



Second Session - Thirty-Sixth Legislature
of the
Legislative Assembly of Manitoba
Standing Committee
on
Public Accounts

Chairperson
The Honourable Conrad Santos
Constituency of Broadway



MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Sixth Legislature

Members, Constituencies and Political Affiliation

Name	Constituency	Party
ASHTON, Steve	Thompson	N.D.P.
BARRETT, Becky	Wellington	N.D.P.
CERILLI, Marianne	Radisson	N.D.P.
CHOMIAK, Dave	Kildonan	N.D.P.
CUMMINGS, Glen, Hon.	Ste. Rose	P.C.
DACQUAY, Louise, Hon.	Seine River	P.C.
DERKACH, Leonard, Hon.	Roblin-Russell	P.C.
DEWAR, Gregory	Selkirk	N.D.P.
DOER, Gary	Concordia	N.D.P.
DOWNEY, James, Hon.	Arthur-Virden	P.C.
DRIEDGER, Albert, Hon.	Steinbach	P.C.
DYCK, Peter	Pembina	P.C.
ENNS, Harry, Hon.	Lakeside	P.C.
ERNST, Jim, Hon.	Charleswood	P.C.
EVANS, Clif	Interlake	N.D.P.
EVANS, Leonard S.	Brandon East	N.D.P.
FILMON, Gary, Hon.	Tuxedo	P.C.
FINDLAY, Glen, Hon.	Springfield	P.C.
FRIESEN, Jean	Wolseley	N.D.P.
GAUDRY, Neil	St. Boniface	Lib.
GILLESHAMMER, Harold, Hon.	Minnedosa	P.C.
HELWER, Edward	Gimli	P.C.
HICKES, George	Point Douglas	N.D.P.
JENNISSEN, Gerard	Flin Flon	N.D.P.
KOWALSKI, Gary	The Maples	Lib.
LAMOUREUX, Kevin	Inkster	Lib.
LATHLIN, Oscar	The Pas	N.D.P.
LAURENDEAU, Marcel	St. Norbert	P.C.
MACKINTOSH, Gord	St. Johns	N.D.P.
MALOWAY, Jim	Elmwood	N.D.P.
MARTINDALE, Doug	Burrows	N.D.P.
McALPINE, Gerry	Sturgeon Creek	P.C.
McCRAE, James, Hon.	Brandon West	P.C.
McGIFFORD, Diane	Osborne	N.D.P.
McINTOSH, Linda, Hon.	Assiniboia	P.C.
MIHYCHUK, MaryAnn	St. James	N.D.P.
MITCHELSON, Bonnie, Hon.	River East	P.C.
NEWMAN, David	Riel	P.C.
PALLISTER, Brian, Hon.	Portage la Prairie	P.C.
PENNER, Jack	Emerson	P.C.
PITURA, Frank	Morris	P.C.
PRAZNIK, Darren, Hon.	Lac du Bonnet	P.C.
RADCLIFFE, Mike	River Heights	P.C.
REID, Daryl	Transcona	N.D.P.
REIMER, Jack, Hon.	Niakwa	P.C.
RENDER, Shirley	St. Vital	P.C.
ROBINSON, Eric	Rupertsland	N.D.P.
ROCAN, Denis	Gladstone	P.C.
SALE, Tim	Crescentwood	N.D.P.
SANTOS, Conrad	Broadway	N.D.P.
STEFANSON, Eric, Hon.	Kirkfield Park	P.C.
STRUTHERS, Stan	Dauphin	N.D.P.
SVEINSON, Ben	La Verendrye	P.C.
TOEWS, Vic, Hon.	Rossmere	P.C.
TWEED, Mervin	Turtle Mountain	P.C.
VODREY, Rosemary, Hon.	Fort Garry	P.C.
WOWCHUK, Rosann	Swan River	N.D.P.

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

Friday, April 19, 1996

TIME – 10 a.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Conrad Santos (Broadway)

ATTENDANCE - 11 – QUORUM - 6

Members of the Committee present:

Hon. Messrs. Ernst, Stefanson, Hon. Mrs. Vodrey

Messrs. Helwer, Lamoureux, McAlpine, Maloway,
Newman, Radcliffe, Sale, Santos

APPEARING:

Warren Johnson, Acting Provincial Auditor

MATTERS UNDER DISCUSSION:

Public Accounts, Volumes 1, 2 and 3 for the fiscal year ending March 31, 1994;
Public Accounts, Volumes 1, 2 and 3 for the fiscal year ending March 31, 1995;
Provincial Auditor's Report for the fiscal year ending March 31, 1994;
Provincial Auditor's Report for the fiscal year ending March 31, 1995,
Volumes 1, 2 and 3.

* * *

Mr. Chairperson: Will the Standing Committee on Public Accounts please come to order. The business referred to the committee for consideration this morning are the following reports: Public Accounts, Volumes 1, 2 and 3, for the fiscal year ending March 31, 1994; Public Accounts, Volumes 1, 2 and 3, for the fiscal year ending March 31, 1995; the Provincial Auditor's Report for the fiscal year ending March 31, 1994; the Provincial Auditor's Report for the fiscal year ending March 31, 1995, Volumes 1, 2 and 3. If members do not have copies of these reports, there are extra copies available on the chairs at the side.

Further, as Chairperson, I had circulated a letter to committee members this past Monday requesting that members submit to me items or questions requiring detailed answers at the committee meeting. I received one reply yesterday from Mr. Sale and circulated the proposed agenda items and a covering letter to all committee members. For any committee members who do not have a copy of the agenda items and the covering letter, there are extra copies available. Please indicate by raising your hand and the Page will provide them to you.

Therefore, prior to the opening statements, perhaps the committee at this point should consider the proposed agenda. Did the committee wish to adopt this proposed agenda?

Mr. Tim Sale (Crescentwood): Mr. Chairperson, I am very prepared to adopt it by leave or agreement, but I would just want to underline that I believe we have an agreement that the agenda is an open-ended agenda. The items on this agenda do not limit the questions and it is not our intention to go greatly beyond it, but I simply want to record that the agreement that I think we have is that this is not a limiting agenda, but an illustrative list.

Mr. Chairperson: It is just a guideline, then.

Hon. Eric Stefanson (Minister of Finance): I think committee members also have a copy of a letter from the MLA for Crescentwood (Mr. Sale) to you, Mr. Chairman, in terms of a tentative agreement of how we should ideally function today and in terms of future meetings. I shared with him some adjustments that I thought should be incorporated in his letter which he and I discussed this morning, and I believe we agreed that they were appropriate adjustments, and I will make copies available for all members of committee.

Really the agreement, I believe, is this agenda would form the basis of today's meeting, but obviously it does not preclude members from bringing up other matters or other questions that may arise, but certainly the intention is to be sure we get the maximum productivity out of this committee, that the agenda as circulated would form the initial basis of discussion.

Mr. Chairperson: Is that agreed? [agreed] So it appears under this agreement we will be looking at the reports of the Public Accounts for 1993 and 1994 and the Provincial Auditor's Report.

We will now proceed to the opening remarks. I would invite the honourable Minister of Finance to make his opening statement.

Mr. Stefanson: Mr. Chairman, my opening statement will be very brief. We are dealing today with the Provincial Auditor's 1993-94 and '94-95 reports, Volumes 1 through 4, as well as the Public Accounts for '93-94, '94-95, and I believe that when the Provincial Auditor moved to a more frequent basis of reporting in 1994-95, she had intended that Volumes 1 and 2 reports would basically cover audit work done during 1993-94 as well as the '93-94 Public Accounts.

The Volume 3 report updates the audit work performed to March 31, '95, and the Volume 4 report covers the operations of the Provincial Auditor's office.

Several years ago the format of the Provincial Auditor's Report was changed so that it provides the results of those audits that disclosed positive results in addition to those requiring improvement. Once again, we were pleased by the number of project audits where the Provincial Auditor concluded that the internal controls or accountability systems were operating satisfactorily.

At an earlier meeting I commented that Manitoba has a fairly well-developed system of Estimates supplements and annual reports. Our recent survey of other provinces shows us that Manitoba is further developed than most provinces in this regard. For example, none of the other provinces surveyed prepare Estimates supplements.

A further improvement was made last year regarding the release dates for the 1994-95 annual reports issued by government departments and Crown corporations. A deadline of September 30, 1995, was established for the tabling and release of these reports. Departments and agencies worked hard to meet this deadline and with a few exceptions generally succeeded.

We were able to make further improvements in Public Accounts release dates in 1994-95. Volumes 1 and 2 were released before the end of September and Volume 3

by the end of October. Those are my very brief opening comments, Mr. Chairman.

Mr. Chairperson: I would like to thank the honourable minister. Does the critic for the official opposition, Mr. Sale, have an opening statement?

Mr. Sale: Mr. Chairperson, I do not intend to make a detailed opening statement. I would like to just see if we have agreement that the time that we used this morning, approximately half an hour, would be added on to the normal time of adjournment for today. I would like to also ask if there is leave of the committee to have Carol Bellringer available to the committee at a subsequent meeting—I do not think there is any reasonable way in which we can do that today—to provide a sort of exit interview opportunity to allow her experience and wisdom to be shared by members of the committee in a general discussion about the audit process in Manitoba, its strengths and weaknesses, and further areas in which she thinks that fruitful developments might occur. I would first of all like to ask, Mr. Chairperson, if there is leave that that be done.

Hon. Jim Ernst (Government House Leader): Firstly, with respect to additional time, the time called in the House was from 10 a.m. until 12:30 p.m. Other people have arrangements made already to fill in their afternoon, so I am afraid we cannot agree to that. I apologize for the earlier delay in the start time but that had come to light very late yesterday afternoon, the ceremony that we attended. It is unfortunate, but one of those things.

However, with respect to the second issue related to the former Provincial Auditor, I think it is highly inappropriate that a former Provincial Auditor should be invited before this committee, particularly because that former Provincial Auditor now is the auditor of another public jurisdiction, the City of Winnipeg. We have a Provincial Auditor in place. That Provincial Auditor was, albeit on an acting basis, there during the time of these audits and reports and I am sure has had significant input into those documents, and I am sure can provide adequate information to the committee. I think to ask a former Provincial Auditor who now has no authority, jurisdiction, and in fact has assumed that role for another level of government, would be highly inappropriate to have before this committee at any time. So I would oppose and grant no leave.

