



**Legislative Assembly of Manitoba**

**HEARINGS OF THE STANDING COMMITTEE**

**ON**

**PUBLIC ACCOUNTS**

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



**10:00 a.m., Tuesday, March 18, 1975.**

PUBLIC ACCOUNTS COMMITTEE  
10:00 a.m., Tuesday, March 18, 1975

MR. CLERK: Gentlemen, it's 10 o'clock and your first item of business will be the election of your Chairman. Are there any nominations? Mr. Blake? Are there any further nominations? Hearing none, I would ask Mr. Blake to take the Chair.

MR. CHAIRMAN (David Blake): Gentlemen, we will come to order. There are 12 members on the committee. We should establish a quorum. Seven was the quorum last year; is that your will and pleasure? Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, I've been thinking about the last 13 years of my attendance at these meetings and thinking that the meetings have changed from a very casual half-day-a-year review to an extensive probing and effort to have a fuller understanding of the accounting procedures in checks and balances, and I think that we have developed in both a good and a bad way. I'm hoping that we can put some order in our discussions and that's why I thought that I'd like to propose that we do have an orderly approach. I think the last couple of years we did a lot of hopping around and I think it made it difficult to have a proper review.

Now in the early days that I've experienced, we would take this Public Accounts and deal with the specific departments, resolution by resolution, asking questions as they arose. And that's good. But last year we zipped through that part so quickly that I, for one, had forgotten about it, I had to check back to make sure we had actually done it. The year before, as I recall, we never did get done with it. I'd like to suggest that we agree on going in what I'd suggest is an orderly fashion. I imagine that members of the committee would rather deal with the report of the Auditor than the Public Accounts, in that order, although in the past we never did deal with the report of the Auditor. And frankly, I don't think it matters which we start with, but I'd like to think that we'd start at the first page and proceed page by page and that you, as Chairman, keep us to the pages as they go along, so that we know that we're discussing one item at a time. And I'd like to suggest that that would be a better way of dealing with it. It still gives us all an opportunity to ask relevant questions. But at least we know what we're doing and we know what we are going to do tomorrow, and the next day, and the next day, or the next minute. So, although I don't have any particular preference as to which order, I'd like to suggest that we take one of these two books and start at Page 1 and work it through to the end.

MR. SCHREYER: Just on a procedural point, quite apart from what Mr. Cherniack has just finished saying. The Clerk tells me that in the notices that were sent to all members, that reference on the notice was with reference to the Provincial Auditor's report, and the Clerk seemed a little at a loss to know whether the presence of all the Finance Department officials indicated that the expectation was that we would be going into Public Accounts. I think there is, in fact, no real problem if we can proceed with the report of the Auditor and then take, as the second item of business at this or a subsequent meeting, Public Accounts proper. So, if that's the right sequence, I think that would certainly clear up any procedural problem for the Clerk, not that any real problem exists.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Mr. Chairman, I was going to say that it is our understanding in coming to the meeting that the first thing that we were dealing with was the Auditor's report rather than the accounts themselves, so I think that our course is already set and we agree with it, also with Mr. Cherniack's remarks that perhaps we go through it on a page by page basis from the start of the report through so that we do have some sort of a determined procedure. So I think it's also worthwhile commenting that whereas at one time most of the time was spent on the accounts themselves, we had a pretty long discussion in the last year about whether or not some better procedure couldn't be worked out to study the accounts. And the main problem is, one of the problems that the Auditor himself has noted in here in his report, is that the accounts perhaps should be examined on an in-between session, ongoing basis, so that we're not looking at accounts that are a year to two years old, as we are now when we study them. And the change in procedure, that is, putting more time on the Auditor's report itself rather than on the accounts, is probably a very natural evolution to take place because, with the increasing size of government and also with the number of the problems that are particularly evident in the MDC and some of these others, the MLAs have to depend very heavily on the examinations of the Auditor in order to do their jobs, so it's

(MR. CRAIK cont'd) . . . . probably going to continue into the future that we are going to have to depend heavily on the Auditor, and therefore on his report rather than on Public Accounts, unless we find a different procedure for looking at accounts earlier in the year.

