



Third Session - Thirty-Fifth Legislature  
of the  
**Legislative Assembly of Manitoba**

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**STANDING COMMITTEE**

on

**PUBLIC ACCOUNTS**

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*Chairperson  
Mr. Leonard Evans  
Constituency of Brandon East*



**VOL. XLI No. 2 - 10 a.m., TUESDAY, DECEMBER 17, 1991**



**MANITOBA LEGISLATIVE ASSEMBLY**  
**Thirty-Fifth Legislature**

LIB - Liberal; ND - New Democrat; PC - Progressive Conservative

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NAME	CONSTITUENCY	PARTY
ALCOCK, Reg	Osborne	LIB
ASHTON, Steve	Thompson	ND
BARRETT, Becky	Wellington	ND
CARR, James	Crescentwood	LIB
CARSTAIRS, Sharon	River Heights	LIB
CERILLI, Marianne	Radisson	ND
CHEEMA, Gulzar	The Maples	LIB
CHOMIAK, Dave	Kildonan	ND
CONNERY, Edward	Portage la Prairie	PC
CUMMINGS, Glen, Hon.	Ste. Rose	PC
DACQUAY, Louise	Seine River	PC
DERKACH, Leonard, Hon.	Roblin-Russell	PC
DEWAR, Gregory	Selkirk	ND
DOER, Gary	Concordia	ND
DOWNEY, James, Hon.	Arthur-Virden	PC
DRIEDGER, Albert, Hon.	Steinbach	PC
DUCHARME, Gerry, Hon.	Riel	PC
EDWARDS, Paul	St. James	LIB
ENNS, Harry, Hon.	Lakeside	PC
ERNST, Jim, Hon.	Charleswood	PC
EVANS, Clif	Interlake	ND
EVANS, Leonard S.	Brandon East	ND
FILMON, Gary, Hon.	Tuxedo	PC
FINDLAY, Glen, Hon.	Springfield	PC
FRIESEN, Jean	Wolseley	ND
GAUDRY, Neil	St. Boniface	LIB
GILLESHAMMER, Harold, Hon.	Minnedosa	PC
HARPER, Elijah	Rupertsland	ND
HELWER, Edward R.	Gimli	PC
HICKES, George	Point Douglas	ND
LAMOUREUX, Kevin	Inkster	LIB
LATHLIN, Oscar	The Pas	ND
LAURENDEAU, Marcel	St. Norbert	PC
MALOWAY, Jim	Elmwood	ND
MANNES, Clayton, Hon.	Morris	PC
MARTINDALE, Doug	Burrows	ND
McALPINE, Gerry	Sturgeon Creek	PC
McCRAE, James, Hon.	Brandon West	PC
McINTOSH, Linda, Hon.	Assiniboia	PC
MITCHELSON, Bonnie, Hon.	River East	PC
NEUFELD, Harold, Hon.	Rossmere	PC
ORCHARD, Donald, Hon.	Pembina	PC
PENNER, Jack	Emerson	PC
PLOHMAN, John	Dauphin	ND
PRAZNIK, Darren, Hon.	Lac du Bonnet	PC
REID, Daryl	Transcona	ND
REIMER, Jack	Niakwa	PC
RENDER, Shirley	St. Vital	PC
ROCAN, Denis, Hon.	Gladstone	PC
ROSE, Bob	Turtle Mountain	PC
SANTOS, Conrad	Broadway	ND
STEFANSON, Eric, Hon.	Kirkfield Park	PC
STORIE, Jerry	Flin Flon	ND
SVEINSON, Ben	La Verendrye	PC
VODREY, Rosemary	Fort Garry	PC
WASYLYCIA-LEIS, Judy	St. Johns	ND
WOWCHUK, Rosann	Swan River	ND

**LEGISLATIVE ASSEMBLY OF MANITOBA**  
**THE STANDING COMMITTEE ON PUBLIC ACCOUNTS**

**Tuesday, December 17, 1991**

**TIME — 10 a.m.**

**LOCATION — Winnipeg, Manitoba**

**CHAIRPERSON — Mr. Leonard Evans (Brandon East)**

**ATTENDANCE - 11 - QUORUM - 6**

*Members of the Committee present:*

Hon. Messrs. Enns, Manness

Messrs. Carr, Evans (Brandon East), Helwer, Maloway, Penner, Reimer, Mrs. Render, Messrs. Rose, Santos

**APPEARING:**

Fred Jackson, Provincial Auditor

Carol Bellringer, Assistant Provincial Auditor

Stan Puchniak, Assistant Deputy Minister, Taxation Division

Eric Rosenhek, Provincial Comptroller

**MATTERS UNDER DISCUSSION:**

Report of the Office of the Provincial Auditor on the Special Audit of the Taxation Division

Report of the Provincial Auditor to the Legislative Assembly for the fiscal year ended March 31, 1991

Public Accounts for the fiscal year ended March 31, 1991, Volumes 1 and 2

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**Mr. Chairperson:** Good morning. I would ask the Standing Committee on Public Accounts to please come to order.

This morning we have before us various reports, including the Special Audit of the Provincial Auditor regarding the Taxation Division of the Department of Finance; the Provincial Auditor's 1991 Report; and Volumes 1 and 2 of the Public Accounts for the fiscal year ended March 31, 1991.

You may recall last time we adopted a motion suggesting that we try to set up an agenda. As much as possible I did send a memo to every member of the committee asking for suggestions, but, frankly,

the time was very short and we were not able to get any specific items offered. But, in the future, presumably with more time, members may wish to itemize in advance some of the major concerns they have so that we could put them before committee members by way of agenda, just to facilitate discussion and assist the Provincial Auditor and his staff in answering questions. This, of course, does not preclude any questions being raised at any time, or any agenda items coming forward if the committee so desires.

I suggest that we deal with the Special Audit of the Taxation Division first simply because it was tabled previously. Members are not asked to pass it; the committee does not pass it as an annual report. Members are free to ask questions flowing from the report, and we will see whether there are any questions or not.

Then following that I suggest we go on to consider the Auditor's 1991 report, and again, simply by way of suggestion, to facilitate and organize discussion, I would suggest we take the summary of concerns and recommendations and go through the topics there as a way of proceeding. Again we can come back to other parts of the report, but this is one way of giving us an instant agenda for dealing with the Auditor's report.

At any rate, we normally ask for opening statements from various representatives from the Minister of Finance (Mr. Manness), and also from the various opposition critics before we discuss anything in detail. So perhaps it is appropriate, if there is agreement, to start with the Special Audit of the Taxation Department of Finance.

So I would ask, are there any opening statements, either from the minister or others?

**Hon. Clayton Manness (Minister of Finance):** Mr. Chairperson, first of all, let me thank you for doing something that has not before, at least, been attempted, and that is to bring in some type of an agenda; hopefully, we will all follow it. So I thank you for giving it a good start at least per the motions that were passed last week.

\* (1005)

My opening remarks are going to be pretty brief because I imagine there will be several questions flowing out of all of the agenda items, all of the reports that have been tabled, and I will make my detailed comments at that time.

However, I would like to begin by paying tribute to Fred Jackson who indicated yesterday, publicly, that this would be his last report to the Legislature. I would just like to go on record as saying, having been in my capacity now for almost four years, that it has been a privilege to work fairly closely with Fred in his capacity, in a very senior capacity, of course, his as being the representative of the Legislature and those elected members and therefore the people of the province in making sure that government, in this our government, did its best to ensure that there was efficiency associated with hard-earned tax dollars and in the way they were spent.

I do not take any of the recommendations, indeed any of the criticisms personally. I recognize that Mr. Jackson is a professional. Indeed, he was put into the role to do for the most part what he has done. I can tell you that the association I had with him was professional, and I feel badly that it is coming to an end.

Mr. Chairperson, with those very few remarks, I just wanted to, at least on behalf of the government, thank Fred for all his efforts over the years. Certainly they will continue for several more months, and no doubt there will be other opportunities for members of the Legislature to find some interest in what Fred has found yet again in government.

**Mr. Jim Maloway (Elmwood):** On behalf of the official opposition in the Legislature, I am sorry to see Fred go and wish him well. We are interested in knowing though how the selection process will work as far as a successor to Fred is concerned.

The economy is in tough shape, and we acknowledge that. On the other hand, we noted that the report the Provincial Auditor brought down yesterday did show in general a lower grading of the government over the last three years. The trend is disturbing because it is dropping. It has gone from a grading of B-plus to a B to a B-minus, and that is not the way it should be going. This government promises great things, more efficiency, doing more with less, and here it is ending up with poorer grades as time goes by.

We are concerned about the Repap shares. We share the concerns of the Auditor in this regard. We are all familiar with junk bonds and the problems they have caused in the United States. This bit of paper the minister is presenting as something worth \$77 million is obviously worth somewhat less than that at this date. Some would argue that it is not worth anything. Perhaps in the future it will be worth something. The question is how do you show it today on the books.

We are concerned about a number of other areas in the Provincial Auditor's report which I will go into in the questioning, when we get to that on the agenda.

I would conclude at this point and allow the representative from the second opposition party to make opening comments.

**Mr. James Carr (Crescentwood):** I would like to speak personally if I could just for a minute about Fred Jackson, because we had a fair bit to do with each other. It was in the context of the special audit on Place Promenade and the North Portage Development Corporation.

I want the public to know through the words that will be printed in Hansard that I always felt that I was in the presence of a friend of the Legislature, that here was a man of impeccable independence of partisanship, and I felt that on behalf of our party I could speak with him frankly and that anything that I would say would be treated fairly and with impartiality. I want to wish you well in whatever you may choose to do. You have left the Legislature a richer place than when you came, and on behalf of the Liberal Party, we wish you top of the season and all the best for whatever comes next for you.

\* (1010)

Mr. Chairperson, I will not go into a long speech now about the affairs of the Provincial Auditor's report and the way in which those recommendations ought to be dealt with by government. There will be ample opportunity through questions this morning.

**Mr. Chairperson:** Thank you, Mr. Carr. I believe Mr. Jackson would like to be recognized.

**Mr. Fred Jackson (Provincial Auditor):** Well, I want to say thanks for the kind words, but I also wanted to say that at last session of Public Accounts we made history in that we adopted, through recommendations, several of the significant

recommendations for the operation of this committee.

Today, I do not think that there is any Legislature in Canada that could be more timely than what we are seeing today. The reports were issued yesterday, and we are meeting today too. That must be historical.

**An Honourable Member:** Especially when you do not have time to read it.

**Mr. Chairperson:** Thank you, Mr. Jackson.

As I indicated, the first item before us is the special audit of the Taxation Division. We are not necessarily passing it; it is not our role necessarily, but are there any questions or any comments on that report? If not, we will just pass on to the next item. Are there any questions on that special audit of the Taxation Division?

**Mr. Carr:** Mr. Chairperson, I have a question on the Retail Sales Tax Branch. It says on page 3 of the report that our audit found that there were certain instances where certain accounts did not receive appropriate or timely action. This concern also applied to the collection of taxes under other acts, and a significant improvement was required to the taxes receivable collection process.