Mr. Stefanson: Mr. Chairman, just supporting my colleague, the member for Charleswood, you had raised this issue with me recently in a letter and I did respond to you. I will just very quickly read one short paragraph here, and it says: As you are no doubt aware, Ms. Bellringer has already commenced her employment with the City of Winnipeg. However, under Section 5(1) of The Provincial Auditor's Act, the Assistant Provincial Auditor has the powers and performs the duties of the Provincial Auditor during any period that the Provincial Auditor's position is vacant. The Assistant Provincial Auditor, Mr. Warren Johnson, who is with us here this morning, is also a longstanding member of the Provincial Auditor's office and, therefore, could appropriately respond to questions raised at the committee meetings.

Mr. Sale: I would like to move, seconded by the member for Elmwood (Mr. Maloway), that the Public Accounts committee avail itself of the generous offer of the former Provincial Auditor, Carol Bellringer, to attend and provide information to committee meetings during consideration of the Public Accounts and reports of the Auditor for 1993-94 and 1994-95.

Motion presented.

Mr. Sale: Mr. Chairperson, I do not intend to speak at length to this. I would simply observe that our side of the House has attempted on many occasions to get a more regular schedule of meetings of this committee, and we certainly had discussions about having at least one meeting prior to Ms. Bellringer's departure at the end of March, and we were not able to schedule that meeting. We believe that she has valuable perspective and experience in her role, that she added greatly to the office and role of the Auditor. We have complete confidence in the Acting Auditor and have no questions about his ability to answer detailed questions.

We saw her role, as I said, as a kind of opportunity to share with the committee her views on a number of broad subjects in terms of the public accounting function, and this is consistent with our long-term goal of making this committee a less adversarial, political-small p-committee, and more of a public education and members' education function to fully understand and be able to comment knowledgeably and appropriately on the Public Accounts of the province. So with those remarks, Mr. Chairperson, I would be glad to see the matter put to a vote.

Mr. Kevin Lamoureux (Inkster): I would actually attempt to seek some sort of clarification. I too have a deep amount of respect for the former Provincial Auditor, Ms. Bellringer. I am wondering if the member for Crescentwood can indicate if there are specific issues that he feels that are there that only Ms. Bellringer would be able to answer and not the Acting Auditor.

Mr. Chairperson: Does Mr. Sale wish to answer the question?

Mr. Sale: Very briefly. I think that there are a number of issues in regard to things like overall policy of provincial auditors and provincial auditing functions in other provinces, directions in which she was attempting to move the Public Accounts' function and the Auditor's Report function, a general kind of overview, but I do not want to spend a lot of time in our morning meeting debating this. I think the government's view is clear; the motion will be lost. I simply want to record that I think it is very appropriate for this committee to have other officials present to broaden its function, to invite other people to attend as appropriate, and the government does not share that view at this point, their will will prevail, and I think we should get on with the meeting.

Mr. Lamoureux: I, too, was involved prior to the last provincial election where there was a great deal of discussion about reform of Public Accounts, and Ms. Bellringer came and met with me at least on one occasion, we had opportunity to talk. In essence, I do support the idea of Public Accounts being able to invite individuals to attend. Where I am a bit confused is to why, if this is being suggested because there is a lack of confidence in the Acting Auditor, I do not have any objection to extending an invitation to the former Provincial Auditor, but I would hope and trust that it is not because of a lack of confidence in our Acting Auditor that we are doing this.

* (1040)

Mr. Sale: Thank you, I have already put it on the record, and I think it is clear that we have every confidence in Mr. Johnson. That is not the issue at hand. I think we should move on.

Mr. Stefanson: Mr. Chairman, I will not belabour this either. I do not think that this has anything to do with the

respect we all hold for Ms. Bellringer or the capabilities of Mr. Johnson or our number of individuals in our Provincial Auditor's department. We have had discussions about how this committee will function. We are following the traditional approach here today that has been in place for a long time. I am sure we will have future discussions about how this committee functions, but at this stage it would be highly inappropriate to be inviting Ms. Bellringer, who has left the employ of the Provincial Auditor's department and is now the City of Winnipeg Auditor, to be appearing before this committee.

Mr. Chairperson: You now have copies of the motion. Are there any more comments to be made?

Mr. Lamoureux: Just to conclude, the reason why I would support this particular motion is because I do believe that it is to Manitoba's best interest for the Public Accounts committee to be able to invite members of the public or former administrators to come before the committee, especially if it is on a volunteer-type basis. Thank you.

Voice Vote

Mr. Chairperson: Having copies of the motion, I now ask all those who are in favour of the motion, please signify by saying yea or raising your hand.

Some Honourable Members: Yea.

Mr. Chairperson: All those opposed, please say nay.

Some Honourable Members: Nay

Mr. Chairperson: In my opinion, the Nays have it. The motion is lost.

I would like to invite the Provincial Auditor, the Acting Provincial Auditor to make his remarks to the committee.

Mr. Warren Johnson (Acting Provincial Auditor): Thank you, Mr. Chairman. I would like to add some comments around the context of the Provincial Auditor's Reports that are before this committee today and expand a little bit on some of the comments that the Minister of Finance had made regarding our audit process. The 1993-94 report from the Provincial Auditor, because we were trying to accelerate our reporting process—that was

the year that we made the shift—deals only with the activities and administration process within our office. Our 1994-95 volumes deal with our audit findings that we developed during that fiscal year and they relate to Public Accounts of the prior fiscal period. So, therefore, to look for our comments on the 1993 Public Accounts, they are included in our 1994-95 Report to the Legislative Assembly.

To continue that, our comments around the 1994-95 Public Accounts will be included in our 1995-96 Report to the Legislative Assembly which is currently in process and has not been issued.

Recognizing that these reports were issued under the direction of Carol Bellringer, I understand the concerns that certain committee members have regarding her input, and I think she would also add a different perspective, but I appreciate having the opportunity to get questions in advance and consider the issues that are going to be raised, and I have developed some notes and hopefully I will be able to provide the answers that everybody is looking for.

Also, I would like to introduce Norman Ricard from our office who is, during this transition period until we get a new Provincial Auditor, serving as our Director of our Value for Money Audits, and I have asked him to join me at the committee today. Those are all the comments I have.

Mr. Chairperson: The committee now will commence consideration of the matters under committee starting with the Public Accounts, Volumes 1, 2 and 3 for the fiscal year ending March 31, 1994.

Mr. Sale: I would propose, Mr. Chairperson, that we work our way through this with an eye to the clock. My information from the Clerk is that there is no set adjournment time. I understand the minister has a schedule and it was assuming 12:30, but that he is able to stay somewhat beyond that, although not a great amount. Perhaps he will indicate in his first response what time his schedule allows him to stay until today. He indicated to me a few minutes ago that he had a little bit of flexibility but not much.

I also would be quite open if we do not get through all of this, and we may not, to having some of it provided in

writing significantly prior to the next meeting of the committee, if that is required. I would be happy if we could start with question No. 1.

Mr. Stefanson: I guess it is not only myself, it is other committee members and even my staff—I know one in particular has a funeral to be at at one o'clock—and that was all built around what was announced in the House as being 10 a.m. until 12:30 p.m. I think, unfortunately, we have to stick to the 12:30. I have a few minutes' flexibility, but I am only one member of this committee. But I think your second point, if we do not get through the agenda items, about providing a written response to any matters raised in the agenda here or any other questions that come up or require information, I certainly would undertake to provide that information prior to our next meeting.

Mr. Chairman, everybody has a copy of this agenda, I am assuming, in front of them and the first question—I will offer my comments and then the Acting Provincial Auditor might want to offer some comments. Three issues are raised, the issue of timeliness, and timeliness of the Public Accounts has improved considerably over the past few years and is likely better than it has ever been. Volumes 1 and 2 of the 1994-95 accounts were released on September 29, 1995, and our balanced budget legislation now requires that these statements be released by September 30 each and every year.

Mr. Chairman, I will not read each and every date but I will give a flavour of what the past practice has been in terms of the release dates of Volumes 1 and 2. If you go back to the fiscal year 1982-83, it was December 7. In fact, for the period 1982-83 right through until 1987-88, Volumes 1 and 2 were released each and every time in the month of December. In 1988-89 it was not released until January. From 1989-90 through until 1991-92, we were back to releasing it in December. By 1992-93, we had moved the release date up to November. In 1993-94, it was moved up to October 18, 1994, and 1994-95 the release date, as I mentioned, was September 29, 1995. So there has been consistent and significant improvement, and now with our balanced budget legislation we are required to release those volumes by September 30. So I think that is in keeping with the want and direction of this committee and of the Provincial Auditor's department.

The second part of that first question refers to a clear summary reconciliation from Volume 1 to Volume 3 of—well, maybe I should just finish on the release dates. Volume 3 of the 1994-95 Public Accounts was released on October 27, 1995. I think, as we all know, preparation of that volume is very dependent on the completion of the financial statements of those corporations and agencies that comprise that reporting entity. Government has stipulated a deadline of September 30 for our own reports, which has allowed for an earlier completion of Volume 3. So I think as a result of Volumes 1 and 2 and our tabling of reports, we will see Volume 3 consistently tabled at an earlier date. I think that is in keeping with, as I say, the want and direction.

The issue of a reconciliation of the deficit reported in Volume 1 with the amount reported in Volume 3, Mr. Chairman, I have a copy for the two years that are before us, 1993-94 and 1994-95. There are some copies here. I am not sure if there are enough for all of the committee, but there are a few more copies available here. Really what it does, it starts out with the deficit position for those two years as per the Consolidated Fund or Volume 1, and then it shows all of the adjustments that take place to ultimately end up with the deficit as reported in Volume 3. I think you will find, if you look at these two years, you will see that, when you look at Volume 3, in both cases the deficit goes down. That is primarily because Volume 3 reflects the earnings of our Crown corporations. In fact, if you look at the last several years in Manitoba, in every year, other than one, the Volume 3 deficit was lower than the Volume 1 Consolidated Fund deficit.