MR. CHAIRMAN: Very good. Well, gentlemen, it appears we are agreed to review the Auditor's report. Did you want to . . . all the people here.

MR. SCHREYER: Yes, I think that there are sections in this report as well that relate to - or to which Finance may be called upon.

MR. CHAIRMAN: Fine, we'll proceed with the . . . Mr. Jorgenson.

MR. JORGENSEN: Mr. Chairman, gentlemen, . . . on a matter of procedure, if I may suggest that as a preliminary to the examination of the report, that we have a brief overview of the report itself by the Provincial Auditor so we can get some ideas of the areas in which he may want to express some concern.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: That's fine. The only thought that occurs to me is that, firstly, we have his report here and he can repeat the report, I suppose. But, stemming from that kind of an overview, there are bound to be questions, and stemming from the questions we'll go back to where we were last year - which is okay by me. If that's what the committee wants to do, fine, but I suggest to you that we are likely to fall back into that round and ever-revolving discussions.

MR. CHAIRMAN: Mr. Graham.

MR. GRAHAM: Mr. Chairman, I have a feeling I would like to agree with what Mr. Cherniack has said, that we do want an orderly progression, but at the same time we must remember that in a report such as this you will find references later on during the report that refer you back to previous things that have already been discussed. And I want to talk about the general overview that the Auditor has made, which appears at the end of the report, and if we follow an orderly progression then we may have a complete rehash when we have reached the end of it again.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: One more point, Mr. Chairman. I wanted to bring up the question of the transcripts, from our meetings, and in case there's any question about it, I'd like to move that the proceedings actually be transcribed into written form, printed form.

MR. CHAIRMAN: Agreed? Agreed that the proceedings be transcribed. Mr. Johannson.

MR. JOHANNSSON: Yes, Mr. Chairman. Some members who were asking for an overview first before we go page by page into the report of the Provincial Auditor. Well, if they've read the report they should have an overview already. So I would move that we proceed page by page.

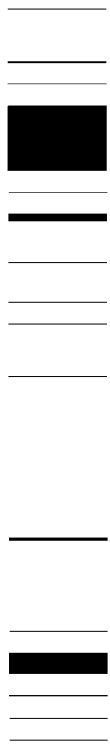
MR. CHAIRMAN: It has been moved that we proceed page by page of the report. Agreed? (Agreed) Page 1. Mr. Spivak.

MR. SPIVAK: Dealing with Page 1, I'd like to ask the Auditor whether he still is of the opinion that he has sufficient help to be able to properly audit the accounts and records of the government.

MR. ZIPRICK: Yes, our staff position, we had some turnover but the turnover was quite reasonable. Our recruitments presented no difficulty so our staff complement is the one that we've established. Now, we feel it's adequate for the time but, of course, this is a very ongoing kind of situation and it's always under review, and then of course we're asking for a couple of more staff in the coming year, and we'll be recruiting some more. So, in our judgment, the staff that we have now is adequate.

MR. SPIVAK: I wonder if the Auditor can indicate whether, in the course of this recent audit other than the specifics that have been referred to in the report where he has detailed some information, he was in a position to bring to the government, or to their attention, areas in which there were, for lack of a better word, non-productive accounts, or non-productive purchases or expenditures.

MR. ZIPRICK: Yes, we've brought quite a number, just like in preceding years, to the attention of the government in our approaches of audit and some of them have come up as high as the ministers, others may not have, but they've been dealt at the lower level, depending on, of course, the importance and magnitude of the situation, and they've generally been attended to. Now as far as the nature of the audit, we have been working towards more and



(MR. ZIPRICK cont'd) . . . more in this management analytical area, as I pointed out, and it's a kind of area that requires vast development and it doesn't happen overnight. So we're proceeding as expeditiously as possible in that direction but we appreciate that there's a lot of work to be done.

Now, in my association with my colleagues, and particularly at the annual conference of the Auditors-General and Provincial Auditors of Canada, as I assess the situation we're advanced as far as all the others and maybe in some areas even further. Of course we're not as far advanced as they are in the Comptroller-General of the United States or some American states, but their legislation is broadened. Now the Auditor General of Canada has asked for a report on sort of an extensive audit and how much does the Auditor get involved, and this report will be coming, so it's a situation that we're continuously assessing and continuously moving in trying to up-date ourselves.