I wonder if we can have an amplification of the shortcomings and a call for action from the Auditor and then perhaps a response from the Minister of Finance (Mr. Manness) on what he intends to do about it?

**Mr. Jackson:** Mr. Chairperson, the Taxation Division I believe last year collected something like \$1.27 billion with hundreds of thousands of accounts. One of the shortfalls that we found was that the information systems did not lend themselves to support staff in coming to grips with the timely collection of accounts, so that is a general comment.

We noticed certain, and relatively few in number, accounts that had some significant dollar values to them that the division was trying to come to grips with and make a special effort to proceed and publicize some of those accounts that it was felt were bordering on criminality as opposed to just late collection of accounts.

At the time that we were in doing our audit, the director was in the process of making arrangements to have a special prosecutor brought on board so that these accounts may get the kind of attention he

felt that they warranted. We were very supportive of that move because we thought a little publicity as to those who were taking advantage of the people of Manitoba would not hurt from an overall collection process.

I would just ask that the further information on that might be supplied by the Director of Taxation as to the progress that has been made in that regard.

**Mr. Manness:** Mr. Chairperson, it should come as no surprise. I know when we inherited office, we were mindful of the fact that there was a backlog of assessments to do, and also mindful that this department and this division had been certainly squeezed as to the number of staff in Human Resources. So a decision had to be made. We could go through it one or two or three different ways. We could hire more people under the old systems, but we thought that would prove in the end fruitless, bearing in mind the inherent cost. We were also mindful that as a percentage of revenue, our sales tax revenue across Canada, in arrears at least, was more or less mid-range. I think that is a fair—(interjection)—third best, when you want to quantify it, but still we could do better.

\* (1015)

So how was it that we could do better? Well, we went to, of course, a major revision within the department. We went to a functionalized system where, indeed, one element—I am talking about the whole Taxation Division now—where we thought that we would try and have people have more than one responsibility when we went to visit a business.

We still are in that particular changeover right now. We have not put into place the sophisticated systems that should be there. I am talking about computer systems. I think that is certainly—a note of that is made within Mr. Jackson's report. As he said, we did not probably have a collections manager, and that has been pointed out, and I can indicate to you that reclassification has taken place and that position is being filled right now.

**Mr. Carr:** I do not have the six-month financial report of the province in front of me, but if memory serves correctly, our sales tax revenue in the first six months of this year is down about 10 percent from last year. It is down about \$27 million from last year.

Can the minister tell the committee if any of that shortfall is due to inadequacies in the collections systems and, if so, could that be quantified?

**Mr. Manness:** Well, first, I do not think it can be quantified. We are watching carefully our arrears and within the sales tax area, we are mindful of this information, that on October 31, 1990, the retail sales tax arrears were about \$9 million slightly over; on March 31, six months later in 1991, it had dropped to approximately \$7 million; and October 31, 1991, in other words, a month and a half ago, they had increased back up to \$8.6 million. So they were at 9, dropped down to 7, and now back up to 8.6. Those are where the arrears are, so I would have to think that what you talk about, the reduction in year-over-year at the six-month level, sales tax revenue is strictly as a result of the economy.

I might tell you that those sales tax figures were holding reasonably well, remarkably well till roughly June, and of course they have been falling significantly since, and all of us in this room know why. It is the state of the economy and consumer purchasing which is causing that.

**Mr. Chairperson:** Are there any further questions or comments by any members of the committee?

**Mr. Maloway:** My question is to the Minister of Finance, just to follow up on the member for Crescentwood's question on the arrears. Is he saying that the arrears for this year have actually dropped from the year before?

**Mr. Manness:** Correct.

**Mr. Maloway:** How would the minister explain that, that the arrears have dropped?

**Mr. Manness:** Well, I think basically because of the changes that we have made within the division. I mean this redesign of how we handle our affairs internally, as the year is coming into being and it has taken a full year to implement, we are catching up on some of the old reassessments.

**Mr. Chairperson:** Any further comments or questions? Well, hearing none, then I consider that the special audit of the Taxation Division of the Department of Finance has been dealt with by this committee.

We will now proceed to the next item on the agenda which is the Provincial Auditor's report for the fiscal year ended March 31, 1991. As I suggested in my opening remarks, by way of organizing our discussion, I propose that we start on page 3, Summary of Concerns and Recommendations, and go down through the list. Now, we are open to suggestions, but this is a

proposal that I would make for the committee to follow.

**Mr. Maloway:** Mr. Chairperson, I would prefer, because I have some specific issues to deal with, to deal with them as they come up as opposed to going through this order that you have here. I think we should let the discussion be as free flowing as possible and let the members of the second opposition party engage in whatever questions they wish to ask as well. I am sure we will cover all the area. I mean, the proposal you are making, it may take us into some areas that we do not necessarily want to go and it may prolong the discussion rather than shorten it.

\* (1020)

**Mr. Manness:** Mr. Chairperson, this committee, indeed I think it was a motion passed by the member opposite, asked that there be an agenda set. I am encouraged that you have come forward and said that you would like the committee to consider in order of proceedings that for the first time in all the years that I have been here has been laid down, and we have seen by experience, or experience has taught me at least, that without an agenda and free ability to move anywhere you want within the book leads to a great waste of time.

I would encourage the committee to support you, Mr. Chairperson, and ask you to go through item by item as has been presented by the Provincial Auditor.

**Mr. Carr:** Well, the purpose, Mr. Chairperson, is to have as complete a discussion with the Minister of Finance (Mr. Manness) and the Provincial Auditor as possible. Presumably we will take as much time as we need to pose all the questions necessary, so I have not strong feelings either way.

**Mr. Chairperson:** Okay. Well, thank you for your comments. Let us proceed then down the list, and in response to Mr. Maloway, if there are some items that committee members have very little interest in, we will simply pass by quickly and not procrastinate on anything that is of no interest to the members of the committee.

Having said that, let us proceed. This is on page 3, New Matters. The first item is Management Practices, which then related to three departments and a society. That would mean the Department of Finance, Department of Justice, Department of Health and then the Society for Manitobans with

Disabilities. So the first item is, again, Department of Finance, Taxation Division, on page 3. Are there any questions or comments on this?

**Mr. Carr:** Mr. Chairperson, I have a general question. It says on page 3 that the audits compared management practices in these departments and agencies with standards from management set out in the Management Practices Guide, and that this is a matter that generally requires significantly more attention. I wonder if the Auditor could give us some more detail about what significant means, and if there are particular recommendations that are involved here.

**Mr. Jackson:** One of the things that we have been finding for the last several years, perhaps starting in 1988 through '89, '90 and '91, the need for improved management practices in many of the areas that we commence audits becomes relatively apparent—one of the things that we emphasized in our 1989 report. If I may, I would like to read that because it summarized our position fairly well. It also provides some indication of where we are coming from with some of our considerations that end up in B's or B-pluses or B-minuses.

In 1989, we said, we note that there is a need to strengthen the accountability processes to assure government that its policy decisions via Treasury Board or cabinet are appropriately implemented and carried out. Two specific examples helped demonstrate this need.

The Internal Audit Guide was approved by Treasury Board in 1982. The guide was issued to communicate government policy regarding internal audit. The policy states that departments shall have an internal audit that carries out a systematic review and appraisal of all government departments' operations for purposes of advising management on the internal management policies, practices and controls. We have found that departments are not consistently adhering to the policies in the guide.

In early 1987, the government approved the Management Practices Guide. This guide, approved by Treasury Board, sets out government policy on management practices. Treasury Board stated that the drive for improvement in management practices must come from deputy ministers and senior management. The required emphasis has not been maintained.

\* (1025)

We noted that not all senior management were aware of the guide or the contents enunciated in the guide and that some managers did not have copies of the guide. Our audit reports and Phase II of the independent review identified opportunities to improve management practices within the government and certain of its agencies significantly funded by the government.

Both of the above policy initiatives reflected through these guides are important. They set out government policy and promote effective management in government. Government departments and specifically deputy ministers have been delegated the responsibility for implementing government policy.

It is intended that they be accountable for implementing and carrying out government policy. However, there is not an effective accountability process to assure government that its policies are being carried out. The accountability process is not as comprehensive as it should be. It is not as clearly set out as it needs to be, and it has not been as effective as required.

In our view, there should be an accountability process that includes agreement on an overall plan for implementation and reporting. The plan should include schedule dates for departments to implement specific policies. Part of the plan should require departments to report to government on an ongoing basis progress on implementation or that its significant policies and initiative have been implemented and are being carried out.

The government should set out and communicate those significant policies or initiatives that need to be reported and monitored. They may include policies enunciated in the Management Practices Guide, the Internal Audit Guide, the general manual of administration or other important government initiatives.

The government should assign an entity or individual the responsibility to receive the departmental reports and to monitor departmental accountability reporting.

The consultants who undertook Phase III of the independent reviews indicated similar concerns in their report. They recommended a redefinition of many existing organizational relationships. They further recommended the establishment of an office to provide leadership in government-wide accountability initiatives. They recommended the

office be headed by a deputy minister and report to Treasury Board.

The recommendation provided that the office would have access to agenda, submissions and supporting information concerning major proposals before cabinet. Staff of the office would understand and advise as to their accountability implications and ensure that the information, explanations and strategic choices that emerge from the accountability initiatives serve the needs of cabinet.

The office would provide leadership, research, support, co-ordination, advice and assistance to departments who carry out the direct responsibility for implementation. Further, the office would provide expertise and objective information on interdepartmental analysis of accountability and on the status of accountability initiatives to cabinet and the Legislature.

The recommendation provided by the consultants in Phase III is one alternative for an organizational structure to carry out this important requirement. However, there are already central agencies of government in place that could carry out these responsibilities if their mandates were enlarged and sufficient resources provided.

These central agencies include the Department of Finance, Treasury Board Secretariat and the Comptroller's Division. The responsibility for implementation of government policy and monitoring accountability needs to be clarified and clearly assigned, with appropriate processes of staff put in place to ensure that these important responsibilities are fulfilled.

We thought that was a very significant recommendation. In following that up for the status in the 1991 report, the status of it is such that the Department of Finance will review this issue. That is three years after we wrote what we considered to be an important recommendation.

**Mr. Carr:** Mr. Chairperson, that is a rather stinging indictment that was written in 1989. Such phrases as: managers did not have the guide; not effective accountability; not as effective as required; government should communicate initiatives. Is it the view of the Auditor that the situation has substantially improved from the time those words were written more than two years ago?

**Mr. Jackson:** Mr. Chairperson, I would just like to say that as recently as within the past two weeks we met with senior executives of the Department of

Finance, both from the department and from Treasury Board Secretariat. We were pleased that there seemed to be a better understanding of what we were recommending and consideration being given to seriously implement this recommendation. We just think that in an organization this large there can be no way that important policy decisions are taken and no one really knows that they are being implemented.

\* (1030)

**Mr. Carr:** I would invite the Minister of Finance (Mr. Manness) to comment on the recommendations that the Provincial Auditor has read from 1989, and the implicit criticism that not very much has happened since then, because it says in the report this year that this is a matter that generally requires significantly more attention. Can the minister tell us just what attention he is giving it?