* (1050)

So I hope that is the information the member is looking for, and I would certainly be prepared to answer any questions committee members may have as it relates to the reconciliation for those two years. That is certainly something we can provide on a consistent basis moving forward in terms of reconciling Volume 1 with Volume 3.

The last point under question No. 1 was the reference to use of explanatory glossaries. A glossary of the various accounts can certainly be prepared but would require either advice regarding which accounts need further explanation. The example given in this request

relates to the role of sinking funds and our description of sinking funds, as an example, would say that they are required by The Financial Administration Act for the orderly retirement of provincial securities under Section 75. They are part of our agreement with debt holders and provides them with additional comfort concerning the security of their investment. They are used to repurchase some of our securities where appropriate and thus maintain a market for those securities. So that is an example, but I guess if members have some particular references that they feel further explanatory glossaries would be a benefit or are required, I would be interested in suggestions in that entire area. That is certainly something we would take under consideration in preparation of future volumes.

So those are my comments around question No. 1. If there is any other clarification on any other questions relating to question No. 1, perhaps it would be appropriate for Mr. Johnson, if he has some comments relating to those because they are directly affected by recommendations and so on that have come from the Provincial Auditor.

Mr. Johnson: Mr. Chairman, regarding the three specific items in the question, we concur that there have been significant improvements in the timeliness of completing Public Accounts. The reconciliation of Volume 1 and Volume 3 is a very good idea. I am pleased to see that there is a reconciliation now distributed, and I think there are opportunities to incorporate that into future Public Accounts.

Regarding explanatory glossaries and use of terms and note definition and those types of things, there is an ongoing process to refine and improve the clarity and the user friendliness of those components of the financial statements.

In our 1994-95 Report to the Legislative Assembly, Volume 2, we include some comments relating to the 1993-94 Public Accounts for improvements. Pages 16 to 20 summarize some of the concerns that were raised and reported by Carol in her term, and one of the ongoing issues that we are always concerned about is the recording of pension liabilities. We think that is a significant element of the financial package and we continue to encourage the government to find a way to record the pension liability.

We had made a recommendation regarding the accrual of vacation pay. That has now happened, except for the vacation pay component attributable to hospitals, and the hospital component is a debatable element of the scope of the government reporting entity and is not included because that issue really has not been resolved.

We would like to see greater use of financial indicators in the financial statements. The terminology around the excess of liabilities over assets is now being simplified to accumulated deficit and that is in compliance with generally accepted terminology, and I think that is a simplified version and something that everybody can relate to a little bit easier. The government has also issued Volume 4 which is a positive step. They have recently converted to full accrual of accounts receivable; however, we would like to see revenues, particularly from lotteries funds and the Fiscal Stabilization Fund reflected on a current basis within Volume 1 of Public Accounts.

We think there are opportunities to accelerate the year-end cutoff, particularly around accounts payable, and I think there are a lot of initiatives in better methods that are moving in that direction and will assist that process. We think there are opportunities around Volume 2 to expand the scope to include Crowns and agencies. Volume 2 is the component of the Public Accounts that provides details on salaries and payments to suppliers. We also think there are opportunities to simplify the presentation so it is a little more user friendly and also to establish a higher threshold level so that the information focus is on the most significant cost of the government.

We also have some concerns around the scope of Volume 3. There are some quasi-government entities that are currently not included, and I think there are arguments that can be made regarding the inclusion of Winnipeg Child and Family Services, universities and hospitals. We think there is merit in capitalizing and amortizing capital assets, and there are some special funds that are included in the trust component of the financial statements that we think would be more appropriate to have them clearly segregated from the trust component because they are not really true trust components.

So those are my comments.

Mr. Sale: Mr. Chairperson, those are very, very helpful comments, both from the minister and from the Acting Provincial Auditor.

Briefly, can I ask through you, Mr. Chairperson, is the minister's intent to have this reconciliation as a future part of the Public Accounts as a table, a page? It is certainly prepared in a very helpful way, and if I could just ask that it would be immensely more helpful if after each line—this is going to be something that will appear virtually every year so it is not a big workload to get it done once— you could put the Public Accounts page reference. So where is the Fire Preventions Fund? You know, it is in Volume 1, Section 5 or 6—I cannot remember which it is but it is towards the end. So if those references were in there, it would be easy then to go back and forth and look at the items in question.

So just, briefly, that question first, and then I have a couple of questions for the Auditor.

Mr. Stefanson: Mr. Chairman, I do not see any reason why we could not provide this with Volume 3. I think it would be helpful and again your comment about the page reference or some reference so that there is an easy cross-check back to other documents, I am sure is something that we could probably incorporate with it. We will undertake to start to provide this kind of a reconciliation with our Volume 3 Public Accounts.

Mr. Sale: Mr. Chairperson, I thank the minister for that response. I wonder if the Auditor would be prepared to provide to the committee a brief written outline of the remarks that he just made in terms of areas where strengthening might take place, indicating the specific items in enough detail that committee members who are not accountants could understand them and indicating the state of the discussions as to whether this is something that is in dispute or whether it is a question of time to develop that approach.

I found his remarks very, very helpful.

Mr. Johnson: Thank you, Mr. Chairman. Some of those issues or concepts are things that we are currently working on, and our plan was to include them in our first volume of our '95-96 Report to the Legislative Assembly.

We have had some very preliminary discussions with Finance officials around those issues, and our plan was to move to resolve them and include them in that version of our Report to the Legislative Assembly.

Mr. Sale: Could the Provincial Auditor indicate, when does the agreement in terms of full accrual for holiday pay, with the exceptions he noted on hospital, actually take place in terms of being reflected in Public Accounts?

Mr. Johnson: Mr. Chairman, the accrual was reflected effective '94-95 in Public Accounts.

Mr. Sale: Is there any backward adjustment to reflect prior years or is it just a change and a noted change in accounting practice?

Mr. Johnson: Mr. Chairman, I believe the full impact of the accrual of vacation pay was all attributable to prior years. I think the level of vacation pay has been fairly consistent from year to year, so it did not have any impact on the annual deficit of that particular fiscal year.

Mr. Sale: Mr. Chairperson, the Auditor made a reference in regard to financial indicators and statements. Could he briefly outline an example of what he is referring to?

Mr. Stefanson: Mr. Chairman, just before we leave the previous point made, as the Assistant Auditor has mentioned, it was in '94-95 that the cost of vacation and overtime benefits earned by employees are now accrued to the fiscal year in which they are earned. A large part of this being possible was the implementation of the new computer system called the Corporate Human Resource Information System, or CHRIS is the acronym, in all departments last year.

This system provides the database of information we required in order to make that accounting change, and there was a prior period adjustment to reflect that accrual being established.

* (1100)

Mr. Johnson: Volume 2 of our '94-95 Report to the Legislative Assembly, on pages 16 and 17, draws attention to five meaningful financial indicators that we have listed there and provided some definition around. I

can go through them individually if the committee wishes, but they are right there to read.

An Honourable Member: What page?

Mr. Johnson: Pages 16 and 17, 18.

Mr. Sale: Mr. Chairperson, the minister read out an example of a glossary definition. I thought it was quite helpful. My reason for raising this is that I hope that over time we can educate both ourselves and a wider number of the public who find Public Accounts quite impenetrable and difficult to understand how the different sections relate in a layperson's understanding, so it is not unlike—I know the honourable members for Riel (Mr. Newman) and for River Heights (Mr. Radcliffe) are both lawyers, and there is a strong move in that field to try and make legalese understandable, a plain English kind of move.

I would just urge the minister and the Provincial Auditor to consider providing layperson level explanations of, for example, the sinking funds, the trust fund accounts and other parts of Public Accounts, even a page at the beginning that said, this is how it all fits together. Here is a key to the puzzle. I think that many members of the public who try to understand Public Accounts, but are somewhat baffled by the role of these various pieces, would find that very helpful, and speaking personally, I would find it very helpful.

Mr. Stefanson: Again, Mr. Chairman, we try to do that on an ongoing basis, but I certainly take the member's point that there is more that can be done in that area. We will review our future documents keeping that in mind. I would only encourage him and all committee members, because they are subject to working with these documents here at this committee, and as part of our legislative and government process, if they have any areas where they think it would be useful. The one suggestion is sinking funds, but if there are other examples, and we do not need to get into them today, but write me or inform my officials of areas where committee members feel there could be improvement. I would encourage members to do that, that would be helpful as well.

Mr. Sale: Moving onto question area 2, I want to raise a sort of basic question of policy. The Provincial Auditor has referred, on page 28 of his 1993 report, an older

report which has already been considered by the committee, to the issue of reflecting the capital assets of the province as opposed to just the financial fiscal assets.

I requested last year, through our research department, that StatsCan provide us with a report on fixed capital flows and stocks for Manitoba for 1984 to 1995. It is quite a lengthy report, but it is very useful because it gives the cost of physical assets in Manitoba. It gives three different types of depreciation, straight line, and—just reading from the three kinds, there is a geometric depreciation, a straight-line depreciation and a delayed depreciation approach. Each approach may be appropriate for different purposes. The bottom line is, as we have often stated, that while there may be no buyer for the University of Manitoba, nevertheless the University of Manitoba is a substantial asset of the province. It is important from the overall management of our public assets and it is important from a public understanding perspective that the public understands that behind our assets and liabilities lie two kinds of assets, and we only speak in our Public Accounts about one kind.

I wonder if first the Provincial Auditor might respond and then the minister might respond to the notion that we consider moving towards some summary statement of the capital flow and capital stock of Manitoba as reflected, for example, in this report which I am sure the minister has available, but I would be glad to share it if it is not available.

Mr. Chairperson: The Chair would like to intervene here. This report is not before this committee yet. This is connected with a report that has already been passed.

Point of Order

Mr. Sale: On a point of order, Mr. Chairperson. The issue I have raised is an ongoing issue, and it has been raised by the Provincial Auditor in a number of places. I do not think it is inappropriate to use an example, a Statistics Canada document which provides information. So I do not believe it is inappropriate to raise this.

Mr. Chairperson: I am not saying it is inappropriate. I just think we might ask the leave of the committee because the report has already been concluded.