MR. SPIVAK: I wonder if you can indicate whether . . . obviously on the basis of the last audit, there really had not been either a sufficient number or they had not been serious enough for it to be brought to the attention of the committee. You've indicated non-productive accounts have been brought to the attention of the government and they may have even gone as high as the ministers, but from your report, other than in the specific areas of investigation which have been referred to, there's really no mention of non-productive accounts per se. So then, is it your opinion that the non-productive accounts that you have dealt with are not sufficiently significant that they should, in the public interest, be brought to this committee, either because in number they are not that many, or in amount they are not that large? Is that correct?

MR. ZIPRICK: That is correct. Essentially - I think the Minister of Agriculture had asked me just on reporting procedures and so I advised him, and essentially we do not bring forward the sort of day-to-day errors and observations that we find, purely in many areas . . . If you have a good department that's functioning real well and they're human, they make errors. By picking on the errors and highlighting them you can make them look bad, and so if they're responding effectively to the difficulties that are being found and correcting them, we feel that they are carrying out their side of the bargain very well. Now, there are matters that even though they are responding, if they're of the kind that we feel in our judgment that they warrant the attention of the Legislature and generally require public interest, we will bring them forward. So it doesn't mean that just because a thing has been attended to that we will not report. There are quite a number of items in this year's report that are being effectively attended to in our judgment, but they were of a kind that we felt that should be brought to the attention of the Legislature so that there is feeling of confidence in the system and a broader participation. But it's a judgmental area; it's placed in our judgment. It really deals with the Section F of that Page 1, as to "such matters as he desires to bring to the attention of the Assembly." So it's within our judgment that we are bringing to the attention of the Assembly the things that we feel warrant their attention. Now if there's a feeling that some more should be brought and if the Assembly directs us to do so, we would have no hesitation in complying with the law.

MR. SPIVAK: Well, again, my purpose is to seek information, not to get into a debate with you, but I have to make one observation with respect to your last answer and then put it to you; with respect to the area of non-productive accounts, I just wonder how you can reconcile this past statement. In effect, with respect to the report - and we'll be dealing with these matters as we go on the pages - in the main they appear to be matters that were raised in the House or in this committee last year, in which there is further information as a result of your actions, and I appreciate that and I think that has been helpful and will be helpful from the point of view of the legitimate area in which the Opposition have the responsibility of obtaining information from the government, but if we eliminate those areas that were specifically brought to public attention or brought to your attention in this committee or in the Legislature, it would appear that there are very few other areas that are covered with respect to the whole question of non-productive accounts. I don't know how you can reconcile what is here with your past statement, because the matters really that are brought to our attention here are matters that were really brought up in the Legislature or in this committee last year. There are, as far as I know, very few additional new matters that have been brought to our attention, which means either there are no serious non-productive accounts that should be brought to our attention, or to a certain extent the emphasis and

(MR. SPIVAK cont'd) . . . . concern was in checking those matters which were raised in the House and which were of concern.

MR. ZIPRICK: Well, the whole area of non-productive . . . The definition of non-productive accounts is not too clear. The new Auditor General is not quite sure just what's meant. We've discussed it at the meeting; we're hoping that this committee will bring forward some suggestions. Now, generally, the management or the effectiveness audit takes on a different kind of scope than just picking up an item and saying, well, there's a shortfall in this item, or this chap had opened the tap and some gas leaked out and as a result there's a few dollars lost. The question that arises is how effectively is the organization, the internal controls, the administration of the situation. And if the errors reflect a symptom of weakness in the administration of the system, then we look for the areas where the administration is weak, how it should be strengthened, how it should be realigned to avoid these kind of things happening in the future.