**Mr. Manness:** Mr. Chairperson, I would like to make a number of points. Firstly, I am holding the guide in front of me. I do not know how many members of the committee have seen it, but this is the Management Practices Guide, Government of Manitoba. There is no doubt—we are well aware that Mr. Jackson's office has done an extensive amount of work to determine how well departments are complying with this particular practices guide.

I am led to believe that it was issued by Treasury Board in 1987, and it embodies management practices and philosophies and principles that the government considers important to good program management. I am also led to believe that not many provinces in Canada have issued this type of document, this type of guideline to their departments.

When the guide was issued, orientation sessions were given to departments. We recognized then, as we do now, that the Department of Finance does not have the resources to work with each program, management or implementation of the principles embodied in the guide. Each deputy minister was considered responsible for implementation of his or her own department.

Now I am mindful that, indeed, if we put more resources to work, we could obviously watch better those departments which may or may not be using the guide. I am mindful also of the wording as just quoted by Mr. Jackson from his report, I believe of '89, where he said, if the mandate was enlarged, and I think he is talking about Treasury Board more

than anything -(interjection)- Secretary—if the mandate was enlarged and resources provided.

We have not pushed hard on this because, quite frankly, we have not put the resources to them. We took out 950 positions in government last year, all of them—not all of them but, in the minds of many people who were affected, all of them important. It is pretty hard to take out 950 positions in government overall and then commit additional resources—I am talking about human resources—to another function of compliance with respect to guidelines. It does not mean that if we were in a perfect world that we would not rather do it. It does not mean that we are going to not insist that deputy ministers again become recommitted to the guidelines and that we will be asking them for status reports regarding progress made on the implementation toward the guidelines.

As far as the Department of Finance committing additional resources to make sure that happens, quite frankly that will not happen in this budget.

**Mr. Chairperson:** Any further questions?

**Mr. Conrad Santos (Broadway):** On page 56, Mr. Chairperson, about taxpayers' liability, I would like to ask some questions.

**Mr. Chairperson:** Excuse me. Does this relate to the item before us?

**Mr. Santos:** Related to No. 3.

**Mr. Chairperson:** We are dealing with the Taxation Division. This is the material supplementary dealing with this topic.

**Mr. Santos:** Page 31 to page 52 and other pages. I would just like to have a general idea for the benefit of the members of the committee and those of us who are not familiar with things for the Auditor to describe briefly the policies, the practices and procedures in establishing taxpayers' liability.

**Mr. Jackson:** Mr. Chairperson, I can do that, but we do have an official here who would be much more competent in that area, and that is the director of the Taxation Division, and I think he might provide a better overall presentation.

**Mr. Manness:** What was the question again? I am sorry.

**Mr. Santos:** The policies, procedures—how to establish taxpayers' liability as debtors of legal—

**Mr. Chairperson:** Just for the record, Mr. Stan Puchniak, your position is director of—I am sorry. I

am demoting you, not promoting you this morning—ADM of Taxation.

**Mr. Stan Puchniak (Assistant Deputy Minister, Taxation Division):** The procedures have been changed to address the problems identified where taxpayer liabilities were not being formally and legally addressed, so what happened is that whenever an audit is done, the audit is accounted for and, as well, the taxpayer is informed of the results of the audit.

The taxpayer is also given the details of the audit findings. The taxpayer is then asked if he agrees with the audit findings and if he or she does, they can sign a letter, a notation, that they agree with the liability. If they agree with the liability, according to the provisions of the statutes, that means there is a legal debt and therefore the amount of the debt is recorded in the formal records of the Taxation Division.

The other situation is where a taxpayer does not agree with the liability, with the audit findings. At that stage the taxpayer, say, did not sign this agreement to the debt, the file then proceeds to an audit review section for correctness and applicability of the law and correctness and applicability of the audit findings. After that, a notice of assessment is issued. When the notice of assessment is issued, that creates a legal debt on that taxpayer.

**Mr. Santos:** Mr. Chairperson, there are some problems mentioned there in the third paragraph. In addition to the inconsistency with which the division establishes taxpayers' liability, we noted that there is inconsistency in the recording of taxes receivable. Could we have some elaboration of these two inconsistencies?

**Mr. Jackson:** Mr. Chairperson, it was our understanding that the process that was followed within the sales tax department was also followed in some of the other divisions, and what they have worked to do is establish consistency so that their accounts receivable roll only include amounts that are truly accounts receivable and that can be legally enforced. Prior to this decision being taken in the departments, streamlining their operations, their collections efforts were hampered because they had things on the rolls which were not legally enforceable. Those have been removed and they are in a much better position now to exert their collection efforts only on accounts that are legally enforceable.

**Mr. Maloway:** Mr. Chairperson, Mike Bessey was involved in the Repap deal which gave us \$77 million in junk paper. He was also involved in negotiating the Jets deal. I would like to ask the Auditor to conduct an audit into the Jets deal and to examine the deal to see if everything was done correctly.

**Mr. Chairperson:** Mr. Maloway, I would remind you that we are following an order here which the committee agreed to. The item we are on now is the Department of Finance, Taxation Division.

**Mr. Maloway:** I think it would fit well in there, Mr. Chairperson.

**Mr. Chairperson:** I do not see the relevance unless you want to explain it.

**Mr. Maloway:** Mr. Chairperson, we are dealing with the Auditor's report. It seems to me that if we do want to finish the report today or within a reasonable time, we should allow the longest or the farthest latitude of questions as possible. If we are to follow the agenda we have right now, this question could not be asked for many meetings to come.

\* (1040)

**Mr. Chairperson:** Mr. Maloway, we have agreed to a certain order of procedure and we are following that. Of course, any member can raise a question at any time providing a majority of the committee agrees to change the agenda, or if the majority agrees with the question or the item raised by the member, but at the moment my understanding is the committee has agreed to proceed as we are proceeding.

**Mr. Manness:** Mr. Chairperson, this is a pathetic attempt by the member to run counter to the proposal, the motion that he brought into this committee a week ago asking that an agenda be followed. He was the one that moved the motion, and now, because the media is here, he is more interested in skewering his own motion than he is in following it, and I say it is a pathetic attempt on his part to try and disrupt a committee which for the first time in 10 years is trying to follow some type of an agenda. He should be ashamed of himself.

**Mr. Maloway:** Mr. Chairperson, I would respectfully ask the committee then to alter the agenda to allow me to bring this matter up at this time.

**Mr. Jack Penner (Emerson):** Mr. Chairperson, what Mr. Maloway is really saying is that he is sorry he introduced his motion a week ago and that he is

now attempting to skewer his own recommendations to the committee. I find that fairly consistent of the member, and I would therefore suggest that we proceed with the agenda as established.

**Mr. Chairperson:** Yes, I guess we will proceed unless there is clear support.

**Mr. Santos:** I had been asking some more questions, Mr. Chairperson, which were relevant, and I was cut off.

**Mr. Chairperson:** I am sorry. I thought you did not have any further questions, and that is why I recognized Mr. Maloway, but please proceed, Mr. Santos.

**Mr. Santos:** Thank you. I would like to go to the next page, on page 57, about Segregation of Duties. It is elementary and fundamental that, to enforce internal and financial controls, sometimes duties have to be organized and segregated. For example, it is essential that those who attend to collect the cash, those who handle the money, should not be the same persons who will record the necessary accounting records, or there would be no control at all.

On page 58 in the first paragraph it says, "Proper segregation of duties helps to ensure operations run in an effective, efficient and controlled manner." Then it goes on to specify some of the problems involved, for example, the lack of an independent review in the account status being changed at an appropriate time resulting in ineffective and inappropriate collection, and so on and so forth.

My question is: Could the appropriate person who is familiar with this procedure describe briefly why some of the staff time is not being used efficiently in the sense that staff are not devoting appropriate time to their audit responsibilities in the segregation of duties, resulting in fragmentation of accountability and responsibility in these two areas?

**Mr. Puchniak:** The problem relating to the administration of the retail sales tax collection area was known for some time. It required a considerable upgrading in the processes that were to be used as well as the ability to use modern collection techniques that would speed up the process. That required the purchase of PC computers and linking them to our mainframe, so that the collection officer would have the information to deal with the account. The next situation is to interlink the mainframe

computer systems—there are three systems—sales tax, corporation capital tax and health and education tax. That was started last summer. To begin the linking of that, there is significant computer systems development to be done so that the collector, when they are dealing with a taxpayer, will have in front of them the taxpayer's record of prompt payment or delinquency under all of those three statutes, so that reduces fragmentation. The taxpayer would be dealt with by one tax collection officer.

As far as the alignment of duties so that some more difficult or complex accounts are dealt with by the most qualified person, that is not unusual in any collections establishment where the most highly skilled person deals with the largest and most complex accounts. That person would be expected to have a higher level of training. There has been assistance provided over the last year by the manager of collections from Manitoba Hydro, who has assisted in refining the collection processes so they are more efficient, also the use of a computer software so that actions can be taken on accounts much quicker. If a taxpayer now does not respond when they promised to, that is brought forward to the tax collection officer so that the tax collection officer can take prompt action.

Does that answer your question?

**Mr. Santos:** Mr. Chairperson, I would like to have an idea of what the current state is of the computerization of all the records that used to be in hard copies filed away? Have they been put into memory so that there will be adequate internal records?

**Mr. Puchniak:** The computer system that I have talked about is a copy of the system used by Manitoba Hydro. It is a temporary collection system called DISOSS. We use that through MDS. It is kept in a confidential file that no one else can get into but our collection officers. To broaden that to a full-scale collection system with integration of all the accounts is a significant task that has been commenced in the summer of 1991 looking at the matching of our taxpayers under the three statutes. The commencement of the software development was just started recently because the systems staff that we have were working on the development of—and they finished that just recently—amendments to our mainframe system dealing with corporation capital tax installments which were passed at the last session of the Legislature.

**Mr. Santos:** With matters of this nature, Mr. Chairperson, it is essential that adequate records should be maintained. If they are computerized, they should be boxed and filed so that they can be reviewed, and such documents like numbered cheques, invoices, and other material should be traceable, if necessary. Accounting records should be retained on file in their proper order in the proper period, so that it can be followed up, if necessary, to investigate any particular case. Has this been the case?

\* (1050)

**Mr. Puchniak:** I should answer that. Yes, there are. The cheques that come in are properly recorded. There is a file of them. There are files of all the entries that are made by the taxpayer monthly with their returns that come in. All those documents are filed. All the documents that are required to be recorded in a taxpayer's file are on the computer system. What we are talking about is an enhancement—is interlinking three computer systems, so that we deal with the taxpayer on their tax obligations at one time—an interlinking. All the documents that are required are on file in the computer system and hard copy is available.

**Mr. Santos:** What will be the answer to this comment here? For example, the last sentence in the first paragraph on page 58: "... collection duties are being assigned to staff whose expertise and technical training is not in collections."