Mr. Stefanson: Mr. Chairman, I would agree with the member for Crescentwood that this issue is an ongoing issue that is in most of the Provincial Auditor's Reports, the whole issue of how we deal with our capital assets and so on. In fact, on page 28—now I am probably getting ahead—of the 1994-95 Auditor's Report, again there is an indication that new standards for recording and reporting our capital assets are being developed by PSAAB, which is the Public Sector Accounting and Auditing Board. A draft paper was issued on this subject in December of 1995 for comment by those members of the senior government community who serve as advisers to PSAAB, and there has been no indication as yet of the consensus reached based on these responses.

So the Manitoba government has decided not to make any changes at this point in time for two reasons. Changes to accounting practices would be premature since the standards are still being developed, and there could be other implications in terms of an investment and a new accounting system might be required. Those kinds of things should not be done until we know precisely what it is we want to be recording and how we want to be dealing with the issue. So that is the whole accounting side of the treatment of capital assets.

There is the ongoing maintenance of a list of what assets we own, which is done consistently by government. We know we own all kinds of assets that have values. The building we are sitting in right here I think was built for some \$18 million or something when it was first built, and I think it is worth a little bit more than that today, although I am not sure we will ever realize on that or ever sell it. So there is the issue of us keeping track of what physical assets we own, but I guess the issue that I interpreted from the question, question No. 2, is the whole issue of the accounting treatment and whether or not we should be capitalizing these assets and then depreciating them over a period of time. Over what period of time should they be depreciated and which assets should be capitalized? Right now our interpretation of capital assets includes equipment, includes buildings, it includes highways, it includes a whole series of types of assets. Of course, many of them we have actually an ongoing commitment that the financial requirement will probably—in the case of highways, I think the financial requirement will probably be fairly consistent for many, many years to come.

So we are interested in this issue, very much so, but I think we, like most governments, are awaiting the outcome of PSAAB on this issue before we decide how we move forward with them, and my understanding is that is consistent with what most provinces are doing. I believe that is in keeping with what the Provincial Auditor would expect us to do.

* (1110)

Mr. Johnson: Mr. Chairman, the current recommendation of PSAAB suggests disclosure of information to describe a government's acquired physical assets on hand and available for use by the government at the end of the accounting period. The issue that is currently being debated is the definition of what to include when you move to start recording and amortizing. It is a very controversial issue and there is no consensus across Canada. We support the current PSAAB position.

Mr. Sale: Mr. Chairperson, I think that the report from Statistics Canada is a useful device in that regard because it essentially offers alternatives without making a judgment as to which is the right one. It gives you cost, gross—the headings are gross fixed capital formation, discards, end-of-year gross stock and then three depreciation processes. StatsCan maintains that, as you know, and it does not prejudge which is the right way to go, but I think making that kind of information available puts a perspective for everyone on the fact that while governments, it may not just be this government, but governments have tended always to focus on their accrued liabilities in terms of debt. They rarely speak about their accrued assets.

I remember pointing out in the last meeting of this committee that when the honourable Leader of the Opposition's child, Mr. Doer's child, arrived a year or so ago, the former Minister of Education, the Honourable Clayton Manness, expressed some sympathy at the great debt that this child had acquired by virtue of being born in Manitoba. The honourable member for Concordia then pointed out that, yes, but the child had also acquired a great number of assets that substantially outweighed the debts and so is looking forward to a very prosperous life in Manitoba.

I think we can always use information to put forward our own perspective on issues, but without the

information, whatever perspective is put forward is based not on data and facts but on sand, I suppose. I am simply urging the government to move forward as quickly as possible with the position that has been articulated by the Provincial Auditor, and I hope that at a future meeting of this committee we might come to some agreement about a time by which we would reflect capital stock as well as the fiscal position in money terms.

Mr. Stefanson: Mr. Chairman, the member is right. I think we will have an opportunity to discuss this issue again at future meetings, and certainly a part of that will be ultimately when the report of PSAAB does come forward. Without getting into a debate, I think we all know there are different kinds of assets. There are revenue-generating assets and there are assets that do not generate revenue, in fact, quite the opposite, require ongoing investment or maintenance. I guess highways would be a good case in point. I also give the example of this building. It is a wonderful asset to own, but I am not sure that the taxpayers of Manitoba will ever receive the financial benefit of a sale, although I hope that does never happen. I am sure it will not happen.

So, again, there are all kinds of those considerations when you get into determining what the assets of the province are, what you can actually realize something on and which ones actually are an ongoing cost and commitment. So it is not a simple straightforward matter in terms of how we deal with these assets in the future and how we relate them to the liabilities of the province, but I am sure we will discuss this on future occasions.

Mr. Sale: My understanding from the Auditor was that PSAAB has a position and that the Auditor indicated you supported it, that there were accounting issues that needed now to be resolved in terms of how various categories of assets were treated. Unless I misunderstood what he said, he seemed to be indicating that there was a position that his office already supported. I wonder if he might clarify that?

Mr. Johnson: The PSAAB position promotes disclosure of information, not the full accounting for it, and generally that means note disclosure or some kind of other supplementary data.

Mr. Stefanson: Mr. Chairman, the Auditor is certainly correct. I guess the difficulty we have is there is yet to be

an interpretation over what assets should be included in that disclosure or reported. Then, of course, there are issues like if you are going to ultimately shift the accounting, then what kind of amortization or depreciation schedules do you get into for different types of assets and so on? We are waiting to deal with the issue on a comprehensive basis.

Mr. Sale: Just a final comment, Mr. Chairperson. I understand the complexity—well, I do not understand the complexity of it. I understand that there is complexity in it.

There is, though, I think, a very real public interest here. For example, the heavy construction associations of the country have made the point that the great asset, in the form of our interprovincial highways system, is seriously deteriorated. They have made the same point in regard to the infrastructure of cities across our province, and any of us who have driven around Winnipeg in the last few weeks know that our road system, both the arterial and local roads, is in desperately bad condition, reflecting a capital asset that has been allowed for a variety of reasons, which should be debated as public policy, to deteriorate to a very sad state. In fact, senior officials of Highways and roads departments across the country have indicated that the cost to renew and repair escalates every year out of proportion with the cost of maintaining appropriately in the long term.

I think that this is a very important issue. I hope that the government will work away at the question of how to convey accurately the need for infrastructure maintenance and asset maintenance over the long term in Manitoba.

Mr. Stefanson: Without getting into a debate, that really calls into question whether the example the member just gave is an asset or in fact a liability. I guess from our perspective, I think most members around this table know that over the last several budgets that we have brought down, we maintained our capital spending on highways, and that has been one of the reasons we have done that, unlike some other jurisdictions that, to meet their financial targets or requirements, made significant reductions to their capital expenditure. We did not do that and, as a result, have been investing a consistent amount, amongst the highest levels in Manitoba's history, and with the support of organizations like the Manitoba heavy construction organizations. So if there

is any good news in Manitoba, well, while there is a challenge for all jurisdictions in terms of the quality of roads and so on, in a relative sense, we are in good shape, but that is a major challenge for cities and governments right across Canada, North America, and I am sure elsewhere in the world.

Mr. Sale: Moving on, just to conclude, I think that there are large segments of our population, particularly in the North, who would disagree that our roads have been well maintained.

Could we move onto the reference 1-6. This page reveals the difference between the primary deficit and the deficit when adjusted for the two items, prior year's adjustment, the PSAAB statement 9, which I have looked at and I think I understand, but the other item which I do not understand, is the interrelations between the accounts when we repurchase buildings. I understand how the property is set up but I do not understand what is happening here in real terms, and I wonder if the Provincial Auditor could explain to the committee how this functions. I would just note for the record that we recently, this year, repurchased a substantially large amount of land, 12 properties I believe, which we will be interested in discovering the rationale for in due course.

Mr. Stefanson: Mr. Chairman, maybe just taking a moment at first in terms of both of the issues raised under point No. 3. The background first of all to the change in accounting principles related to the government loans, which is one of the two items that was raised there. In April 1993 the Public Sector Accounting and Auditing Board, or PSAAB, of the Canadian Institute of Chartered Accountants, issued accounting statement 9 which recommends the accounting principles to be followed when accounting for loans receivable in government financial statements. The effect of this accounting policy change adopted by the government at March 31, 1994, is an increase in the accumulated deficit of \$21 million, a decrease to current year expenditures in that year of \$2 million and an increase in the valuation allowance for loans and advances of \$19 million.

The change recorded in Manitoba's accounts relates primarily to loans with significant concessionary terms. These are categorized as interest-free loans, loans issued at interest rates less than the current lending rates of the province at the time the loan was issued—that is loans that

would be issued under the Manufacturing Industrial Opportunities Program—loans which have a period of interest concession followed by the application of interest at a certain point in time. Again, those would be the MIOP loans, and the new standard applicable to these loans requires that the interest cost associated with the loan be recorded at the time the loan is issued rather than over the life of the loan. This essentially records the cost of the loan decision in the fiscal year that the decision is actually made. The loans affected by the change, some examples would be Hudson Bay Mining and Smelting, the Manitoba Industrial Recruitment Initiative, Destination Manitoba, the Manufacturing Adaptation Program and various other loans administered by MDC.

The ones administered by MDC you can see on pages 3 to 11 of the 1993-94 Public Accounts. The other issue that is raised, the purchase of properties from Manitoba Properties Inc. and its related companies, results from the decision—

Mr. Sale: Mr. Chairperson, could I just ask, I did not catch the page reference or the volume reference that the minister was making.

Mr. Stefanson: Mr. Chairman, they are pages 3 to 11 of the 1993-94 Public Accounts.

The next issue that is raised in this question is the purchase of properties from Manitoba Properties Inc. and its related companies results from the decision to dissolve these corporations. Properties are being returned over a period of years so that the appropriate tax status of the corporation is maintained for purposes of the corporation income tax. The repurchase of land and buildings is charged to the accumulated deficit because this account was originally credited with the proceeds from the transfer of these assets to Manitoba Properties Inc. This information is shown on pages 3-19 and 3-20 of the 1993-94 Public Accounts.

* (1120)

Mr. Johnson: Mr. Chairman, regarding the valuation of the loans, the minister is correct that the amount that is reflected as a charge against the excess of liabilities over assets for that period is to properly value the loans at their net realizable value at that point in time. The types of loans that are involved are things with concessionary

interest rates or forgivable loans or things that may be paid with future grant funds from the province or that type of thing.