Now, I think that this is the area that the new Auditor General has already taken an approach and to follow along that line we have generally been following that approach. This is the general approach that has been followed in the United States where they have broader terms of reference in looking into management situations. So the question, if it's a question of just listing the various mistakes that are picked up by the Auditor without any evaluation as to what kind of an impact they have within the organization and whether they're just the kind of errors that regardless of how well the department is organized you can normally expect, or whether they are symptoms of a badly organized situation which requires substantial re-organization, these are the kind of observations that . . . In this kind of approach you cannot take each situation every year and give it the all go-around. You pick the areas that you feel require the most attention and you go at them for that year, and so on down the line. So the concentration in that kind of approach doesn't fall right across the whole government in each year. Now, I'm trying to indicate sort of the approach of the audit that's taking place. I don't know if I'm assisting in that area or not.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Mr. Ziprick, on Page 1 you deal with the requirements of your reporting. Is there anything, any restraint or inadequacy in your legal right to make the kind of investigation and report that might be better made under the laws of any other jurisdiction in Canada?

MR. ZIPRICK: No, as far as the legislation that we have, it's very comparable right across Canada, and so the same kind of legislation exists now across Canada. Now if you take the jurisdictions, for instance the Comptroller General of the United States, or a number of American states, and then there's a few European countries, they have what is the requirement of carrying out and determining efficiency audits where they employ people other than accountants and auditors. They . . .

MR. CHERNIACK: Engineers, plumbers.

MR. ZIPRICK: That's right, and they do, on a selective basis, an evaluation of a broader scope and go into the efficiency in that broader way. But I don't feel that our legislation permits that and I don't know of any other legislation in Canada that does that, other than Nova Scotia has amended theirs several years ago, and now, with the approval of the Lieutenant-Governor-in-Council, the Auditor General of Nova Scotia can employ systems experts or people expert in other fields, and carry out a special efficiency audit.

MR. CHERNIACK: Now, if we can be more specific and relate to the Auditor General of Canada. Does he have any powers that are greater than yours?

MR. ZIPRICK: As far as . . . no, the sections are very comparable and pretty well all the actions that . . . most of his reporting is under Section F, which is worded exactly the same as ours. Now, the former Auditor General indicated that their Public Accounts Committee has directed them to report certain specific errors that they've discovered and without any evaluation. As a matter of fact, I think in their reports about five or six years ago, the committee had asked the Auditor Generals if, rather than just listing the errors, if he would organize them and evaluate the effectiveness of the administration, and he refused to do that. He said that it was beyond him and he wouldn't do that, but he would continue to list the errors if they so desired.

MR. CHERNIACK: Would you be prepared to do that? Do that kind of evaluation?

MR. ZIPRICK: The evaluation of errors?

MR. CHERNIACK: Yes.

MR. ZIPRICK: Well, we are trying to evaluate the errors and bring forward whatever we find on an evaluated basis, but . . .

MR. CHERNIACK: You say the Auditor General was not prepared to do that.

MR. ZIPRICK: No, he was not prepared to take that report and categorize those errors and place an evaluated judgment as to whether those errors were of the kind that just normally happen, or which ones were of the kind that there was weaknesses in the system and who was falling down on the job - he just felt that he didn't want to do it; and I can see certain difficulties that would ensue from that.

MR. CHERNIACK: Is there anything, then, in this reporting procedure described in Item 1, which is inadequate from your standpoint? Do you need more powers?

MR. ZIPRICK: No, not to carry out the kind of audit we're carrying out now, no.

MR. CHERNIACK: And to carry out the kind of audit that, say, the Auditor General of Canada makes, do you need any more powers to . . . ?

MR. ZIPRICK: No. No.

MR. CHERNIACK: How do you differ from the Auditor General?

MR. ZIPRICK: Well, in essence, as far as I know we don't differ. They have the same kind of approach; they're organized on the same basis. They have the Chartered Accountants, professional auditors, who carry out the audits, and so the only difference between the former Auditor General and us was in the reporting techniques, and the former Auditor General maintained that his reporting techniques were different because the Public Accounts Committee had directed them to list these errors.

MR. CHERNIACK: How do you distinguish? You say the former; you mean it is different from the present Auditor General?

MR. ZIPRICK: Yes, the new Auditor General was appointed about two years ago. If you'd read his last report, he has changed his style quite substantially in his reporting. He is taking on a more positive approach and feels that, much the same as we are, that he will not be reporting anything that's been basically taken care of.

MR. CHERNIACK: Is he a lesser protector of the public purse than the former Auditor General?

MR. ZIPRICK: Well, I . . .

MR. CHAIRMAN: Mr. Schreyer.