**Mr. Puchniak:** The special audit of the Provincial Auditor took place in the middle of our reorganization. We recognized that prior to functionalizing our collection activities, we had to provide some assistance to the collection area. The assistance that was provided to the collection area was compliance officers of the Retail Sales Tax Branch whose duties included the collection of funds from delinquent accounts from taxpayers. So, they were skilled in doing that job and had done it for many years.

**Mr. Santos:** On page 57 under "Segregation of Duties," the second paragraph, the last sentence on that paragraph: "There is no senior management review or approval of the transfers, nor are there guidelines that set out the criteria for the transfer of accounts." They are talking about how to classify the accounts with active, nonactive bankruptcy, receivership or whatever category they use. Can we have some explanation there, Mr. Chairperson?

**Mr. Puchniak:** Those statements are correct as corroborated by the Provincial Auditor's audit. That is one of the weaknesses that was known earlier, and that is being addressed by our seconded collections manager from Manitoba Hydro who was skilled in this, to address the situations in here. What has been happening is that as those situations come to the fore, are discussed amongst a management team which includes the seconded manager of collections from Manitoba Hydro, the director of management and research, the director of administration and myself, a policy is determined, the staff are made aware of the policy, and it is put into place.

**Mr. Chairperson:** Are there any further questions of committee members on this particular item, namely Department of Finance, Taxation Division?

If not, we can pass onto the next item shown on page 4, Department of Justice, Headingley Correctional Institution. Are there any questions or comments by members of the committee?

I do not hear any. Okay, we could pass onto the next one, Department of Health, Brandon Mental Health Centre.

**An Honourable Member:** Do you have any questions, Mr. Chairperson?

**Mr. Chairperson:** I may have. I am a little restricted here.

Are there any questions on the Brandon Mental Health Centre as referred to on page 4? No.

Carrying on then, Society for Manitobans with Disabilities Incorporated, do members of the committee have any questions regarding the Auditor's report on this area?

Proceeding then, Collection of Accounts Receivable, which is on page 5. This is again subdivided with respect to central direction and monitoring of departmental accounts receivable, and then it proceeds to refer to other areas, again Department of Finance, Taxation Division. Are there any questions on this area?

Proceeding down the list, Department of Education and Training, Manitoba Student Assistance and Canada Student Loan Program—no questions.

The Department of Justice—this is all under Collection of Accounts Receivable I understand.

Department of Labour, any questions?

Proceeding to the next item then, Office of the Chief Electoral Officer.

**Mr. Carr:** Mr. Chairperson, I have a question for the minister.

It seems as if the Committee on Privileges and Elections has not met in quite some time. Can the minister tell us the last time that committee did meet and why it has not met to deal with the issue that is raised in the Auditor's report?

**Mr. Manness:** I cannot say for sure why it is that it has been neglected other than I obviously have to take full responsibility for it. I will make every effort to have that committee convene in February, if not March. Certainly there have been some recommendations coming out of the annual report that need to be dealt with by the Legislature by way of committee hearing. I will undertake to have that done in early 1992.

Mr. Chairperson, it seems to me I moved the motion towards the end of the session, but we did not meet as a committee. We will endeavour to do that early in '92.

**Mr. Carr:** I appreciate the minister's answer.

I would just like it confirmed whether or not this committee has met since this government took office in 1988.

**Mr. Manness:** I cannot say with full certainty as to that. I know since I have been House leader, which now has been two years and over, it has not met.

**Mr. Chairperson:** Any further questions on the Office of the Chief Electoral Officer?

Hearing none, I proceed to the next item, which is divestiture of the Manitoba Data Services.

**Mr. Maloway:** Mr. Chairperson, on this particular item the Provincial Auditor's report expresses some concern about the confidentiality of data. I would ask the minister what plans are in place to comply with those observations of the Provincial Auditor?

**Mr. Manness:** Well, Mr. Chairperson, if the opposition did not have this area to ask questions, I suppose they would not have any questions to ask on the divestiture of Manitoba Data Services. Of course, they try to leave the impression that security may be violated. I totally and categorically reject that.

I want to indicate that every day all the lines in government programs are monitored, who uses the programs and who accesses a program so we know

exactly who uses that particular or any program, Mr. Chairperson, is well known. We have a provincial security officer who keeps track of all the security aspects of Manitoba Data Services. Although this person, I think, has just come on board over the last several weeks, we are led to believe that one of her tasks is to be in constant communication with users in Manitoba Data Services.

There are systems within the Manitoba Data Services company that are industry standard. I am talking now about security systems and that they prevent unauthorized people to access the data. These are Department of National Defence approved. Up to this point in time, we have had no violations or complaints since we took over MDS.

Mr. Chairperson, I think it is incumbent upon particularly the opposition to maybe spend a little bit of their time, rather than just coming up to the table here and trying to present the spectre of something going wrong. Maybe it would be wise if they would go talk to the users, the many users of Manitoba Data Services that are dealing with sensitive information and ask them if there have been any violations or problems associated with secrecy since Manitoba Data Services have been divested.

As I said then when we were going through the process and as I will say now, we have the same systems in place that we did when the taxpayers and the people of Manitoba owned Manitoba Data Services. The systems in place are Department of National Defence approved. There is a tremendous price to pay for the new entity, indeed, if they are found wanting in the maintenance or the protection of secret information. As I have said several times, Mr. Chairperson, the government and its departments and its entities are the owners of the information which is deemed to be secretive.

\*(1100)

**Mr. Maloway:** Mr. Chairperson, the minister should not suggest that the opposition in any way is inventing something here. This is an observation made in the Provincial Auditor's report by the Provincial Auditor. So we are simply asking the minister for clarification of what is here in the Provincial Auditor's report.

I might also point out and ask at this time about the situation that has developed with respect to Linnet Graphics and the whole area of confidentiality with respect to that situation. At this point, I think it would be fair for me to ask the

Provincial Auditor whether he would consider conducting an audit into that whole deal, because the Linnet Graphics deal is a substantial one and it also involves the question of confidentiality of records.

**Mr. Manness:** Mr. Chairperson, I do not think Mr. Maloway has to invite the Provincial Auditor to look into any issue. The Provincial Auditor, of course, is free to look at any aspect of government that he so wishes, and no doubt he is as mindful of some of the revelations, alleged and inaccurate, that have been printed in the paper as the member for Elmwood (Mr. Maloway). Indeed, I will let him answer as to where he wants to take the scrutiny of that issue.

But let me say, Mr. Chairperson, I do not see Linnet referenced once in this document—maybe—I do not see where it is, and I would have to think that the member's question is certainly hypothetical at best at this point in time.

**Mr. Chairperson:** Thank you, Mr. Manness. Maybe, Mr. Jackson, could you clarify, is it contained in the report? Was there any reference whatsoever in the report?

**Mr. Jackson:** No, there is no reference in our report to Linnet.

**Mr. Chairperson:** So this item is not before us at this time.

**Mr. Maloway:** Mr. Chairperson, the item that is before us is the Manitoba Data Service's divestiture. We got into the area of confidentiality and of the records. Linnet Graphics is very much topical in that regard, and I ask the Provincial Auditor whether he has done anything or whether he has considered doing anything in terms of looking into that deal, because there are certainly questions about it.

**Mr. Chairperson:** Well, Mr. Maloway, my understanding is the Provincial Auditor examines spending of the government and also contracts that have been entered into for which there is legal requirements on the part of the government to spend money in their financial commitments. I am not sure that is the case at the present time. I am not that familiar with the item that you are bringing up, but I do not believe that is the category at the present time. Maybe Mr. Jackson or Mr. Manness might like to comment on that, but I do not understand that it is. Mr. Jackson, do you have any knowledge of this? Is there any relationship between that company and

the reference made by the member for Elmwood and the Manitoba Data Services divestiture?

**Mr. Jackson:** Mr. Chairperson, Linnet Graphics was not a matter that was covered in our audit for the year ended March 31, 1991. Linnet Graphics is something that has received some media attention and some attention in the House. As we have indicated in times past, we act for members of the Legislature, the Legislative Assembly, and if there is an area of interest that seems to be capturing the interest of the Legislature—we have a file of projects—depending on the degree of interest, that item would increase in its priority as a project for the use of our resources.

**Mr. Chairperson:** Thank you. Any other questions on the topic before us, Divestiture of Manitoba Data Services?

Proceeding then, Manitoba Water Services Board, are there any comments or questions, Manitoba Water Services Board? Hearing none, the next item is Department of Northern Affairs, Native Affairs Secretariat, the top of page 8.

**Mr. Carr:** Mr. Chairperson, I would just like to ask the Auditor what he means by saying that the accountability policies, practices and procedures identified the need to make significant improvements to achieve an appropriate level of accountability for its grant operations—on page 8, Native Affairs Secretariat.

**Mr. Jackson:** I have indicated in the detail of our report, we found there was not a clear understanding of staff as to whose responsibilities it exactly was to monitor the accountability aspects of grants that were made. There was some confusion as to whether it was the Thompson office or the secretariat's office in Winnipeg. That was one of the areas we had a concern with.

Other than that, we had a concern that the terms and conditions of the grants for accountability were in fact being fulfilled. On several of the files that we reviewed we found the grants were being paid out irrespective that certain of the conditions of the grant were not being fulfilled as far as accountability went.

**Mr. Carr:** I would ask the Auditor, whose responsibility is it, since there seemed to be some confusion as to where the responsibility fell? Where does it fall?

**Mr. Jackson:** We had no doubts in our mind. It was a function that was being fulfilled by the secretariat.

We indicated that there were changes needed in their organizational approach so the responsibility would be clarified, documented and acted upon.

**Mr. Manness:** Mr. Chairperson, I welcome this qualification and indeed this recommendation.

Members can remember that when we first inherited government we called into question the accountability around the grants, particularly in the Family Services area. Indeed, we went to some special effort to ensure that there was management in place for those agencies receiving government funding.

I do not have to remind members at the table the severe criticism we came under for being too heavy handed in some cases, for giving too much emphasis to the accounting function that would be required. Of course, the impression was left by a casual observer that this government was more interested in good management than it was in providing services.

We never apologized for that. As a matter of fact, we have seen good results in some areas. We can go much further in this, and we will continue to try and ensure those recipients of provincial funding indeed become more management oriented. We welcome this concern, and we will do everything we can to ensure that we can live up to it.

**Mr. Carr:** Mr. Chairperson, I do not congratulate my kids when they bring home their report card that has gone from a B-plus to a B-minus, and I do not think the minister should either. The minister is taking a pretty cavalier approach in congratulating himself for good management in the wake of an Auditor's report which tells him he is not doing as good a job this year as he did last year or the year before, but let us move on.

**Mr. Manness:** The member throws a comment out and he says, let us move on. If he wants to get into a rip-roaring political debate on grades, I am prepared to do it at any time.

\* (1110)

I was not congratulating myself. I was congratulating the Provincial Auditor for continuing to bring up the issue with respect to the management controls that are in place at recipient agencies.