My understanding regarding this repurchase of land, it goes back quite a number of years and I believe in '84-85 when Manitoba Properties Inc. was first established the assets were transferred and there was a credit put through this account, and this is reversing that because MPI is being wound up and the ownership of the assets is coming back to the province.

Mr. Sale: Mr. Chairperson, is MPI being wound up essentially as the debentures come on the market as people sell their interest? Well, let me put it another way—the amounts each year vary quite widely. The amounts of repurchase vary quite widely, so what is the process of winding up what is going on? Is it simply following the schedule of debentures?

Mr. Stefanson: Mr. Chairman, my understanding and recollection is that all of those shares have in fact been redeemed and the only debt that existed at MPI was back to the province, so it was a fairly straightforward transaction in that respect.

Mr. Sale: Mr. Chairperson, this may indicate my lack of understanding of this issue, but then why is the amount so varied from year to year as has obviously been the case?

Mr. Stefanson: Mr. Chairman, it is probably best that we provide the member with some additional information, but I gather that all relates to the agreement with Revenue Canada in terms of the winding down of these entities and transferring the assets back to the Province of Manitoba.

Mr. Sale: I thank the minister for that response and appreciate the offer to provide information.

The member for Elmwood would like to raise an item, Mr. Chairperson.

Mr. Jim Maloway (Elmwood): Mr. Chairperson, actually I would like to deviate a bit from the printed agenda here and ask several questions emanating from Volume 2 having to do with the trust fund balances and in particular having to do with the American Practice Management, specifically the home care project.

What I would like to ask the Auditor is that, is he satisfied that the province got value for money from the expense of this money?

Mr. Chairperson: May I clarify which volume, to what report is this?

Mr. Maloway: It is Volume 1, and it is under the trust fund balances which is pages 2-7.

Mr. Chairperson: Of which year?

Mr. Maloway: Of the year that we are dealing with, 1993-94.

Mr. Chairperson, I have to point out that if we are intent upon passing the Public Accounts for this particular year today, then this is the last opportunity that we have to pursue this matter of where this money went and what we got for this money as it relates to the home care project for American Practice Management.

Mr. Johnson: Mr. Chairman, the only transaction I can find on that page is a receipt of \$27,720 related to the home care project. I believe that is what the member is referring to. I really would not have any detailed information on how that money may have been spent. There are no disbursements recorded in this particular period. It is simply a receipt of funds.

Mr. Maloway: Mr. Chairperson, then I would like to ask the minister then whether he can provide us with a copy of the report that was provided for these funds.

* (1130)

Mr. Stefanson: Mr. Chairman, these trust fund balances in the Public Accounts, Volume 1, are the financial reporting of how dollars were spent. The Provincial Auditor performs the attest function on the Volume 1. We have their individual reports where they deal with special audits and so on that are the basis of questions here today, but in terms of the value for money, obviously, they have not done anything specifically with this item. Health department Estimates are up right—well, maybe they are not—yes, they are still up right now, I think, and they have been going on this morning. They have been going on all week. I have sat in on various parts of those, and certainly specifics relating to contracts

and information around the entire home care issue are being asked, and I am sure will continue to be asked, and that is the most appropriate forum to be asking the minister who is directly responsible. The opportunity certainly exists if the member wants to head into Estimates and ask any questions that he might have on that topic.

Mr. Maloway: Mr. Chairperson, I would like to ask the Acting Auditor then whether he would endeavour to obtain a copy of this report from the government and to ascertain whether the taxpayers of this province did get value for dollars spent on this report, whether he would do that for us.

Mr. Johnson: Mr. Chairman, generally any request for special audits come through the Minister of Finance. The other work that we plan on an ongoing basis is subject to influence from many sources in our risk analyses and sensitivity of various issues, and we could certainly note this particular project and consider it in our future planning in terms of significance in relation to the other project work that we are currently involved with. I do not know how quickly we could get around to doing something specifically related to this.

Mr. Maloway: Mr. Chairperson, we have had a problem over the last few days asking the government for copies of this report, and we have gotten nowhere as a result. One day we are told that there is a report, the next day we are told there is not a report. So clearly there is something amiss here, and we would like to obtain copies of the report to determine just whether the public did get value for the money. We are clearly not getting anywhere with the government, and that is why we have to ask you as the Auditor to take action here.

Mr. Stefanson: The Acting or Assistant Provincial Auditor has indicated the process to the member. If he wants to write me and make any requests he certainly can do so, but the Minister of Health (Mr. McCrae) has been answering questions around this issue all week long in Question Period, in Estimates, and certainly is the minister responsible and can continue to answer questions and provide information. So if the member does want to pursue this he has the opportunity available to him to go into the Estimates process and ask these questions where they are most appropriately asked. Obviously, I have made note of his questions and

concerns, as has the Assistant Provincial Auditor, and we will follow up on that.

Mr. Maloway: The Minister of Health and the government have been hiding all week from this issue and continue to hide from this issue, and we have had no other choice but to explore all avenues at our disposal, this being one of them.

Mr. Stefanson: Mr. Chairman, nobody has been hiding. The Minister of Health tabled documents in the House yesterday that he made available to the critic and to the members of the opposition, and those documents are available and can form the basis of any questions members might have of the Minister of Health while he is in Estimates.

Mr. Sale: Mr. Chairperson, just before we go to the next question, simply on the technical issue of the appearance of this, I think this is very unusual. If you look through the rest of the trust funds, I did not see anywhere where a contract formed a part of a trust account. I may be wrong in that, but it does not look to me like this is there. It would appear that what happened was that these funds were essentially forwarded into the next fiscal year so that the contract could be paid for at a later date, because if you go into the next year you find there are disbursements from this account. In effect, I think if memory serves me correctly, the accounts go to zero at the end of the next fiscal period. Without reference to the substance of what is being done under the contracts, why are these monies shown here as a contract and no other contracts of government, of which there are many, are shown here?

Mr. Stefanson: Mr. Chairman, I will provide detailed response to the member. It might well be because of a holdback situation, but obviously from his perspective the good news is that this is open and accountable and being reflected, but in terms of why it is reflected and what ultimately happens with the distribution I will provide him with detailed information on that issue.

Mr. Sale: A very quick question. We have an evaluation change of \$25 million, is that the loans, is that the evaluation adjustment for the PSAAB Note 9, or is it something else? This is in Schedule 3, page 110, of Volume 1, 1993-94. I believe Repap is the valuation allowance of \$57 million in Schedule 2. What is the valuation allowance in Schedule 3 at \$25 million?

Mr. Stefanson: That really is in part question 5, if I understand correctly. We skipped over question 4. Does the member want an answer to that question first, or do you want to return to that after I answer question 5?

Mr. Chairperson: The minister is asking if you want to skip 4 first and then return to it after he answers question 5?

Mr. Sale: Mr. Chairperson, I thought I indicated in my comment that we were going to skip forward to No. 5 at this point and come back to No. 4. If I did not, I intended to.

Mr. Stefanson: With that, Mr. Chairman, the valuation allowance is on Schedule 2, which is referred to in that note, do not include the Repap shares. These are held in the Fiscal Stabilization Fund and have a specific allowance in that fund. The valuation allowances on Schedule 2, totalling \$57 million, are detailed on pages 3-9 and 3-10. The valuation allowances on Schedule 3 are detailed on pages 3-12 and 3-13.

Mr. Chairman, valuation allowances are generally used to record any anticipated decline in the value of a loan or an investment in relation to loans or investments in government enterprises. The following approaches apply. For operating deficits, the valuation allowance is based on the financial results applicable to the most recent fiscal year completed prior to April 1. Where an assessment of the accumulated deficit indicates a prospect of recovery from future operations, the amount of the valuation allowance is adjusted accordingly.

The other issue is nonrecovery of capital investment or loans. A valuation allowance may be provided where there is reasonable evidence that the province's investment or loan will not be realized. If the government has more than one type of investment in an organization, examples being common shares, preferred shares and debentures, the valuation allowance is assigned against the investments in order of priority on liquidation. I hope that provides the information that the honourable member is looking for.

Mr. Sale: I now see that as the minister has provided the page reference. Again, it would help greatly in future volumes if those page references were included. I do not see anything that would point me there unless there is

something in Note 17 which points me there. It probably does, but it would be very helpful if those page references were included. I appreciate the explanation of the minister.

The second part of the question goes really to the Provincial Auditor, and I suppose to the minister as well—valuation allowances for potential losses in a range of areas. For example, government had an agreement, and I do not know if it is in here or not, referenced in this particular year, but government had an agreement with Wang computers in regard to a project, which I think everyone agrees returned less than what was hoped for in terms of that project. Is the approach that we only make those adjustments after the fact or do we go through and make some informed decisions about the likelihood of being able to achieve the benefits that were hoped for and set up some clear potentials that we may have to accept as losses in future time?

Mr. Stefanson: Mr. Chairman, we do it on an ongoing basis, assess any advances, any entities that we have involvement with in terms of what our exposure or liability might be. So that is done on an ongoing basis, and that is the whole reason for, I guess, calling them allowances, because you are allowing against advances or investments in terms of what you think you might not ultimately receive or return you might get on those investments. But on the issue of Wang, I would not agree with the member. Wang, we ended up receiving a credit against that initiative which has basically been fully accessed in terms of the improvements and enhancements and adjustments to our Legislative Building information system. So I do not think that was a good example used by the member for Crescentwood.

Mr. Sale: Mr. Chairperson, I have had the occasion to use some of those databases, and I would not call them state of the art, to be charitable, considerably less than state of the art. So whether we got our money's worth or not, I guess will remain a question of contention.

If we could move on to item 6, Mr. Chairperson. I think we are making good progress in terms of time here. This is a very fundamental question of public accounting, and it has been long debated by the federal government, which at some points has attempted to provide a tax expenditure account and still does provide some data in that regard, although I do not think it is as complete as

some might wish. I know that this issue is under discussion in other provinces in Public Account function and the Auditor's department. I would appreciate some extensive discussion by the minister and by the Auditor of how you view this issue of tax expenditure. It certainly is a vital component of understanding a government's overall policy in regard to taxation measures revenue, and I would appreciate the minister's views and the Auditor's views on this subject.