MR. SCHREYER: Well, Mr. Chairman, I don't want to prolong discussion on Page 1, but I believe it's relevant to indicate to the committee that pursuant to the Provincial Auditor's report, that there has been some suggestion, perhaps two years in a row, certainly for one year, that with respect to some of the activities in the frontier area of the province, in resource development, community development, that some provision be made for better continuity of internal auditing capability, and accordingly I can indicate that the Department of Finance which previously had one staff man year, or staff person allocation for that function, that's been increased to two, and I believe there is probation for four. So that's kind of a geometric progression. I hope it doesn't have to continue on that sort of expedient path. But I mean it is one specific case, or tangible evidence of attempting to give application to a suggestion for better internal auditing assistance to the line departments in their internal auditing.

I might also indicate, Mr. Chairman, just in passing, in addition to the staff of the Provincial Auditor's office, the staff of the Department of Finance, which may have information relevant to certain passages here, as the committee may wish to direct, and also the Legislative Assistant to the Minister of Finance in the person of Mr. Cherniack, and I thought it would be perhaps . . . well, it is necessary for the committee to know that Mr. Cherniack, as Legislative Assistant to the Minister of Finance, can perhaps give more information than the Minister of Finance, since the time period covered by this report was during his tenure as Minister of Finance. Thank you.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Well, Mr. Chairman, there's a couple of points that are in the Auditor's report that do reflect on the terms of reference of the Auditor, and we've covered it in part, but there's a statement in the report that says to the effect that there are deficiencies in the reporting system to the Legislature - No. 1. And No. 2, that there are deficiencies in the reporting system to the government and its managers. Now, I guess the question is

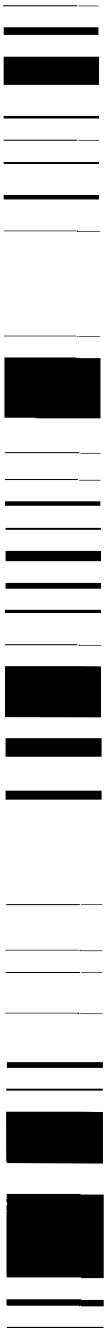
(MR. CRAIK cont'd) . . . . specifically, does the Auditor see this as something that the Auditor's department has to concern itself about directly, or do they feel that they have done their job in recommending to the government that they rectify the problem?

MR. ZIPRICK: Well, you know, this is a very key area because it really resolves itself as to what kind of an audit and how effectively you can carry out an audit. Now, with the kind of volume of business that's going through, there's no way that an auditor can sit down with an adding machine and all the vouchers and package these expenditures into various packages and make analytical comparisons and analytical judgmental observations. This has to be done in the management and legislative information system. And I think it's vital that the whole thing be organized in such a way that will bring forward the kind of information that judgmental approaches can be applied, and this will also apply into auditing. So to hire a big battery of accountants and audit clerks, and go through checking every voucher, would only prove that the pieces of paper are all right, but as far as trying to establish a measurement of efficiency and what is really going on, you cannot do it just by looking at totalling of expenditures.

The expenditures have to be packaged in such a way that they are meaningful, they are being compared with something which was previously a commitment by way of estimate or some form of undertaking, that this is what will be accomplished as a result of the expenditures. You make these comparisons, you try to determine from the variances as to what had happened, and in this kind of auditing you can really zero in and find out what's going on, and the people that are in the position of having to make decisions can also find out. And this is a deficiency, and I must add that it's a deficiency not only in Manitoba, it's a deficiency right across the country. In some places there's been more progress than other places in remedying it, but it's something that requires a lot of attention in the next number of years. I may say that in the United States they are grappling with the same sort of problems quite extensively, and some have progressed quite substantially towards a better management information system. And this is why, when we are approached to take a look at an area of management audit, we didn't feel that there was much point in starting down at some supervisory level and being concerned there as to what kind of a management supervision and control direction there is there, when the direction and supervision from the top by way of management information is not that good. So I think it requires a lot of work but I must say that it's not something that's peculiar to this province only. It's national, and probably international, because of the growth in government's involvements. This is a new phenomenon that's really being given a fair amount of attention, and we are just urging through this reporting system that we proceed in that direction as expeditiously as possible, because if we don't, we'll find ourselves substantially behind other people who are moving in that direction. And as I indicated in our report, I think that the Department of Finance now, they can speak for themselves, but they are recognizing the problems; they are trying to tangle with it. But I also acknowledge that this is really a big task to reorganize the expenditure and the management information system along those lines, and it's not something that's going to happen overnight. So, with patience and with urging, I think we will get there, but we are talking in terms, in my view, of probably a five-year program. And it means, in my view, it requires certain kinds of legislative procedures to be able to get at this and bring, in a positive way, some encouragement and review so that the whole process trickles down the line and maximizes efficiency in production and good management.