I do not hear the opposition ever—I have been in this House now for 10 years, and the last three, almost four in government. I have never heard the

opposition call into question whether any grants—I must remind members of this committee that upwards of \$2.5 to \$3 billion of our expenditures are in the area of grants when you take into account the Health Services Commission. I have not heard many calls that there be greater accountability by those granting recipient entities. I have heard that government departments had to provide, and ministers, and indeed, all of the hands-on endeavours of government had to provide for greater accountability. I do not reject that, but I have not heard many calls for recipient agencies from the opposition.

So, all I am saying, Mr. Chairperson, if the member is going to draw into conclusion the grades of accountability, then he also has to realize that per this particular recommendation that there is an incumbency upon those grant-receiving agencies, whether they are in the arts, whether they are in the Native community, whether they are in the Family Services committee, to also be a partner towards greater accountability in management systems.

**Mr. Chairperson:** Are there any further questions on the Native Affairs secretariat item? That concludes the new matters? Now, we move on to matters requiring further attention.

First is Consolidated Fund Financial Statements—Reservations in our Test Audit Opinion. Are there any questions or comments by the committee on this?

**Mr. Carr:** I would like the Auditor, if he could, to just give us a little insight into the reservations that he cites on page 8, that the recording of the amount receivable is not in accordance with the government's accounting policies because the Department of Finance generally does not record amounts receivable from the Government of Canada. He goes on to quote four reservations. Could the Auditor just enhance and give some more detail to these reservations for the committee?

**Mr. Jackson:** We provide considerably more detail on page 106. I will ask the Assistant Provincial Auditor to run through the main salient points for the members' consideration.

**Ms. Carol Bellringer (Assistant Provincial Auditor):** Reservations 1, 2 and 3 had a parallel reservation in our opinion last year. Reservation 1 relates to an emergency disaster amount receivable from the Government of Canada, in that the time that we were signing our opinion, that receivable had not

yet been received and agreement was not yet in place.

Reservation 2 relates to the exclusion of pension liabilities and associated pension costs. This information is provided in the notes to the financial statements for the public accounts, but in our opinion, that information should be included in the numbers included in the financial statements.

Reservations 3 and 4 both relate to other funds which we believe should be combined with the consolidated fund, with the operating fund of the consolidated fund. That is about the Fiscal Stabilization Fund and the Manitoba Lotteries fund. We believe both the balances and all of the transactions during the year should be shown in the operating fund, so that you can see the complete picture of what government programs have included for the year.

**Mr. Carr:** If I could ask the minister in relation to Reservation 1, what the status of the \$18.7 million receivable is from the Government of Canada?

**Mr. Manness:** Mr. Chairperson, it comes as no surprise to members of this committee, I am sure, that there continues to be an ongoing dispute between the federal and provincial governments with respect to the finalization of accounts associated with the 1988 fires. I am advised that as of two or three weeks ago federal auditors were in again reviewing the accounts associated with the evacuation, indeed, all the costs associated with the significant firefighting efforts put forward. I am led to believe that there will be discussions again over the next couple of weeks, hopefully, leading to a final resolve. The difference of opinion is obviously money.

We were led to believe through the word of the Prime Minister that Manitoba would be dealt with fairly. That took on definition; from my understanding of \$30 million, we booked that amount in the old year 1989-90. We still have not received that money. Until we do, it will continue to be a significant point of dispute, one based on principle that is between our two levels of government. I have no difficulty, Mr. Jackson qualifying the report. In my view he has been more than fair in waiting around for this long for this cheque to come. It has not come and certainly we understand—

**An Honourable Member:** No, it is not even in the mail.

**Mr. Manness:** I actually thought it was in the mail. I was told it was in the mail a month and a half ago from very high sources. I will not believe it is in the mail until I see it.

**Mr. Carr:** Mr. Chairperson, has the government of Manitoba actually billed the Government of Canada, because it seems to me that this was raised in the House because there was some dispute over the amount owing? The Government of Canada had said one figure and the government of Manitoba was holding out for another. Has the Government of Canada actually received an invoice from the Province of Manitoba, and if so, for what amount?

**Mr. Manness:** I cannot say specifically but far beyond \$30 million. Maybe somebody here knows. It seems to me it was approaching \$50 million.

**Mr. Carr:** Is it possible, Mr. Chairperson, to get an exact figure on that invoice?

**Mr. Manness:** Mr. Chairperson, I am sure it is. We will endeavour to provide that. I know we did provide a billing. I do know that it did not have the detail sufficient to convince the federal government that it was the right amount owing and that is why it has been in dispute.

**Mr. Chairperson:** Are there any further questions on this item, Consolidated Fund Financial Statements?

Okay, passing on then to the next item, Accountability for Government Policy Implementation, any comment on this section? Any comment, Mr. Jackson?

**Mr. Jackson:** Mr. Chairperson, one of the initiatives that the government has taken is with Crown Corporations Council. What it has established is a relatively small group of people at a reasonable level, and they have brought in some recognized senior executives from the private sector. Their approach seems to be working to real advantage for improving the accountability for the Crown corporations.

\* (1120)

Another initiative that has been taken is the move towards special operating agencies. There is another initiative where they are working with the Department of Labour. The Department of Labour is moving through a process that is similar to the IMA approach the federal government has taken. That is, in order to have increased flexibility and operating

abilities, the individual department assumes a greater degree of accountability.

We think that all of these initiatives are good. Each of these initiatives requires a higher degree of accountability, better planning, agreement with the funder of the operating plan, et cetera. We think these initiatives are so good that we think there is an ability to transfer some of the highlights of them to the central government and have that greater degree of accountability for a government policy enhanced through the Treasury Board Secretariat.

What we envision here is that when the process is implemented, the reporting process that should be taking place is that similar to any delegation of responsibility. The individual, i.e. the deputy that is given the new responsibility, should be accounting for that through a progress report back to this Treasury Board that gave him that accountability. So that is the approach we are looking for in the policy implementation.

**Mr. Chairperson:** Thank you, Mr. Jackson.

**Mr. Carr:** Mr. Chairperson, I was going to save comments and questions on the Crown Corporations Council until the next page, but since the Auditor has brought it up I will ask a couple of questions now.

He says that accountability has been improved because of the work of the Crown Corporations Council. Could I ask the minister when the Crown Corporations Council was established, and when was the last time it appeared in front of a Legislative committee?

**Mr. Manness:** Well, Mr. Chairperson, I think the member knows the answers to those questions. It was established, as he knows, roughly two and a half years ago. It is going to be coming before the Legislature. I will let the member name the day. He can call the day he wants.

**Mr. Carr:** Well, that is co-operation, but it is also the cause for a little bit of anxiety. The Crown Corporations Council has not met with a committee of the Legislature. Therefore, just to use one specific example, the Crown Corporations Council's work in reviewing the major capital plans of Manitoba Hydro which include the Conawapa development, which include a \$13.5-billion power sale to Ontario, has not been subject to political scrutiny.

While we debate through Question Period and the Legislature the wisdom of that contract, the Crown

Corporations Council which was designed to oversee the mandate of Manitoba Hydro and the other Crowns as embodied in the legislation—the minister knows that, he drafted it—has not been accountable for that recommendation to the Legislature of Manitoba. We are told it is too late to reopen the contract with Ontario. The Premier has said that. The Minister of Energy has said that regardless of the fact that there seemed to be, and we still claim there is, an opportunity for that to happen.

The point is that the Crown Corporations Council had made its recommendations to government, which substantially, well, I could say rubber-stamped, why do I not say confirmed the Public Utilities Board recommendation, yet there was no opportunity for members of the Legislature to question the Crown Corporations Council on probably the most important piece of work that it has done since it was established two and a half years ago.

I would ask the minister how he can justify that, given his commitment to accountability and accountability, in particular, to the politicians who are elected by the people of this province?

**Mr. Manness:** Well, Mr. Chairperson, as the member knows, I do not know what happened toward the end of the last session when indeed it appeared like the Crown Corporations Council was coming before the Legislature in a standing committee. I cannot remember how that went off the rail, because indeed, as the member and I have discussed, we are starting to set into place the motion to have it come forward, and there were several committees, standing committees, at the very end in the rush to complete the session that were not called, and the member is very well aware of that, is very well aware that we had begun to work toward a timetable to handle all of the standing committees and all of the reports that had not been dealt with. That was set aside by the collective will of all of the parties to finish the business of the House at the time.

I will reiterate my commitment to him; that committee can come forward. I should say, the council and its annual report can come forward quickly, and I would have to think that if the member wants that to happen in March, I would like it to happen in March, because it is an outstanding commitment I have made to him.

Let me say though, with respect to the most important business or objects of that particular council, I would not agree with him when he says the most important thing it has done to date is to consider the capital plan of Manitoba Hydro. I mean, he must make that comment purely because in his estimation it is \$13 billion and, therefore, it is big dollars and, therefore, it is the most important issue.

We did not set up the Crown Corporations Council as its No. 1 priority to review capital plans. We set it up over a number of objects, one of which was to consider plans of capital requirements of Crowns but, still, the most important reason for its coming into being was to advise government as to the internal operations of Crown corporations, to provide a monitoring process on all of its activities, including financial, including human resource management, including the setting of strategic plans and evaluation as to the progress and working toward those.

So, Mr. Chairperson, that was the reason that the council was set up. The member for Crescentwood (Mr. Carr) is very well aware of that, and I would have to say in the minds of everybody, including the Auditor, obviously, that even though it is still in its developmental stages, the Crown Corporations Council has gone some distance toward meeting the objectives that government set forth.

**Mr. Carr:** Mr. Chairperson, I will not ask the minister to give us specific details of recommendations given to him by the Crown Corporations Council that have been accepted by government. We will have a chance to do that when the Crown Corporations Council meets in March or earlier. I appreciate the minister has restated his commitment to do that as early as possible.

I would like to ask the Auditor, however, what he believes to be an appropriate level of accountability of the Crown Corporations Council to the Legislature? Is it his view that it ought to be treated the same way that the Crowns are treated, that they should come in front of a Legislative committee at least annually? Does he believe that the Crown Corporations Council should be treated differently than that, and just how are we as legislators to hold that very important council accountable to the people's representatives?

**Mr. Jackson:** Mr. Chairperson, we have said for a number of years in our reports that we would like to see an improved level of accountability for the

Crown agency operations to the Legislative Assembly of Manitoba. We have also indicated that the Crown Corporations Council could serve the members of the Legislature well by appearing before it.

We have had discussions with the previous president and chief executive officer as he was preparing to appear before the Legislative Assembly.

We think that it would be, at least our recommendation, that other alternatives be followed up as to other Crown agencies appearing before the Legislative Assembly over and above the ones that now appear or the ones that are handled under the purview of the Crown Corporations Council.

\* (1130)

**Mr. Carr:** With your indulgence, Mr. Chairperson, may I ask the Auditor to be a little bit more specific on the degree of accountability that he expects and through him the Office of the Provincial Auditor would expect of the Crown Corporations Council. Does he want that council to come once a year in front of a legislative committee or more often than that or less often than that, I was not clear by his answer?

**Mr. Jackson:** We would imagine or think that an appearance at least once a year would be appropriate.

**Mr. Chairperson:** Are there any further questions or comments on the topic, Crown Agency Accountability to the Legislature?