Mr. Stefanson: Mr. Chairman, some of our tax expenditures, tax credits, as an example, are reported in the Estimates and the Public Accounts, and this happens for the tax credit payments made through an appropriation actually in the Department of Finance. I believe the member is correct. I think one province does publish a tax expenditure account on a regular basis, and I believe the federal government does to a certain extent as well. Again, it is something that we are prepared to look at. I am not sure whether it is so much the Public Accounts as it is a separate statement prepared by the Department of Finance possibly at budget time or as part of the budget process. That might be some additional information that we can certainly look at providing and might very well be useful to members of the Legislature and the public to get a broader understanding of some of the areas that are dealt with through tax expenditures.

* (1140)

Mr. Johnson: Mr. Chairman, I think the member is quite correct that this is a current issue, and there have been a number of jurisdictions that have attempted to try and measure the cost of the programs that are initiated by governments through these foregone revenue or implicit tax expenditures. Back in 1979 the Auditor General of Canada, he at first requested information on tax expenditures stating that a failure to account for the effects of tax preference items can lead to understatements of program costs and of total taxpayer resources directed to favoured areas. In 1986, the Auditor General of Canada surveyed Members of Parliament about their need for information on tax expenditures. Their response was that it is generally impossible for them to evaluate the thrust of government's social and economic policies unless they have such information. That year in his report the Auditor General of Canada devoted 28 pages of discussion to the issue of tax expenditures. The report recommended that

information on tax expenditures be available at the time of the regular budgetary and spending review process, including information on their costs and effects.

In the 1992 report, the Auditor General of Canada stated that although it would not be appropriate to report tax expenditures on the statement of revenue and expenditure, he believed that tax expenditure should be disclosed on a regular basis in a note or supplementary table. His report did not really give reasons for why he differentiated.

The Province of Saskatchewan, in its annual Budget Address, reports on social programs delivered through the tax system, and the Budget Address itemizes tax expenditure estimates which are calculated using tax calculation data and Stats Canada data. Starting in 1995 the budget of B.C. included information on tax expenditures. I also understand that the United States Treasury Department has been publishing tax expenditure budgets since 1968, and in 1974 this information was incorporated into the Congressional Budget Act. Thereafter all of the budgets have contained a special analysis which provides a detailed tabulation of tax expenditures. There are also examples from California and there are some examples from France back to 1981.

Mr. Sale: Mr. Chairperson, I hope the minister will be able to extend his remarks in regard to the provincial approach to this. It is clear from the Auditor's remarks that other provinces are moving quite strongly in this direction and that other countries have long since moved in this direction. My concern here is not just disclosure and not just listing, as the federal Auditor General has recommended; it is that there is a reason for tax expenditures. There is always a reason for trying to shape public and private investment decisions, and tax expenditures are no different from any other carrot. They are not unlike grants or forgivable loans or concessionary loans or a number of levers that governments have available to them to influence decisions of the private and public sectors, predominantly the private sector, but it also happens that tripartite or multipartite projects go forward because governments make concessionary arrangements with sectors or with individual companies in terms of tax expenditures.

The issue of tax expenditures is an appropriate issue for public accounting, though I agree that it is difficult or

impossible to integrate into the public accounts statements per se, because you cannot estimate appropriately what the impact of not having that tax expenditure would be, because as everyone knows, when you change your tax rules, behaviour changes. So when you make a tax change you can estimate on the basis of previous revenue patterns what that might cost or might gain, but you cannot take into account the changes in behaviour that are dictated by that tax change, and therefore the revenues projected are rarely arrived at. They may be greater or lesser, but it is really hard to predict that for that reason.

Secondly, the auditors general and provincial auditors have moved strongly in the direction of value-for-money auditing and the, I think, question can always be appropriately asked: What value is the province receiving for a concessionary tax expenditure program of whatever kind, whether it is in the form of property tax credits or whether it is in the form of something related to tax levels for industry? It is always useful to ask that question. Okay, we have in place a tax regime. What benefits are the people of Manitoba receiving for that tax regime in the opinion of the Provincial Auditor?

* (1150)

These programs also have been commented on by both large and small business. The Canadian Chambers of Commerce, the provincial and municipal Chambers of Commerce have generally taken the view that grants to business and industry should be reduced, and some have gone so far as to say eliminated because they distort the playing field. They have not, so far as I know, taken a position on tax expenditure programs that benefit industry, and it would be very interesting to know their views on this issue.

I think this is a vital area of public policy. There is always a temptation to compete for investment, and when provinces are in that kind of mode they can often give away more than they gain. I would just point to the fact that there have been frequent analyses of federal programs which have showed that the cost of the tax expenditure programs and grants to industry and business exceed corporate income taxes in total revenue, so that in effect we give away all that we get back, and the only possible rationale for that is that we are getting other substantial benefits that offset the very large amounts of

corporate welfare that is provided through a variety of grants and concessionary tax programs.

I would be very interested in knowing what the minister and the government's specific approach will be to first of all making this information available but secondly then requesting the Auditor to begin to review the effectiveness of tax expenditure programs on the public policy and public welfare of Manitobans.

Mr. Stefanson: Mr. Chairman, as was mentioned, right now there are only two governments in Canada that publish tax expenditures, that is, the federal government and the Province of Saskatchewan, and the Province of Saskatchewan does do it as part of their budget process, so as I have already indicated, I am prepared to look at possibly providing that kind of information with our next budget. We will do an analysis of that issue, whether there is some merit to providing that information.

As the member knows, it goes well beyond tax expenditures that affect only businesses. If you look at the Saskatchewan tax expenditures, they point out exemptions for children's clothing and those kinds of areas which are things we do here in Manitoba. There are exemptions on fuel tax which are things we do in Manitoba, and then they also attempt to quantify deductions from our personal income tax system which are decisions made basically by Revenue Canada but have an impact on the return to provincial governments, so that is information that as I say we can look at providing. We certainly do an analysis on an ongoing basis of the various business tax expenditure adjustments that we have. As an example, we have the manufacturing investment tax credit that, if you talk to the manufacturing industry, talk to businesses in Manitoba, they certainly speak highly of that tax credit as stimulating a lot of the activity that we are seeing here in Manitoba.

It partly offsets the costs that are incurred by businesses on paying provincial sales tax on any investments on their manufacturing equipment and so on and so on, on an ongoing basis in terms of any tax expenditures that are meant to generate economic activity. We continually look at those as part of our ongoing process. Certainly at budget time we determine whether or not we are still getting value because the ultimate objective, which I think we would all agree on, is that we

get a return on that investment to the benefit of Manitobans.

In terms of us starting by looking at providing this information as part of our next budget, I certainly will undertake to do that. I think it is more important that we are doing our own assessment. Obviously the Provincial Auditor can review any assessments we do and comment on those, but I think our starting point will be to determine whether we see value in providing this information as part of our 1997 budget. I will certainly undertake to pursue that issue.

Mr. Sale: Mr. Chairperson, I thank the minister for that. I want to make sure I understand his remarks clearly. Is the minister undertaking to provide a tax expenditure statement in the 1997-98 budget? Is that the nature of the commitment he just gave?

Mr. Stefanson: Not quite, Mr. Chairman. I am prepared to look at providing it in the next budget. I want to determine all of the implications, what is required to compile the information and so on. My initial reaction is that this could be useful information for Manitobans and for members of the Legislative Assembly. So I am prepared to take a serious look at our ability to provide the information, but I cannot sit here today and say absolutely, unequivocally, we can provide it, until we have done the assessment of what all of the implications are of compiling and providing that information.

Mr. Sale: Mr. Chairperson, I understand the difficulty of moving into this, but I think that other provinces have cracked this particular problem obviously. I am sure we have the ability to do that. Would the minister undertake to bring back to the next meeting of this committee, which I believe we have agreed to be held in about three weeks time, the first week in May or so, or if he is not able to by that time, to bring to the third meeting of this committee, which I believe we will agree to schedule, a working report of the activities of the department toward including a tax expenditure statement in the 1997-98 budget?

Mr. Stefanson: Mr. Chairman, there is only one province that currently publishes this information. Other provinces are looking at it as we are prepared to do, but I cannot at this stage commit to having anything back for our next meeting. I will undertake to pursue providing this for our next budget.

I can see some value to it, but I obviously want to determine what all of the implications are in terms of compiling the information. Looking at Saskatchewan, as an example, I can see value to providing that information and I take the suggestion seriously. I will pursue the issue.

Mr. Sale: Could the minister indicate whether at the present time there is an integrated or inclusive list or table or internal database that tracks the full list of tax expenditure programs on an ongoing basis? Are they pulled together in some form at the present time?

Mr. Stefanson: Mr. Chairman, it really comes back to the whole issue of what you include in your tax expenditure accounts. We certainly do that in areas like our manufacturing investment tax credit, in our research and development tax credit and so on, but when you get into areas like what is the value of the exemption on children's clothing, it is not a precise science to calculate those.

You get somewhat arbitrary, so we are not necessarily doing those on an ongoing basis. We can certainly provide an estimate of what the value of that might be, so it comes down to what kinds of things do you include in this tax expenditure account, so to speak. I guess that is why when the member was referring, he spoke mostly about some of the business tax credits and so on, but you can get into areas, as I say, like children's clothing which we exempt here in Manitoba.

You can get into the whole issue of the exemption on various fuel taxes for the farming community and those types of things, so some of that information we would have. Individual departments would be interested in terms of what the value of those kinds of adjustments are. I could not say that for everything that we would define as being a tax expenditure that we are or need to be tracking it, but that would be the part of the research and what I would be looking into in terms of what kind of a tax expenditure account would we look to provide. The other thing Saskatchewan does is it takes the deductions that we all get on our personal income tax return and puts a value to them on the provincial tax.

Again, that is something we can readily do here in Manitoba in terms of what the impact is on our Treasury of those decisions that are basically made by the federal

government because the deductions on the personal income tax return, although we can have input into them, are ultimately decided by Revenue Canada. So we certainly track an awful lot of them. I could not say we necessarily track all of them, but it will come back to what we agree or what we think is a definition of what should be included in that tax expenditure analysis.