MR. CRAIK: There's a couple of, you know, using specific cases here we are going to be dealing with in the report, some of the cases that were brought forward by the Opposition last year and then appeared for examination by the Auditor and are now reported in this report. We also have another, you know, rather important case in the case of CFI, that it wasn't until the Provincial Auditor was called in to go into the books that it was discovered the millions of dollars that were accumulated in Switzerland. But all of these things, those two cases are all after-the-fact examples of where the Auditor has been called in only because someone else sensed that there may be something wrong. Is there nothing that we can do, you know, within five years even, that has the Auditor in and involved in these things before the trouble has snowballed into the two situations that we have in these two cases?

MR. ZIPRICK: Now we're getting more into the area of transfer payments to others for spending by way of various kinds of grants, loans, and whatever have you. Now the procedure has been that the Auditor has not got himself involved. Once the money went forward to these other organizations, it was incumbent on these other people to carry out and



(MR. ZIPRICK cont'd) . . . . spend the money in the way it was intended. Now, in the past year we have been taking a look at it. We haven't reported it in this report as yet and that's something that we'll be considering in the next year, but we were not sufficiently refined to be able to report but we have been dealing with the Department of Finance quite extensively, reports have been made to cabinet that this whole area of transfers, grants and whatever have you, that there be a better kind of control, a more complete kind of control established, and one of the recommendations is that we do become involved. We don't know to what extent. We'll leave that up to you people to decide. But we felt that the minimum should be that the auditors of the organizations that have public funds should be requested, or be given specific instructions as to the purposes of these funds, and then that they should report to me that the public funds were used for the purpose that they were intended.

Not it's in the cabinet stage and I presume something will be brought forward. It's something that we will be reporting more extensively in the next year. We were not in a position to deal with it in this year's report because it was something that we were just working on, and when the time was up we were not sufficiently progressed to make constructive observations, but I can tell you now that it's well in progress. And it's a very big area because, you know, our accounts now are not organized in a way to give us an indication of how much goes by way of transfer payments. But I'd venture that a substantial amount, probably over half of our expenditures, flow in transfer payments to various other organizations to spend.

Now, I should indicate that it's not just that loose. There are, for instance, school divisions which receive a lot of transfer payments. There is a fairly close inter-relationship between myself, my office and the auditors, in reporting, so you can see those kind of transfer payments there doesn't need to be too much refining. Then there's municipalities.

But then there's others, and particularly in loans to outside companies we had a very limited involvement. Now in these areas we've already recommended in this report that if there are no auditors there should be auditors. If there are auditors, the auditors should indicate that the public money was used for the purposes it was intended and indicate it to me, and I could carry the message through to the government in the Legislature. Now as to whether we should directly be involved in carrying out the audit and not rely on other auditors, I don't know. That's something that can be debated, but I find that the professional auditors generally do a pretty good job. There might be some element of fees if involved - there's always that difficulty, but as far as carrying out the professional side of the work, there's just no problems.

MR. CRAIK: It seemed to me that if we're looking at this expanded role, that perhaps your terms of reference, such as are on Page 1, probably will have to be changed somewhat from what they are now.

MR. ZIPRICK: They wouldn't really have to be changed if the direction is for the other auditors to report to me. They would have to be changed if we took on the role to go into the outside organizations and carry out the audit on our own initiative. The government has the power to give us authority to do it now, but if we were going to do it on our own initiative, then the legislation would have to be changed, but no legislation in Canada to my knowledge now, for auditors as such, that they can go in on their own initiative into . . .