**Mr. Santos:** On page 9—

**An Honourable Member:** We are not there yet.

**Mr. Chairperson:** Excuse me. I have allowed a bit of latitude because—I guess the Provincial Auditor started this—we got talking about Crown agency accountability and we have skipped Untendered Contracts and Public Accounts Committee. I intended to come back to that, but I wanted to conclude this item that happened to come before us. There is a bit of latitude that we have exercised here. Is there anything further on Crown agency accountability? Did you have anything on that item? Mr. Carr, and then we will go back to Mr. Santos.

**Mr. Carr:** Since we are on the issue of Crown agency accountability, I would like to ask the Auditor and the minister another question. We broke some new ground last session, or was it the session

before, the minister can give us the detail, by asking the North Portage Development Corporation and The Forks Renewal Corporation to appear in front of a legislative committee.

As members of the committee know, these are not wholly owned Crown corporations by the province, but they are partners with three levels of government. I believe the Auditor had made recommendations, I am not sure, but the minister certainly had taken the step. We had appreciated and congratulated him on taking the step of calling those corporations in front of the legislative committee and that was done for the first time last year I believe.

Does the Auditor have a recommendation as to how we, in the Legislature, ought to treat corporations that are not wholly owned Crowns of the province but whose partnership or whose shares are tripartite?

**Mr. Jackson:** When we conducted the special audit of the North Portage Development, one of our recommendations was to enhance the accountability of partially owned Crown agencies to the Legislature of Manitoba.

The Legislative Assembly of Manitoba had, through its Estimates, provided funds, and it was a third partner in that arrangement. We felt that the Legislative Assembly of Manitoba should be getting the same kind of treatment as the Executive Council of the City of Winnipeg was getting.

**Mr. Manness:** Mr. Chairperson, we have no difficulty in providing greater accountability. From time to time we—this is the proliferation of Crowns and/or entities in which we have shared responsibility or ownership. Sometimes, through that proliferation, we sometimes in the speed of activity in government forget what might be of interest to members, and I would think it requires basically following one or two paths. One, as we are informally discussing rule changes, maybe it is a time to consider specifically what items opposition would want to see come forward by way of review, which entities of government, Crowns or otherwise, and/or failing that, you know, the codification of policy, we can go either way.

I think that we are prepared to provide much greater access to the members as long as we can fit it into our standing committee system, restructured. Of course, that is what we are discussing right now. I have no problem with it, but

now just to say, yes, let us look at these extra 20 or 30, I do not think government can do that on its own. I think it has to have a discussion with the opposition as to what is most important.

**Mr. Chairperson:** Thank you. Having dealt with the Crown agency accountability, can we revert to page 9, Untendered Contracts? I believe we have not discussed that. Is there any question or comment on untendered contracts on page 9?

**Mr. Maloway:** Mr. Chairperson, it seems to me that when the Conservatives privatized the Land Titles Office and the Assessment Information, Forestry and Geological Survey Data to the Linnet Graphics company that this was, in fact, an untendered contract—

**Mr. Chairperson:** Excuse me. Mr. Manness, on a point of order.

#### Point of Order

**Mr. Manness:** On a point of order, I would ask the member when we privatized the Land Titles Office. You had better be very exact, because to the best of my knowledge we have never privatized the Land Titles Office.

**Mr. Chairperson:** I believe that was not a point of order, that point of debate.

\* \* \*

**Mr. Maloway:** In the agreement that the government signed in 1988 with Linnet Graphics International, the information that the government has accumulated over the last 100 years from land titles information, assessment information, forestry and geological survey data, all of this data will, in fact, be turned over to this company, Linnet Graphics, and the consumers of this province will, in fact, be paying a user fee to get this information back. Now it seems to me that this was, in fact, an untendered contract, and I would like to know what comments the minister would have on that, and why in fact there was no public tender provision made when this deal was signed.

**Mr. Manness:** Boy, I have seen some longbows stretched in my life, but that takes the cake. Mr. Chairperson, let me say that no final agreement has been struck with Linnet. Let me also say that any information that government has is proprietary to government. Let me also say that land, geographical, or land-based information technology has obviously an economic development sign that

this government is interested in exploring and making an assessment as to whether or not it has potential to the development of that type of technology in this province, but at no time will government give away its information data to anybody. I mean there is no logic in doing so, and so for the member to try and conjure up the image that we have all of a sudden said, here, take all of our information and it is now yours to sell back to us as government, is so far-fetched that it defies even comment. Really, it does not even deserve comment.

**Mr. Chairperson:** Mr. Maloway, on Untendered Contracts.

**Mr. Maloway:** It seems to me, Mr. Chairperson, that when the government enters into deals like this, that there should be a tendering process set in place. When we build hydro dams, we do not give the contract to one company. We ask for tenders, and we get the best deal. How do you expect the public of Manitoba to feel comfortable in having received the best deal when this particular deal was done through secret documents? The head of the company, the president of the company, is Brian Ransom, a well-connected Tory. The company contributed \$23,000 to the Tories' last campaign.

Do you not feel that when you enter into a contract like this, that in fact, it should be made available for competing companies to make an offer to try to secure the business? Was any attempt made to search out other companies?

**Mr. Manness:** We are discussing Section 44(1), The Financial Administration Act, Untendered Contracts. That talks about specifically tendering for services in the public—consulting contracts. It talks about all of those sheets that the member has been in my office reviewing over two or three years. This was an amendment brought forward, indeed, by his leader, and under the guise of Section 44 (1), the member now is off into the land of nauseous gases from my point of view.

I can tell him that when he talks about Mr. Ransom, Mr. Ransom is an associate I understand of I.D. Engineering. What has that got to do with Linnet? It has absolutely nothing to do with Linnet, so he should probably get his facts right before he poses a question.

I think what Mr. Jackson is saying here is that we have had a couple of departments—and I am trying to find out who has not filed reports with us on a

timely basis. I can tell him also that we are concerned about the volume of paperwork, so many of the reports come to us on a monthly basis or every two weeks in their mail; they have a tremendous paper flow attached to them.

I think, whereas the Auditor has challenged us to bring greater technology to that whole process, we are trying to develop that on a systems approach. Hopefully, we will not only insist that the departments that have not, in a couple of cases, reported in a timely fashion, do so; but also there is a better system in place, so that, indeed, Mr. Maloway, when he comes into view the untendered contract list, will not have to do as much work. We are trying to accommodate him so that he can ask more of these stupid questions.

\* (1140)

**Mr. Carr:** I am going to do my best to ask an intelligent question.

I am interested in the concept of philosophy of untendered contracts and public policy. I would be interested in the opinion of both the minister and the Auditor on this subject.

What in the Auditor's view is appropriate for government to let untendered when the public sector is involved and what is inappropriate? What is an intelligent series of rules, and what is the principle that ought to guide government's decisions when it is spending money? Does the Auditor believe that the current system is appropriate? If not, what is a better system?

I am interested also in the underlying principle that would guide his recommendations as to what is appropriate and what is not.

**Mr. Jackson:** Mr. Chairperson, we believe that the tendering of public contracts has served the province well over the years and that if there is an opportunity to get roughly equal services from several firms in the private sector to supply a need of government, then the tender process works to the government's advantage.

There are situations, and they may be such that one has particular confidence in a particular solicitor or feels that this particular solicitor has a long history with expertise in a particular field, that it may not be necessary to tender for that particular service. If that is the case, and there is this untendered contract situation in place where the government has to

defend their actions for not having it tendered, I think that is appropriate.

**Mr. Manness:** Mr. Chairperson, I could not agree more with Mr. Jackson. Certainly, I know on sitting on Treasury Board now for a period of time, when preclearances come in and we notice that there are sole suppliers, almost inevitably we will ask the department why it is that they have not provided for an opportunity to a greater array of bidders. Almost inevitably though, they also come back and say that there has only been one bidder in that case, so it is a great concern to government.

There still are those circumstances and those situations where government basically cannot tender, and within the Department of Finance, I can think of our consortium dealing with our financial borrowings. I can think of the banking relationship that we have held with the Royal Bank for a long period of time. Some would say, well, you should tender that out every year, but that, quite frankly, is impossible. Yet from time to time, it is probably good that you go through the tremendous effort of readying and calling for proposals, but there are good reasons why every contract in government cannot be tendered.

**Mr. Carr:** I would like to ask the minister—and I am not trying to be cute here. This is a sincere question. To what extent does politics play a role in the letting of untendered contracts in this government in his experience?

**Mr. Manness:** Mr. Chairperson, I have absolutely no difficulty in answering that question. In the area of contracting, politics does not involve itself at all. I mean, we have had special audits that, of course, called into question—and some leasing issues. I can tell you the Premier (Mr. Filmon) particularly is insistent that in any area where we call out for tenders, we do.

That does not mean that we can in every area. There are, I can think of, a couple of occasions a month, and I am talking now beyond those that are reported here but ultimately are reported through Order-in-Council, whereby government in its wisdom would be doing a disservice to a process, to the time required to find a decision, and therefore to the common good, to the public good, by going through a tendering process, whereby it is obvious beforehand that the difference, the quantifiable difference, in bids would be virtually indifferent and

indeed, where there is still a subjective area of decision making, because that always happens.

I mean, you put subjective weightings in a lot of these tenderings, and so who has put the weighting on? Who in the department has decided to give greater weight to one factor versus another? These tenders are not always dollars and cents, quite often they are not; and so as soon as you have a realm of subjectivity to them, then in some cases, the very odd case, you will not call for tenders.

I can tell you that, and I say this in all sincerity, from our point of view, at least from my point of view, we have not practised politics with respect to the tendering process. There is no percentage in it, quite frankly.

**Mr. Chairperson:** Thank you. Any further questions or comments on untendered contracts?

**Mr. Santos:** Mr. Chairperson, on page 9 it is stated that there are certain missing reports on certain untendered contracts. Can we have some information on what are these missing reports?

**Mr. Jackson:** Mr. Chairperson, it was not a question, eventually, of missing reports. It was more that there was not appropriate follow-up, so that the reports that had not been received on time were eventually received.

**Mr. Santos:** It also mentioned that there are some improvements that had been made or implemented in following up this delay of missing reports. Specifically what are these improvements?

**Mr. Jackson:** Mr. Chairperson, the official who is responsible for this is working to have the process computerized so that it is much easier to ensure that the reports that are being expected are being received.

**Mr. Chairperson:** Are there any further questions or comments on untendered contracts? If not, we go to the next item which is Public Accounts Committee. Any questions, any comments?

**Mr. Santos:** Of all the recommendations the one recommendation which is important for accountability has been delayed, namely, No. 2. Requesting officials from government departments and Crown agencies to appear before the committee to answer questions by committee members. Can the minister explain why he is delaying on this important provision?

**Mr. Manness:** Mr. Chairperson, that is not quite accurate. The formal adoption of the policy, yes, was delayed. I do not know if the member was in attendance a week ago when we discussed this issue in some detail, but let me say, for instance, this morning you saw where one of my senior officials was in attendance, Mr. Puchniak, and gave answers to questions dealing with his responsibility. Mr. Rosenheck, the Provincial Comptroller, is here, and certainly he is prepared to answer questions.