Mr. Sale: Would the minister be prepared to provide to the committee at one of the future meetings, before the rise of the House, at least an outline paper, a concept paper, which identifies the issues that the government is seeking to resolve and understand and segregates the types of tax expenditures in the way that he has in his current answer so that the committee might have a discussion about the work in progress toward full disclosure of tax expenditures? I am not suggesting, Mr. Chairperson, that we need a great long detailed paper, but a brief working paper on this, I think, would be very helpful to the committee and would be helpful to the government as they seek to provide this kind of information in a useful format.

Mr. Stefanson: Mr. Chairman, without being held to an absolute firm commitment, I will undertake to provide a framework, realizing that we have just completed our budget. My staff are working on a whole range of issues. In many respects, as we start to work towards our 1997 budget, this can be an initiative that we do an awful lot more work on. So without being held absolutely, unequivocally, to it, I will undertake, if we do end up with two meetings, to provide at least a framework that can add to our discussion on this issue. As we move forward over the course of the next several months, again, I do not have any problem with providing the member with some more detailed information in terms of the kind of thing that we might be looking at.

Mr. Sale: I thank the minister for that, and I accept his undertaking, and I understand that he has provided himself a small amount of wiggle room. But knowing the minister's integrity on these issues, I am sure that he will make all best efforts to fulfill the commitment that he has made, and I appreciate that very much.

In question 7, Mr. Chairperson, I am very troubled by the current government policy in regard to contract and audits. Let me make a really important distinction here. I am not suggesting that there is no role for private

auditing firms in the area of public sector activities. I think that is a legitimate strategic decision that can be made on the basis of workload and expertise and a variety of operational decisions. But I have a very strongly held view that the Provincial Auditor ought to be making the decision about contracting out or not doing so. The Provincial Auditor is constrained by the resources available, and resources obviously both time and personnel, but I have some difficulty with the Provincial Auditor not having full formal responsibility for the whole scope of government operations, quite apart from the question of a private firm's abilities which I am not reflecting on or raising.

I have concern that the decision to contract out audits is not made by the Provincial Auditor, and yet the Auditor, at least I think in the broad public understanding, has responsibility for the full scope of the activities of government. Those of us who are slowly learning about this realize that this is not in fact the case, that the Auditor cannot be held responsible, for example, for MTS because, you know, it really does not audit MTS. I think it would strengthen the auditing function and strengthen the Auditor's overview of our provincial financial situation if the Auditor were responsible for contracting out, if that is the decision of the department. In the area of Crowns, it may be appropriate that the Crown corporation have a private auditor. I would want, though, the Provincial Auditor to have some clear legislative role of oversight so that all functions for which government has a responsibility can be legitimately reviewed either in an attest and overall sense or in a more detailed sense by the Provincial Auditor's office. I would appreciate the views of both the Auditor and the minister on this very important policy question, Mr. Chairperson.

* (1200)

Mr. Stefanson: Mr. Chairman, first of all, there is a list of the audits performed and the auditor engaged shown on pages 35 to 39 of the 1994-95 Report to the Legislature. So we are one year ahead. That information is available to be reviewed by members of the committee. I think a point worth making is that no matter who is engaged to do the audit, the Provincial Auditor does have the right to perform an overview and to report to the Legislature. But as I think the member alluded to, there often are good reasons why some of government's enterprises should be allowed to seek services from

outside firms who have certain expertise in that area of business. The Provincial Auditor, I understand, is not necessarily precluded from bidding on many of these engagements, but price is only one of the criteria, so is experience and expertise in the area.

The following criteria are generally used to assess proposals, whether they are done by us or, I am sure, by Crown corporations: The extent of the firm's related auditing experience; the specific experience of the individual personnel to be assigned to the engagement; the quality and appropriateness of the auditing firm's proposed work plan in the assignment of personnel; the anticipated timeliness of the audit work and the resulting reports; the quality and appropriateness of the specific audit techniques that are going to be applied; adherence to the terms of the request for proposal; and, of course, the audit fee that is being requested.

So my view would be that we have a good blend of utilizing the services of our Provincial Auditor but also giving our private sector an opportunity to do some work and to bid on some work and put forward proposals. As I indicated, these are all done, when we do seek external work, on the basis of request for proposals to give firms here in Manitoba the opportunity to do work on behalf of government, or in the case of many of our Crowns, on behalf of the Crowns. Of course, as we know, the Crowns are basically independent. They have a board that senior management reports to and so on and makes the decisions that they feel are in the best interest of the Crown corporation. So I think we have a good blend.

I think there is nothing precluding the Auditor from overviews and reports on matters that fall directly under government, and we will continue to look at having the appropriate mix of utilizing the offices and expertise of our own Provincial Auditor but also, as I say, giving the many firms that exist here in our province who should have an opportunity to do some work on behalf of government. I think that is a reasonable approach, and we have a reasonable mix.

Mr. Johnson: Mr. Chairman, basically the way the audit appointments are being handled complies with legislation. The policies are embedded in legislation of various acts. Under our own legislation we have the

authority to overview and interact with auditors of various Crown corporations, and we are doing that on an active basis. I think currently there are about 70 financial statement audits that are conducted on an annual basis that fit into the government reporting entity. About 30 are done by CA firms. They do most of the bigger ones. There are about 40 that we do ourselves. There are obvious practical limitations in our office trying to accommodate all of them because of the cyclical nature of the work.

However, I do believe that in most jurisdictions the appointments of auditors are controlled through the Auditor General's office, and I think there are some benefits in doing it that way. I think funnelling it that way, it could help avoid any perceived conflicts or patronage. We report to the Legislative Assembly. The audit firms that are appointed, they report to the boards, not the Legislative Assembly, so I think there is a gap that occurs there. I think no matter how you slice it, one auditor is cheaper than two. Also just around the issue of appointment of auditors, I think there is, possibly around the legislation designed for the appointment of the Provincial Auditor itself, it does not require an all-party committee to control that appointment process, and I think there might be some advantages to consider that. However, this is all basically a policy matter, I think, for debate in the House; I am just expressing my personal views.

Mr. Maloway: Mr. Chairperson, I would like to ask the Acting Auditor, he made reference to a perception of patronage in the appointment of the auditing firms. Have there been any suggestions or questions or complaints to the Provincial Auditor's office regarding any of the appointments up to date?

Mr. Johnson: Mr. Chairman, none to my knowledge. I am not aware of any. I do not have any concerns around that.

Mr. Sale: Could the Acting Provincial Auditor indicate the provincial jurisdictions in which all audit appointments are handled through the Provincial Auditor? He may not have the list at hand, but would he provide the committee with a list of the method of appointments by province so that we might have that information?

Mr. Johnson: Mr. Chairman, I will take that question as notice, and I can provide that at the next Public Accounts Committee meeting.

* (1210)

Mr. Sale: Mr. Chairperson, let me give the minister a particular situation which raises a very significant concern in my mind about where we are going on this. The whole issue of information systems is a thorny and difficult one for government. Traditionally, governments had their own internal abilities to do this, and as it became more and more evident that this field moves more quickly than most governments are able to move. Governments began to contract out pieces of this kind of service, sometimes with good effect, sometimes with disastrous effect, but nevertheless contracting out in this area is very common.

In the Department of Health there has been a recent initiative to establish a SmartHealth corporation, a Crown corporation to enter into a contract with the Royal Bank for the development of a computer system. This is a situation where a function of government, a very vital function of government in the largest department of government, is moving either simply for the development of the software, or perhaps in the longer term for the management of this system to a Crown corporation. I think it is one of those areas that it is very vital that the Provincial Auditor retain the ability to audit all parts of a department's function, otherwise he or she has to spend time interfacing with a variety of other auditors to be satisfied that the Provincial Auditor has a full, satisfactory understanding of the whole function of the department. So I raise this example, for the minister, of an area where I think public policy is not well served by fragmenting the auditing of departments.

I raise a second example. In the Department of Industry, Trade and Tourism, there are a number of very vital functions of that department which are carried on through Crowns, for example Venture Tours, which are audited by a private firm such as Deloitte & Touche in that case. Without commenting on the unsatisfactory nature of Deloitte & Touche's reports which I commented on last year when we looked at Venture Tours, I am not happy that an important function of that department is audited by someone else. In fact when we met with the department, no members of that auditing staff were

present, and there has been no opportunity to ask questions of the Provincial Auditor about Venture Tours and the Venture Tours' audits which had some errors in them and had some significant confusion in those audits. So I am very concerned about the fragmenting of the audit function and would urge the minister to consider both the appearance of the potential for patronage and also the very real problem of fragmentation of the overview of departments of government.

Mr. Stefanson: First of all, Mr. Chairman, there is no issue of patronage here. When we look at contracting out, it is to give an opportunity to Manitoba firms that do business here and employ a lot of Manitobans, that they should get a chance to do some work on behalf of government. It is done on the basis of request for proposals. There is the assessment of the criteria that I have already put on the record for you, and a determination is made as to who should do the work.

In terms of the health information system, a Crown corporation, we have had some correspondence and discussion. The whole purpose of setting up a Crown corporation is the issue of accountability and, in fact, capturing the actual costs directly against that project because part of the investment in that whole health information network is that the costs will be derived through savings ultimately in the whole system. What will happen is, as the project moves forward, it will be done on a module basis, and you will have to assess whether or not moving forward will generate savings elsewhere in the system as a result of that investment. I have already indicated publicly that in this particular case it is a good example of one that the Provincial Auditor should do the audit on. Our position is that the Provincial Auditor should be auditing that health information network.

The issue of Venture Tours, nothing wrong with an external auditor being responsible for the attest function and giving comment on value for money and so on. The Provincial Auditor has the opportunity, as they do there, to do an assessment of those kinds of corporations. We have to create evaluation against guarantees and so on that we have given for Venture Tours so that does come through Industry, Trade and Tourism. The Provincial Auditor's department in the past has offered comment on Venture Tours. The Crown Corporations Council has offered comments on Venture Tours and so on.

So, again, I go back to my original comments. The Assistant Auditor said, even though you can look at the scale of them, out of some 70 audits, 40 are done by the Provincial Auditor, 30 are done by Manitoba firms that get an opportunity to do work for their government, and they are firms of all size. Some of the large firms are the only ones that are maybe more capable to take on some of the larger audits, but with a lot of the smaller audits or smaller work, it is the more small or medium-sized firms that get a chance. If you look at the list in the '94-95 document, you will see that there are a range of firms that are doing work on behalf of Manitobans and the provincial government. So I think we have a reasonable and balanced approach to it. Certainly the specific concerns raised by the member, particularly the SmartHealth one, that is one that the Provincial Auditor will be doing the review because of the direct link, the very direct link in that case, back to a government department.