MR. CRAIK: Now you're referring to moneys which go out to bodies such as school boards and so on that have their own auditor's transfer payments.

MR. ZIPRICK: Yes, and any kind of loans to incorporated companies that are not 100 percent controlled by the government.

MR. CRAIK: But if you're to set up a system on the half of the expenditures which are direct government expenditures, then your terms of reference would be such that you would be following the flow of moneys right through from beginning to end rather than from doing a simple audit on it after the fact.

MR. ZIPRICK: Well, it will all be after the fact, though, really, because if we got involved directly, then we'd be a party to the expenditure and so any money that would be advanced could not be paid out until we put a stamp of approval. So, under any circumstance, it has to be after the fact, because if it's direct I don't think it would be practical to have a direct control, a joint control over the money with all these organizations. The cumbersome-ness that would develop in the managing of that kind of a situation would be just . . .



MR. CRAIK: Well, when you refer to the systems that have been developed by some states in the United States with regards to the role of the Auditor, does that not include examination of the cash flow as it takes place?

MR. ZIPRICK: No, no. The things that I'm referring to is actually going into a department, or an agency, and really carrying out an efficiency audit, and it's performance audit, and that involves looking into maybe their engineering approach and how they're carrying out their engineering side, how they're carrying out all these various other areas of disciplines that are outside of just the financial and accounting, and this is what they do. They have a section that goes out ever so often. In the United States, most of these are initiated for at the Congress level and requested from the Comptroller-General, that they be looked into, and then they send this team in and then they come out with a specific report concerning that inquiry, and it deals in a balanced way. It also says the good things and the bad things about the organization and gives a complete overview on how it's operated.

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: Mr. Chairman, to Mr. Ziprick. In comparing the terms of reference that you have in Manitoba with those of Provincial Auditors and Auditors General in other jurisdictions, I think last year you mentioned that the Auditor General in Ottawa had appointed a committee of, I think it was Messrs. Campbell, Belanger and Wilson, and they were going to visit Britain, France and the United States - I think those were your recollections, and that you had a great deal of interest in their forthcoming report and that you thought that would be very helpful to you in establishing whether or not your terms of reference were equal to or as good as those of others. Have you had that report?

MR. ZIPRICK: No, it hasn't come out yet. I understood that it was coming out some time in March, but I don't know. It's anticipated shortly but it's not out yet.

MR. MCGILL: I see.

MR. ZIPRICK: I understand that . . . well, I know they have visited quite a number, actually visited more countries than they originally anticipated, and I understand they're carrying out a pretty wide area of review, and so this report should give a pretty good overview as to what's being done in other countries and what is felt a reasonable development in the auditing area. That's getting away from the conventional financial auditing, and the conventional financial auditing has been carried on by all the auditors for many many years. That's an established practice. But when you get away from the conventional financial auditing and you get into the operations, efficiency or management auditing area, this is where it's not too clear as to how far you go.

Now we've always taken the approach that in the present day and age of financial auditing, all auditors have to take a look at the systems, because you certainly can't check the transactions in detail so you're relying on the system. So you have to take a look at the systems and see how effective they are, and we've always carried that out. But it's how far you go to be critical of what other areas, for instance engineering and that, are doing, that's beyond the professional competence of chartered accountants and we would not go into those areas, and so only a legislative change that would broaden that scope would make it possible. In the United States, I know that - I've talked to some people over there. They think it's terrific, but some of them have misgivings that it's really going into a fairly long and involved situation. Now, I don't know what this committee has discussed with these various people, I imagine in depth, and as to what they will suggest to them as to how far the Auditor should go in this area. It will be interesting to see what they come up with.

MR. MCGILL: Well, this report when it's received, no doubt you will be able to compare in specifics those areas in which you are now directed by your terms of reference, and see if they are any narrower than those that are offered in other jurisdictions. So that will be of great interest to this committee. And in connection with this committee, Mr. Ziprick, do you feel that if this committee were empowered to meet inter-sessionally at any time, that it would be of benefit to you in dealing with problems while they're current rather than having to rely on one report annually? In other words, do you feel that there should be an ongoing committee?

