you also said that maybe you think now it could have gone in the last couple of years . . .

**MR. ZIPRICK:** That's right.

**MR. CHERNIACK:** If I take you back 10 to 15 years, and except for a matter of degree, would you not have been faced with the same problem when highways were being paid for out of both current and capital, or when universities were being paid for out of both current and capital?

**MR. ZIPRICK:** This same problem has existed in Manitoba from as far as I can remember.

**MR. CHERNIACK:** And the same caveat would have been applicable in those years as well.

**MR. ZIPRICK:** That's right.

**MR. CHERNIACK:** But you didn't do it because it wasn't asked for or stressed to the extent it is now by SEC and other credit approving agencies.

**MR. ZIPRICK:** Essentially that's right, yes.

**MR. CHERNIACK:** I just want to help Mr. Lyon in his fair and honest evaluation and non-partisan approach to what is the report you are making, because you wouldn't want to assist him in showing an unfair presentation of the finances of the province.

Now you are saying that you recommend, and have for some time, recommended a combined report.

**MR. ZIPRICK:** That's right.

**MR. CHERNIACK:** That would mean that no longer would there be any problem for you of attempting to separate or segregate what could be capital as what could be current?

**MR. ZIPRICK:** That's right, as long as . . .

**MR. CHERNIACK:** It could all be called "expenditure" and therefore whether it is for unemployment relief, as is shown in the statement for direct relief of \$1.5 million, whether that is of a capital nature or whether the highways — how much did you say were billed out of current this year?

**MR. ZIPRICK:** About \$30 million.

**MR. CHERNIACK:** You wouldn't have to distinguish whether relief is truly capital as it was in the thirties or highways is truly current. You would just lump them altogether?

**MR. ZIPRICK:** That's right.

**MR. CHERNIACK:** And that then would eliminate the need, in your mind, for this kind of a caveat

**MR. ZIPRICK:** That's right.

**MR. CHERNIACK:** But the figures wouldn't be any different, would they?

**MR. ZIPRICK:** The statement would be different.

**MR. CHERNIACK:** Well, the two statements combined would not be different, would they?

**MR. ZIPRICK:** No, but then there would not be that position of operations at two points, and this where it presents the difficulties, for me to certify in accordance with the Financial Administration Act that the operations are presented fairly . . .

**MR. CHERNIACK:** . . . as between the segregation? But the two statements together present a correct picture, don't they?

**MR. ZIPRICK:** That's right.

**MR. CHERNIACK:** I'm looking now at December 1, 1976 Prospectus of Manitoba Hydro where deals with the Province of Manitoba and I see that on Page 45 is Current Revenues; on Page 46 Current Expenditures; and on Page 47 is Statement of Capital Expenditures. All this would have been reviewed and approved by you.

**MR. ZIPRICK:** That's right.

**MR. CHERNIACK:** And on the Statement of Capital Expenditures on Page 47, there is 1973, 1974, 1975, Preliminary Unaudited of 1976, and the Budget Estimate of 1977. It shows the total capital expenditures and then the line after the total says, "Less Capital Disbursements Included in Current Account." Right?

**MR. ZIPRICK:** Yes.

**MR. CHERNIACK:** Then there is a final line, "Capital Disbursements Included in Current Account." So it does show there that a substantial part of the total expenditure on what is termed "Capital Expenditures" has been paid out of current.

**MR. ZIPRICK:** Yes.

**MR. CHERNIACK:** So that again the picture has always been available for anyone who wanted read it — the full picture — and your desire for combined accounting is to make unnecessary the need for you to certify as to segregation.

**MR. ZIPRICK:** That's right, and the position is presented on a combined basis.

**MR. CHERNIACK:** Thank you, Mr. Ziprick.

**MR. CHAIRMAN:** Page 35—pass. Page 36 and 37.

**MR. ZIPRICK:** All these pages are in the Public Accounts; they're just a lift of the Public Accounts.

**MR. CHAIRMAN:** That includes 38, 39.

**MR. MCGILL:** I wonder if Mr. Ziprick could just take us through this \$45 million item here under "Amount Transferred to Revenue of 1975-76 under Provision of Section 21(1)(a) of the Financial Administration Act." This item of \$45 million appears in 1975 and 1976. It appears on Pages 38 and 39 of the "Revenue and Expenditure Statement."

**MR. ZIPRICK:** It's just the item of allocating or transferring revenue and expenditures that presented difficulty for my certification. On a combined basis, on Page 42, you can see by removal of them, you then wind up at the revenue capital position, removing the various transfers and adjustments made that year, the revenue position, removing the adjustments and transfers for that year. So in effect the Financial Administration Act — and I don't see the basis for that kind of provision, but it's there and it's absolutely legal — but the Minister of Finance can declare revenue one year to be revenue of the next year and vice versa. And this is all that is, that the revenue for one year was to be declared to be the revenue of the next year.