All I am saying is, I do not have such a big problem with it. All I am saying is that it has to fit in to an overhauling of the rules with respect to, in my view, Estimates Review, 240 hours today is devoted to that. I mean, we can make government so accountable and all of us that make decisions so accountable that we will be here every day of the year, and we will not be making decisions for the greater good of Manitobans.

All I am saying is, there has to be a balance here, and to that end I am looking forward to working with representatives of the other party to see how it is that we look at all our rules and give greater effect to this recommendation. To do this in isolation in my view would be foolhardy, given the level of review we have already with respect to Estimates in this province. We are the only province in the country that devotes 240 hours in the fashion we do to Estimates Review.

**Mr. Santos:** On the same page and related to it is Accountability for Government Policy Implementation. I have some questions on that, and I would like to ask some questions.

\* (1150)

On the same page 9, under Accountability for Government Policy Implementation, it is stated there in the first paragraph under the topic that there is a need to strengthen the accountability process, to assure that a government knows that its policies are being presented and carried out. This is related to the relationship between the policy-making segments of government and the implementing level, namely the career bureaucracy in the provincial government service.

It is stated there that we should continue to recommend that the government consider establishing an accountability process, implying that there is no such thing right now, with appropriate reporting and monitoring to ensure significant government policy decisions are appropriately

implemented and carried out. If that is the case at the present time, how does the government know that its policy decisions taken at the political level are or are not being carried out at the administrative level?

**Mr. Manness:** Mr. Chairperson, I am going to ask Mr. Jackson to comment as to whether there are no accountability systems in place. I find that remark bordering on defamation, but I do not know who has been defamed. I think all of us as legislators, because indeed governments everywhere, in particular the province of Manitoba, over a long period have now been building in greater accountability.

The manual I held up here before was not ours. It was a manual that was the guidelines put into place by the former administration, indeed the administration of the member, so I think we have gone a long way, but there are always improvements. That is what Mr. Jackson is referring to. With those brief comments, if Mr. Jackson wishes to provide greater input, fine.

**Mr. Jackson:** Mr. Chairperson, I have already commented on this at length, and what we are looking for is an improvement to a practice that is in place. As I also indicated, I met within the last two weeks with senior executives of the Department of Finance, and that included Treasury Board Secretariat representatives, as to how our recommendation might be implemented, and I think there is an approach to a common understanding of how our interests and the government interests could be joined.

**Mr. Santos:** Mr. Chairperson, everybody knows that policies when they are made at the cabinet level or at the higher policy-making level are almost always stated with generalities, and therefore it calls for some interpretation on the part of those who are to administer or implement those policy decisions, and there, there is administration discretion in interpreting what certain phrases mean and how they actually change social reality in matters of carrying out those policies.

Right now, how does the government of the day know that its policy decisions are being carried out according to the intentions of the decision makers at the political level?

**Mr. Manness:** Well, Mr. Chairperson, that is a good question. I do not know if I have a complete answer that will satisfy the member. Certainly, most of the

policy decisions that we have to render are pretty objective. The options around the decision are very clear-cut, and to the extent that we choose one of them in keeping basically with our philosophy, months later or a year later in review we have found out that the effect of the policy decision has been carried out.

There are some other areas when you cannot, particularly when you move into subjective fields, clearly define implementation strategies or you do not clearly make the basis of the decision, knowing fully the implementation strategies that maybe are brought into being. Sometimes, down the course, you realize that the policy decision you have made and the implementation flowing from it sometimes gives you a little different result. You only hope in government that you find that out as quickly as possible and that you make the necessary changes, but this is not a perfect science.

I think what the member, though, is asking about value of money, are you sure that you are getting the best value, the government, the taxpayers are getting the best value for their tax dollar revenues that come into Treasury and is spent on various programs? I mean that is an issue that is bedeviling all of us in public administration, and nobody seems to have the perfect solution to that yet. I think that this government has probably shown a keener interest in trying to measure a value for money, in trying to build indicators that will, hopefully, give us some better understanding.

**Mr. Chairperson:** If there is nothing further on Public Accounts Committee as an item, we turn the page to page 10, Fiscal Stabilization Fund, Reservation in our Attest Audit Opinion. Any comment or question?

**Mr. Maloway:** Mr. Chairperson, the question of the \$77 million of Manfor shares has been something that the Auditor has dealt with and suggests the minister do something other than to list it as an asset. What does the minister intend to do in this regard? We have knocked this around now for the last couple of years, and I would like to know whether the minister plans to accede to what the Provincial Auditor is suggesting, or does he plan to ignore the Provincial Auditor's recommendation?

**Mr. Manness:** Mr. Chairperson, at this time I think I have made my views pretty clear. At this time, I am not convinced that we should change the accounting policy. You know, we have a basic

difference of views, and certainly I will not in any way try to represent to Mr. Jackson's view on this. We have recorded these shares at a value equal to the amount we eventually expect to realize from them. This amount does not include any dividends that may be payable on the shares in the future. In that I am saying that we have not evaluated as high, indeed, as we could given the best of scenarios. In our view, an allowance related to the asset in the form of unrealized recovery was recorded when the preferred shares were transferred into the Fiscal Stabilization Fund. We believe that this allowance is sufficient until there is more certainty regarding the future realization of the asset. Now this is fluid, and it does not mean a year from now, given the circumstances within the forest product industry, the government may not have a different view on this. Today as we sit here and certainly last March 31 when the books, of course, closed, and that is what we are discussing now, certainly, there was no reason to accede, from our point of view, to the desire of Mr. Jackson to see us set up an evaluation allowance equivalent to the unrealized asset value.

**Mr. Chairperson:** I have to interject here. I have been advised that we have to change the tape for recording purposes, and we need a break of two or three minutes. So if we could take a break and then we will come back. Take five? Okay.

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The committee took recess at 11:58 a.m.

### After Recess

The committee resumed at 12:07 p.m.

**Mr. Chairperson:** I have been advised that the tape recording machine is now back in order and we can resume our proceedings. I believe when we concluded we were on the Fiscal Stabilization Fund and Mr. Maloway had indicated he had a question.

**Mr. Maloway:** I think there is obviously some concern that by leaving the \$77 million as an asset, in fact, we may deluding ourselves into believing that we are in better financial shape than we really are. It seems to me that is the desire of the Provincial Auditor, to recognize that in fact that paper, that \$77 million, may be worthless at this point.

There may be a value to it at some later time, but at the moment it is just not there. There are certain commodities that are worth very little now but over a period of time, a hundred years from now, may be

worth something and vice versa. Perhaps we should be looking at this in a more realistic light than the minister appears to be doing.

**Mr. Manness:** I know that the member does not have before him the Annual Report of the Fiscal Stabilization Fund, but if he did, I would refer him to page nine. When we talk about the assets side and it says, first of all, "Funds on Deposit with the Minister of Finance" and let us look at 1991: \$189.3 million. Then it says "Preferred Shares of Repap Enterprises Inc." which Notes 3 and 4 of course in considerable detail indicate the essence of the evaluation at \$77.6 million. More importantly than all of that, the next line says "Fund Balance and Unrealized Recovery" and the very next item says "Fund Balance": \$189.3 million. That is, in the general understanding of funds, what is there in cash.

I know that there is a difference in the minds of all of us as to whether or not there should be values associated with these shares, but even within our balance statement, we have said that the fund balance in the cash sense is \$189 million. I do not know how clear we can make it other than, again, to accept Mr. Jackson's view that it should not either be there or, secondly, there should be an allowance set up which would net it out.

\* (1210)

**Mr. Chairperson:** Any further question or comment?

**Mr. Carr:** Mr. Chairperson, I am interested in the different approaches that have been taken to the valuation of shares by the government and by the Auditor. Maybe this is the appropriate place to explore that difference, not in order to try to exaggerate a difference in point of view but in order to understand why there is one and what the thinking is behind the Auditor's recommendation contrasted to the thinking behind the government's, so that the public can have a better understanding of the nature of the dispute, not to exaggerate it but to understand it.

We have heard at least some comments from the minister. Let me maybe begin by asking the minister how the figure that is included in the Auditor's report is arrived at. The figure is \$77,638,700. How does the government come up with that figure?

The minister has said that it is, and I think I am quoting directly, an amount we eventually expect to realize from them—they being the shares in the

company. Maybe the minister would give us a little bit of an explanation as to how that figure is arrived at that he eventually expects to realize?

**Mr. Manness:** Well, if the member wants real significant detail, I will refer him to Mr. Rosenhek, the Provincial Comptroller, but I will say before him in the general sense that when we—and this was a very difficult task, as we said a week ago, that if we were to hire an evaluation expert, it is hard to say where that person would come, because there are different methodologies at work here, but from our best and dispassionate point of view in an economic sense, we were of the mind that the value of these shares that we would ultimately realize was \$77 million. Now, I might ask Mr. Rosenhek to give greater detail to the technical.

**Mr. Eric Rosenhek (Provincial Comptroller):** I would like to indicate that there is a note in the Fiscal Stabilization Fund financial statements that explains how the value was calculated, and basically I can read from the note if you like.

It indicates that the shares consist of 316,397 Series D preferred shares and 900,000 E preferred shares, each with a redemption price of \$100. Repap has a right to reacquire up to 450,000 of the Series E shares for \$2.22 as a development incentive. Therefore, the valuation is based on the Series D shares at the full value and the Series E shares at the \$2.22. There is no allowance in here for any potential dividends to be received on the shares.

**Mr. Chairperson:** Any further comment or question on this item?

**Mr. Carr:** Mr. Chairperson, I would be interested in knowing from the Auditor's point of view why he thinks it is inappropriate for a value to be attributed to these shares. If his office has attributed a value to them which is different from the value that the government has, aside from the appropriateness of housing that value in the Fiscal Stabilization Fund, what process has the Auditor's office used to determine the value of those shares?

**Mr. Jackson:** Mr. Chairperson, we concur with the basis of the valuation that Mr. Rosenhek has just described. However, the paragraph which he was referring to goes on to say: Such realization through the redemption of these shares is dependent upon the occurrence of future events. Accordingly, the worth of these shares is not presently determinable.

What we feel is that because the realization of these shares is dependent on the future profitability of Manfor Ltd. or its successors and other conditions being fulfilled well into the future, the shares are not assets of a kind that presently can be used for the purposes of the fund.

**Mr. Carr:** If the value of the shares, and I guess this question would go to the minister, is not presently determinable, how is it that the government can give those shares a value?

**Mr. Manness:** Mr. Chairperson, we have taken that into account, and that is why we have offset the balance, the total, or we have qualified our own balance by saying they are unrealized, and that is why we have not included them. We are not going to spend on the value of them because they are unrealized, so we have not disagreed, we have just shown them in this sense.

Now, people would say, why did you do that? It comes back to the first question. Why did you lodge them in the stabilization account in the first place? I think it is because a lot of people, particularly including the Liberal Party, say that this is going to be a rainy day fund. It was going to be a fund that we were going to abuse and use during lead-up to election time.