Mr. Sale: I reiterate my opening comments on this question, not questioning the appropriateness of using the private sector, I am questioning who makes the decision to do so. I also take the minister's point that there have been calls for proposals. I do not know whether every audit is done that way. As a matter of course, I hope that that is the case.

A question to the minister: Would the minister be prepared to articulate a policy in government that, when the affairs of any corporation that is audited by a private auditor or by the Provincial Auditor, it will be a matter of policy that members of the audit staff will be present at the committee meeting that hears and discusses those annual reports? I find it very inappropriate when those officials are not present when we consider Crown corporations and departments and divisions or whatever not audited by the Provincial Auditor.

Mr. Stefanson: First of all, my understanding is every audit is put out for request for proposals and done on a competitive basis and assessed against the criteria that I have already read into the record.

In terms of how our individual committees function, obviously the chairman of different Crowns appear at that committee, the CEOs, the senior staff appear. In terms of whether or not there are any changes required to how those committees function, I think House leaders should

have that discussion. If you are suggesting that for every report that goes to every committee, the auditors be at that committee, I am not sure that that is necessarily required. If there are specific questions that should be addressed, that is another issue, but I think the broader issue of who attends various public committees of the Legislature is something the House leaders should be addressing on an ongoing basis.

Mr. Johnson: In conjunction with our responsibilities around the audit of Public Accounts and the inclusion of the financial results of the various Crowns, we have set up a cyclical process of involving ourselves in the audit process that the CA firms are undertaking. We participate in the planning. We look at their materiality, review their working papers. We make sure they are adhering to generally accepted auditing standards. We review their management letters. We review their financial statements and presentation. We obviously do not review all of them every year, because it is a practicality issue, but we do review them. The bigger ones we review more frequently and the smaller ones we review less frequently, but we certainly visit all of them and involve ourselves in the whole process.

Mr. Sale: I thank the minister and the Provincial Auditor for those responses.

Just in terms of agenda, if we do not get fully through the next item, could the Acting Provincial Auditor undertake to provide the committee with a brief document which explains, insofar as possible in layperson's terms, the interactions between the trust funds assets, liabilities, operating account, that could help us understand how those things function? I give, as an example, the issue that the honourable member for Elmwood (Mr. Maloway) raised of the appearance of a contract in a trust fund account for a particular period of time, which the minister is going to provide information about to the committee, but to give an explanation which is sufficiently detailed that we might understand how these accounts interact. I do not want to go on to that now, Mr. Chairperson, if we may. I really would like to have a discussion about the Grow Bonds issue. I am simply anticipating that we might run out of time before that point.

Mr. Stefanson: Just on the issue of the trust funds, I have some comments here, but rather than put them on the record now, I will provide them in writing in some

detail to the members of the committee in conjunction with comments from the Provincial Auditor.

Mr. Sale: Can we look at the issue of Grow Bonds legislation passed in '91-92? I think the first bonds were issued in '93-94. I do not believe many were issued by that time, but I believe the first ones were approved during that year. Does either the Acting Auditor or the Minister of Finance have any concerns about the approval process for what are essentially venture capital securities?

Mr. Stefanson: Firstly, the member is correct in terms of, I think, the timing that he outlined. I believe, as he knows, an audit was done of the Grow Bond Program in '93-94 by the Provincial Auditor. Summarizing the Auditor's conclusion that the approval process was satisfactory, but they did see some opportunities for improvement of the management information system and the monitoring of bond corporation activities, the report acknowledged the evolving nature of the program and that the first focus would be on the approval process. Those recommendations, that report, obviously was made available to the Department of Rural Development. I know they took that very seriously and have been dealing with and have dealt with various aspects of improvements as suggested by the Provincial Auditor.

* (1220)

As the member for Crescentwood (Mr. Sale) knows, just recently on a specific project we have asked the Provincial Auditor to go in and do a review and provide a report on one particular project. My short answer would be, yes, that on an overall basis I think the Grow Bond office is doing a good job of the original approval process and of the ongoing monitoring and reviewing. I think the audit that the Provincial Auditor's department did in '93-94 was very helpful to the department in terms of improving that whole process, but on the one particular project, I await the report from the Provincial Auditor.

Mr. Johnson: The minister is right. Our conclusion on the audit that we had done previously concluded that the approval process was satisfactory. The work that we did around that particular conclusion was done during the period of May to July of 1994. There had been at that point 11 project bond issues and our sample included four of them. Incidentally, our sample did not include the

Woodstone Corporation. I am sorry, it did include the Woodstone application.

In terms of the special review that we are currently doing, the criteria that we have adapted are similar to those that we used on the previous audit, and it is too soon to disclose our findings around that.

Mr. Sale: I have some concerns about this issue, and the minister and the Auditor I do not think have responded. Perhaps I have not been clear in the nature of the concern.

Essentially, Grow Bonds are as close as you get to venture capital that we have in Manitoba. They are a bond at a varying interest rate, but in effect the capital is fully secured by the Province of Manitoba. Some of them are quite large; the Woodstone one is almost \$1 million, and others are very small.

I have a fundamental concern about the right of a minister to approve the issue of securities which puts at risk at least the interest and, I suspect, in the case of ones that have been wound up for some time, ties up the capital of Manitobans who invest in good faith in these instruments, these securities. They are absolutely securities in the full meaning of the term in a legal sense. These are securities, and yet in the prospectus it says in the opening page, I believe, of every Grow Bond that is issued that these securities have not been passed upon by any government department or by the Manitoba Securities Commission.

Now, a professional investor will read these and know what they are investing in, but many ordinary Manitobans living in their communities who wish to support their community's economic development, and rightly so, I think read this reasonably thick document with a lot of information in it, and they know the government is standing behind this program. So I think they assume, not unreasonably, that the government has some oversight function in terms of the quality of the information, the work that has been done to assure the local citizenry that there is a decent business plan with a reasonable chance of success. I do not believe that very many investors, other than the very knowledgeable professional investors, are aware of the caveat at the front of every Grow Bond which says, essentially, nobody has looked at this, folks, and we do not take any responsibility for anything that is in here. You are on your own hook.

I do not believe that is an appropriate approval mechanism. I do not think it protects the interests of Manitobans, and I do not think, frankly, that it is an appropriate reflection of the intent of the program. The intent of the program is that there is a sound business plan here, that there is a sound investment opportunity here, and yet the government makes it very plain that it has no view on whether this is a sound opportunity or not. So the minister involved is in a very strange position. The minister approves the issue of the bond, the minister's politically appointed review committee approves the bond as recommended to it by the minister, and yet the bond says, we have not even looked at this, folks; we do not take any responsibility for anything that is inside this document.

I do not believe that that is understood by many buyers of the Grow Bonds, and I do not believe it is an appropriate approval mechanism. I would be interested in the minister's comments.

Mr. Stefanson: When we first introduced this program we had the benefit of, I guess, learning from at least one other jurisdiction in terms of being very cautious and in terms of how we moved forward with the program, and we have done just that. Although, to date, I think it is important to acknowledge that this program now has 19 projects, over \$7 million in investment has been raised to leverage \$21 million of total investment, and it has created 450 jobs in rural Manitoba.

The Provincial Auditor's department, themselves, did a review of the program in 1993-94 and said the approval process is satisfactory. It does go through a very comprehensive and detailed approval process through the Grow Bond office and, ultimately, through the Economic Development Board of the cabinet, so that whole process does receive extensive due diligence. As the member knows, at the end of the day, because of that due diligence, the Province of Manitoba is prepared to guarantee the principal, so the individual investor in all of our communities, they are not putting their principal at risk. What they are putting at risk is the timing of getting a return on that principal, but if Grow Bonds do end up in financial distress, that is guaranteed by the government of Manitoba.

Our track record to date, I would say, is very good in terms of the projects that we have approved, and I would encourage the members to go and talk to these 19

organizations, 19 communities, the 450 people that are employed on these projects, the multimillions of dollars that are invested, and I think it has been a very successful program. I have had discussion with the member for Crescentwood (Mr. Sale) before about the need to access capital. If you talked to any person trying to do business in Manitoba or in Canada, one of their greatest concerns is access to capital.

They feel that the traditional financial institutions are not meeting all of their needs, and that is one of the fundamental reasons why we introduced the Grow Bond Program and it is serving us very well. So I take exception to most of what the member said. I think the approval process is extensive, it is comprehensive. The individual citizens of Manitoba are protected through the guarantee provided by their own provincial government, and it has been and will continue to be a very successful program that I would hope the members opposite would start to support and garner more information about.

Mr. Johnson: The issues that Mr. Sale had raised are part of our audit review process that we are currently involved with around the Woodstone concerns, but it is premature to provide any comment around those specific concerns.

Mr. Sale: Mr. Chairperson, for the record, our party has supported the Grow Bond Program as a program. We have concerns about the process. I know we are approaching a time limit and I would just comment in conclusion, first of all, that this issue will arise again, and we will have further chance to discuss it. Secondly, as the minister very well knows, the survival rate of new companies is very much a function of time; and I hope he is right that 19 companies will continue to grow and thrive.

The odds would be against that happening, and my concern is that we have a complete process of public approval by officials that have the skills and abilities to do that, and that is the Manitoba Securities Commission, and not the department which has very limited resources to work with Grow Bonds, typically takes a very long time from the start of the Grow Bond application to the actual issue date primarily because they are under-resourced to deal with this in an expeditious way.

With those comments, Mr. Chairperson, we are prepared to pass on the Public Accounts and associated

reports for 1993-94 on the basis of the understanding to which the minister alluded at the beginning of the meeting.

Mr. Chairperson: Public Accounts, Volumes 1, 2, and 3, for the fiscal year ending March 31, 1994—pass.

The Provincial Auditor's Report for the fiscal year ending March 31, 1994—pass.

This completes the business for the time being for this committee. Committee rise.

COMMITTEE ROSE AT: 12:30 p.m.