**MR. MCGILL:** And that comes to an end this year, then? The \$45 million has now been declared revenue for 1976?

**MR. ZIPRICK:** That's right.

**MR. MCGILL:** There's another item here of "Surplus", revenue surplus of \$4.2 million and that declared and included as revenue for the year 1976.

**MR. ZIPRICK:** That's right.

**MR. MCGILL:** How long did it take to accumulate that revenue surplus of that amount?

**MR. ZIPRICK:** We'd have to follow through the revenue surplus statement to see when that accumulated.

**MR. MCGILL:** But that cupboard is now empty as well?

**MR. ZIPRICK:** Yes, it's in a deficit position.

**MR. MCGILL:** So that all of these accumulations have been included in this year's Statement of Revenue and there is no further opportunity for any similar such items to go on to subsequent statements?

**MR. ZIPRICK:** Well, the ones that have been removed, yes.

**MR. CHAIRMAN:** Any further questions on Pages 38 and 39? Page 41, Page 42, 43, 44, 45, 46, 47.

**MR. LYON:** On Page 46, one item that sort of jumps out at you, Mr. Chairman, is under Department of Education, February 10, 1976, Planning and Research \$200,400.00. Do we have any breakdown to what that was required for?

**MR. ZIPRICK:** No, we don't have the details here. This is also in the Public Accounts and when you go through the Department of Education Estimates, it will show up in there as an item of expenditure that we might be able to get the details.

**MR. CHAIRMAN:** Page 47. Page 48. Page 49.

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**MR. LYON:** The total for the Special Warrants Issued, \$61 million. Of that total, as I recall, something like \$23 million or approximately that amount was in the Beef Stabilization Plan. Otherwise, have we ever had a year, in your experience, Mr. Ziprick, when that amount of money was raised by Special Warrant before?

**MR. ZIPRICK:** I don't recollect the exact amounts that were being raised. Last year was quite a high figure too, but I don't have the comparative figures with me. Last year's was \$50 million.

**MR. CHAIRMAN:** Page 49—pass. Page 50 and 51—pass. Page 52—pass. Page 53—pass. That completes the Report of the Provincial Auditor. Gentlemen, it is twenty after twelve, what is your will? Committee Rise. —(Interjection)—

**MR. LYON:** Just for the record, Mr. Chairman, I'm asking for advice as to when the Committee will meet again. Apparently there has been an unfortunate practice developing in recent years that this Committee does not complete the review of the Public Accounts; we would want to make certain, for the record, that that practice does not go on this year. I merely indicate that from our standpoint we are ready to meet again whenever the Minister or Mr. Ziprick and his staff can be gathered together so that we will complete the full work of the Public Accounts Committee.

**MR. ZIPRICK:** I may just add that the Public Accounts is prepared by the Department of Finance, so they will be answering the questions. I will be here, but they take the lead.

**MR. CHERNIACK:** Mr. Chairman, I'm sure there would be a desire to attempt to complete the work of this Committee. You may not recall, but there was a time when it was all done in half a day in the past. But now there's a much more exhaustive review which is very beneficial. I'm sure it would be desirable to continue depending on what can be arranged with the House Leader.

**MR. DEPUTY CHAIRMAN:** Committee rise.

**THE PROVINCIAL AUDITOR'S REPORT**  
**IN THE PUBLIC ACCOUNTS**

I report that the accounts maintained by the Minister of Finance have been audited under my direction for the year ended March 31, 1975. The audit included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as were considered necessary in the circumstances. I have also obtained all the information and explanations which I have required.

Public buildings, works and miscellaneous assets shown in the Balance Sheet, with minor exceptions, are stated at values equal to the amount of outstanding public debt assigned to them. When the public debt is repaid the value of the asset is written off.

Advances and other receivables shown in the Balance Sheet mainly consist of advances to the Province's Boards, Commissions, Corporations and Agencies. These amounts represent the net cash borrowings of the Boards, Commissions, Corporations and Agencies from the Department of Finance without any allowances for their deficits or surpluses. The following organizations have accumulated significant deficits or deferred expenditures:

1. The Manitoba Development Corporation's financial statements for the year ended March 31, 1975 show a deficit for the year of \$20,648,603 and an accumulated deficit as at March 31, 1975 of \$46,010,980. In addition there is no provision for losses on loans under Part II of The Development Corporation Act amounting to \$25,125,000.
2. The financial statements of the Manitoba Mineral Resources Ltd. for the year ended March 31, 1975 indicate deferred expenditures of \$1,865,953 of which \$639,111 pertain to projects already abandoned.
3. The advance to the Department of Northern Affairs of \$2,327,606 consists of bridge financing for a housing construction operation carried on by the Department under the name of "Churchill Pre-Fab Housing Plant". The construction is being carried out under contracts with other entities at established prices. However, a substantial deficit is being incurred and, subject to any adjustments to the contracts, will have to be absorbed by the Province.