Government said, how can we give this fund the appearance and the reality as to what it says we want to do with it, and I am talking specifically about giving it longevity, so that it was something we just did not set up for a period of a year, strip it down and then a year later say, well, we have taken it . . .

I gave the extraordinary-income argument yesterday in the House in answer to a question because I still think as I size up federal government transfers, there will continue to be late in the year news coming as to unknown windfall transfers, hopefully windfall all the time but not necessarily. I mean, the province of New Brunswick found that out. I thought that it would be good to also have a place to lodge those year-end revenues that were coming in unexpectedly. I also thought that it was important to have a place where extraordinary income was coming in through the sale of the divestiture item, so that you did not have to show it up as a one-time revenue take.

Thirdly, indeed in the sense that we are going to have divestitures, maybe not this one, but others too that were coming, where do you house the value of the shares, even though they may be unrealized,

even though the value may come to you in years hence? In our view, it was in this fund.

Now, the discourse has gone beyond that where I think the Provincial Auditor is saying, well, okay, if you do that, then at least you should set up an allowance, so you show it as an asset, but you should also show it as a liability so that they net out to zero value. In our view, these shares have value. Even though we cannot take them to the market today, they have value; because if Repap does not do certain things under the conditions of environmental licences being in place, we have a heavy hammer called a contract which we are forced to buy back these shares at a value ever so much greater than \$77 million, because then the value of these shares are not put at \$250. -(interjection)- They are \$100 each, and also there is a flow of dividends that have to be taken into account.

\* (1220)

So that contract has value in a court of law, and if it has value in a court of law, then those shares have value. That is why I cannot sit here and say they have no value, even though it is in dispute as to what the real value is.

**Mr. Carr:** There are two issues at least. Mr. Chairperson, one issue is whether or not the government ought to put unrealizable value in the Stabilization Fund. The other issue is whether or not the government ought to ascribe a value to something which is not presently determinable, by the words that the government itself uses in the note to the Fiscal Stabilization Fund. I am interested in the second. I am not interested in both, but to ask the minister on the second question: How is it that you can ascribe a value to something which is not presently determinable? It seems to be a contradiction within the same sentence.

**Mr. Manness:** It depends from where you are coming. If Repap did not proceed with the major expansion that has been envisaged, to which they have made agreement to, covenant under the contract, then the value of those shares by a proper judgment in a court giving effect to the contract is far beyond \$77 million. Those were the hooks that we put into the contract, and so nobody is going to tell me that there is no value there if Repap does not proceed with the expansion. Now, if they do proceed and over a period of time their company, the enterprise, does well in a viable industry, then this

is the value. What we are saying is we will not do anything now. We will not spend a dollar of this until it is realized one way or the other either through the courts or through the expansion.

So nobody can convince me that there is no value to those shares. There is no value in the sense you cannot take them to the market, because they are special shares as between the province and Repap Enterprises.

**Mr. Carr:** Well, but I think the point is that even if they have value the value is not determinable, and the government has determined the value. So I would ask the Auditor what his view is on that point, on the issue of determining a value, very specifically at something over \$77 million, when the government's own note in the annual report of the Fiscal Stabilization Fund says that the value is not presently determinable.

**Mr. Jackson:** Mr. Chairperson, our view is that the valuation that has been placed on these is one of the alternatives that could have been used. As I have indicated before, our real concern here is that the \$77 million shows up as an asset without the line that appears as the last line on the financial statement as an offsetting entry. So what we would be pleased to see would be the \$189 million, would not mind seeing the \$77 million at all, but below that \$77 million would be this last line of unrealized recovery from future redemption. It would be full information, but it would be presented just slightly different so that the assets, in our view, were not overstated.

**Mr. Carr:** Is it the opinion of the Auditor that the asset is currently overstated?

**Mr. Jackson:** Mr. Chairperson, it has been our opinion for the last two years that the presentation that has been given us could still enable some readers to conclude that there is \$266 million of assets that we do not believe are there available for the purpose of the fund at the present time.

**Mr. Carr:** How about the way in which the government has determined the value of the asset at \$77 million? Does that conform with accounting practices that would have the approval of the Provincial Auditor?

**Mr. Jackson:** Mr. Chairperson, as I have indicated earlier, the basis of evaluating this is one of the bases that might be used. We do not take exception to that. Our exception is that that valuation should

have immediately following it, the last line on the financial statement, "Unrealized recovery from future redemption of preferred shares." If that were done, in our view the financial statement would be fine.

**Mr. Maloway:** Mr. Chairperson, it seems to me that common shares would have a realizable value because one could simply cash them in for the value that they could get that day on the stock market. Preferred shares are supposed to be more secure in that they pay out first to the people who own the shares. It seems to me in this situation the reverse is true, that if the government were holding common shares of the company they would at least be able to cash them in today and realize something.

Now, in this situation there is really no way to determine the value. The minister says that it is backed up by a contract, but the contract is only as secure as the company is secure, and in today's recessionary times, and looking at the way the shares have dropped for the company and so on, one cannot be assured of realizing anything, contract or no contract. Why does the minister feel secure that somehow he could realize more out of the contract, or anything out of the contract, for that matter?

**Mr. Manness:** I have learned a lot from Mr. Maloway today. He just destroyed his own argument. He just said that we should have common shares, but then he said, because then you could know what the value would be.

**An Honourable Member:** If they were common shares one would know what the value was—

**Mr. Manness:** If they were common shares—and the common shares are crashing, as he said. Of course, if there is a liquidation—and I hate to even use the word because that is unfair to a third party that is not even here, a good corporate partner and citizen of this province—if there were to be a liquidation, the only guarantee the province has is in the preferred shares. So thank goodness we have them, as compared to the common shares, which of course quite often have no value during a liquidation time.

He is saying to us we should have common shares for valuation purposes, but, indeed, he also says that this company is probably going down the tank. In that case he wants us to have preferred shares. You cannot have both sides. Is it preferred or is it common that he wants to have? I would have

to think the best you could have is preferred shares in a situation like this.

**Mr. Chairperson:** Is there anything further on the Fiscal Stabilization Fund?

**Mr. Santos:** For my own clarification, Mr. Chairperson, it seems here that the valuation was based on a basis which is a contingent event, that may or may not happen. Those events, by definition, are not foreseen or cannot reasonably be foreseen. How can an evaluation or estimation of value be based on something which is yet to come and which is not even certain to come. I am following up the member's question presently. So this is just pure speculation.

**Mr. Manness:** That is exactly why we have an unrealized recovery. That is exactly why the notes 3 and 4, if you want to read them, said that week that they are unrealized. We have said why, and that is why we are not spending from it. That is why the fund balance does not include \$77 million.

**Mr. Santos:** . . . value of \$77 million.

**Mr. Manness:** Now we are talking about a different thing. He is talking about evaluation versus the exhibition of the number within the fund. Evaluation, again, and I will repeat, is dependent on whether or not the Repap commitment to this province goes ahead. If it does not go ahead, then the contract says that we have a value offar beyond \$120 million.

**Mr. Chairperson:** Anything further on the Fiscal Stabilization Fund? The next topic is Classification of Trust Funds. Any comment or question?

**Mr. Santos:** I want it to be clarified. What are the criteria for any fund to be classified as a trust fund?

**Mr. Chairperson:** Mr. Jackson, would you care to answer this?

**Mr. Jackson:** Mr. Chairperson, in our view there has to be a fiduciary relationship between the person who supplies the funds, the holder of the funds, and the people that are going to be the recipients of the funds. The recipients of the funds have to be identifiable, and they have to be known.

**Mr. Santos:** The reasoning why the lottery funds, the mining community reserve fund, the fire prevention fund, victim reserve funds are not classified as trust funds is because of the absence of this fiduciary relationship. Therefore, what are these funds called now if they are not part of the operating fund?

\* (1230)

**Mr. Jackson:** Perhaps the comptroller can best answer that.

**Mr. Rosenhek:** Well, the lottery funds are presently included in our trust accounts as required by the lottery legislation. What we do presently, though, is for any spending out of those lottery funds there is an appropriation voted to cover the spending, and an equal amount is transferred from the lottery trust account to offset the spending and is shown as revenue of the operating fund. So presently those lottery accounts are shown as trust accounts as required by legislation.

**Mr. Santos:** But they do not qualify at all to be classified as a trust fund. In other words, you are calling this trust fund something which is not a trust fund.

**Mr. Manness:** I see the dilemma that the member is reaching to, but legislators then are going to have to decide what is of higher order. Is it the laws that they pass in the House setting up trust funds, or is it the Provincial Auditor's recommendation that says that those funds—I do not think he is saying that they should not be set up, but if they are they should be consolidated totally within the activity of the government.

Now you may want to talk to Mr. Carr about that because, indeed, Lotteries funds as they were set up one time, the community was terribly concerned that government would take in all of that revenue into Consolidated Revenue and it would lapse from year to year and go to fight the deficit. People in the arts community particularly and in the sports community said, oh, no, no, we want those trust accounts set up outside of the Consolidated Revenue Fund so that if all of the money is not spent in one year, it can be banked and carried over to the next. Legislators like you and me said, well, that is the way we are going to set them up.

**Mr. Chairperson:** We have reached our time for adjournment. This is our normal time for adjournment, and unless there is a willingness to pass this report—we have got one other item, Classification of Trust Funds and other matters to be improved as referred to on page 11. Is there

agreement to pass the report now or do you want to carry it on?

**An Honourable Member:** Agreed to carry it on.

**Mr. Chairperson:** Carry it on. Okay.

At any rate, I just want to make a couple of points. I guess we will have to carry on with the discussion of the Provincial Auditor's report. Some members still have some questions, and, of course, we still have Volumes 1 and 2 of Public Accounts 1990-91.

I would just like to make the point that in keeping with the resolution passed at the last meeting, I would invite all members of the committee to forward any questions, particularly those which would require a detailed answer, as a courtesy to the Auditor and his staff in particular. Also, if you have some specific agenda items, particularly out of Volumes 1 and 2, because these are financial accounts, if you can indicate to us some general areas of concern.

This does not preclude any member from raising items during the meeting, of course. We are not trying to limit debate in any way.

The only other point I would dwell on is the date of the next meeting, and I would like to ask the Minister of Finance (Mr. Manness) if he could indicate to the committee when we would be meeting again?

**Mr. Manness:** Well, Mr. Chairperson, I am so impressed with the way this committee has conducted itself this morning, I will endeavour to see that it is called in an expeditious fashion. Indeed, I would even suggest the middle of January if possible.

Through you, Mr. Chairperson, I would ask you to try and set it up in the middle of January, if that is acceptable to most of the committee members.

**Mr. Chairperson:** Does anyone have any difficulty with approximately the middle of January, Mr. Carr, Mr. Maloway, Mr. Santos, other members? Fine? Okay, so this will be the target date for it resuming.

Thank you very much. The meeting is adjourned.

**COMMITTEE ROSE AT: 12:34.**