Capital Division investments consist of expenditures pertaining to the Manitoba Development Corporation of \$5 million, covered by shares, and to the Manitoba Forestry Resources Ltd. of \$161,095,928, covered by debentures and shares. The \$161,095,928 was funded by public debt. Interest and the repayment of the principal of this public debt, by way of a sinking fund, is being mainly paid from general revenues of the Province. The \$5 million pertaining to the Manitoba Development Corporation is offset by capital surplus and is recorded as an asset on the basis of its historical cost.

The Revenue Division, Statement of Revenue and Expenditure for the year ended March 31, 1975, takes into account the following:

Charges:

1. A revenue transfer of \$3,000,000 to the Special Municipal Loan and General Emergency Fund under section 4(2) of its Act.
2. An additional provision of \$3,101,069 for debt redemption pertaining to 1975-76 payments under section 84(b) of The Financial Administration Act.

THE PROVINCIAL AUDITOR'S REPORT  
IN THE PUBLIC ACCOUNTS

Credits:

1. A net transfer of \$1,256,483 from the Capital Division, being a transfer of \$1,147,811 to the Capital Division for expenditure under section 4(1) of The Appropriation Act, 1974, and a transfer of \$2,404,294 from the Capital Division reversing a 1972-73 transfer in accordance with The Appropriation Act, 1972.
2. Receipts of \$1,919,822 from the Manitoba Development Corporation, credited as a reduction of interest expense, have been financed by advances from the Province.

The accounts of the Province make no provision as at March 31, 1975 for the following:

1. A grant authorized by a special warrant in the fiscal year ending March 31, 1976 for the Manitoba Development Corporation of \$2,371,371, which was recorded as a grant receivable and taken into income by the Corporation in its accounts at at March 31, 1975.
2. Payments on account of guaranteed loans by the Co-operative Loans and Loans Guarantee Board. Of the guaranteed loans outstanding amounting to \$1,532,226 as at March 31, 1975, \$1,370,668 has since been paid from the Consolidated Fund.

In my opinion, the Statements in the Public Accounts, being the Balance Sheet, the Statement of Revenue and Expenditure, the Statement of Revenue Surplus and the supporting Schedules, together with the explanations outlined in the foregoing paragraphs, present fairly the financial position of the Government as at March 31, 1975 and the results of its operations for the year ended at that date in accordance with The Financial Administration Act. The Statements are in agreement with the accounts maintained by the Minister of Finance and are presented on a basis consistent with that of the preceding year.

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

December 5, 1975,  
Winnipeg, Manitoba.

**THE PROVINCIAL AUDITOR'S REPORT IN THE  
PUBLIC ACCOUNTS**

I report that the accounts maintained by the Minister of Finance have been audited under my direction for the year ended March 31, 1976. The audit included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as were considered necessary in the circumstances. I have also obtained all the information and explanations which I have required.

The deficit of \$11,015,277 shown in the Revenue Division, Statement of Revenue and Expenditure reflects only partially the results of the Province's operations for the year. It is when the revenues and expenditures of the Capital and Revenue Divisions are combined that a meaningful net expenditure not covered by revenue is established. Such a combined position is reflected in the Statement of Changes in Financial Position, which shows the excess of expenditure over revenue on a combined basis as \$98,358,014 for the year ended March 31, 1976. In addition, net payments for the year ended March 31, 1976 on account of advances and loans of \$163,936,545 shown in the Statement of Changes in Financial Position include approximately \$14 million which are not recoverable and approximately \$10 million which are only partially recoverable from sources outside the Consolidated Fund. Also, the net increase of \$222.6 million in guaranteed obligations for the year ended March 31, 1976 includes \$8.4 million pertaining to public schools which will be mainly serviced from future appropriations of the Consolidated Fund.

The Province's direct and indirect expenditures, regardless of the source of funding, include substantial amounts for items which have lasting tangible benefits such as buildings and roads, and also lasting intangible benefits such as education. In view that there are no criteria for measuring these benefits against the obligations to be serviced from future appropriations of the Consolidated Fund, I am only in a position to express an opinion on the results of the Province's operations on a combined basis as commented on in the preceding paragraph and not on the basis of a segregation between the Revenue and Capital Divisions.

Subject to the foregoing, in my opinion, the Statements in the Public Accounts, being the Balance Sheet, the Statement of Revenue and Expenditure, the Statement of Revenue (Deficit) Surplus and the Statement of Changes in Financial Position together with all the supporting data, present fairly the financial position of the Government as at March 31, 1976 and the results of its operations for the year ended at that date in accordance with The Financial Administration Act. The Statements are in agreement with the accounts maintained by the Minister of Finance and are presented on a basis consistent with that of the preceding year.



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

November 25, 1976.  
Winnipeg, Manitoba.