MR. ZIPRICK: This is what we suggested in the report. In the private sector there has been considerable attention given to the audit committees. Now I know there's the operations, there's substantial difference between the private and the public sector, but it does help substantially to review situations on an ongoing basis and positively work together to

(MR. ZIPRICK cont'd) . . . . improve the situation rather than just let it build up. Now, you know, we carry on continuously and bring forward to the government, and I must say we get very good response to taking corrective actions and improving the system, but particularly in the present stage where there is so much evolution required in this area, that I think it would be certainly helpful.

MR. MCGILL: Thank you.

MR. CHAIRMAN: Mr. Graham.

MR. GRAHAM: Thank you, Mr. Chairman. Mr. Ziprick, you stated earlier that you were on a, is it a five-year-program of up-dating your auditing processes? Was that correct?

MR. ZIPRICK: No, I didn't say we were on a five-year program. I say we are on a continuous sort of working towards being up-to-date with the latest in the audit developments. The management information system is in the process of being up-dated with changing the format of the estimates, and then it will mean changing the accounts, the payrolls. The entire payroll personnel management system is under review and up for change right now. Now all these, you know, somebody may think, well, it's been brought to the attention now and it should happen and be completely finished in the next year. I'm just estimating that it's a kind of an undertaking that if it was accomplished reasonably well in five years I would not be unhappy. I know, for instance, one state that had shifted into this kind of a system and it took them three years to just get the basics and they're still improving. All I'm pointing out is that we shouldn't think in simplistic terms, that while there's some changes needed that we just put those into motion and next year they'll all come about, that the kind of changes that are being suggested here are, in my judgment, if they materialize fairly completely in five years, I would say that that would be very good progress.

MR. GRAHAM: Well, I just jotted down some things you said when you were talking about it and just prior to that you said we may find ourselves substantially behind other jurisdictions, and at the same time you have indicated that the audit process throughout Canada is fairly uniform. In your opinion, do you think we are behind other jurisdictions such as, say, England and some others that you mentioned?

MR. ZIPRICK: No. I don't know too much about England. In the States, well . . .

MR. GRAHAM: Or European countries - I think you used that term.

MR. ZIPRICK: There again, I understand Germany is quite far progressed in this area. I don't know about England. I don't think they are. The States, the Comptroller-General of the United States is . . . the controls that they've instituted and are bringing about in these areas are quite far down the line. As far as the accounting system, our accounting system here in Canada at this stage, I would say it's you know . . . Ontario has just changed substantially their system a couple of years ago. Quebec has changed it about a year ago, or maybe it's a couple of years now too. And Saskatchewan is doing some revamping now. So, you know, we're also moving so we're all somewhere in about the same boat. But it's something that must be worked on because if you do get behind it takes a long time to get caught up, and I would say that once some of these others have progressed substantially, that's when the differences will become very noticeable.

MR. GRAHAM: You also stated that only a legislative change would broaden the scope of your activities, and I'm just wondering at what point in time should we be considering the broadening of your terms of reference?

MR. ZIPRICK: Well, I would say it's right now. You know, as it turned out, I think it's a great thing that the Auditor General of Canada, in Canada, has created this committee. They have done extensive work. They're spending the money necessary, the necessary money to go into it, and so when this report comes out we should all take a very close look at it. There will be discussions right across Canada on what's to be done. The Auditor General and the Provincial Auditors are having a conference again in Quebec City in September. I think one of the items that we have for discussion, probably the main item and maybe this time the only item, will be this report and how we all feel about whatever will be in it. Now, whatever the recommendations that are going to be in that report, well, the report is being made to the Auditor General of Canada and to the government and parliament of Canada. I don't know how far they will go, but at this point I think you'll have to decide - that is the Legislature of Manitoba will have to decide, take a look at it and decide - how far and in what direction they want to go at this time. And I think that that would be the ideal opportunity. When the report is out, it will be studied. I'll have observations on it and I'll try and get the message

(MR. ZIPRICK cont'd) . . . . across to you as much as possible as to the feeling of other Provincial Auditors across Canada towards it and the Auditor General, and this is when whatever changes and broadening of scope would be to me a desirable time to consider.

MR. GRAHAM: Well, Mr. Chairman, I only raised it at this time because it's only a matter of three or four years ago that we did change our legislation, and here we are now just three or four years into this program, and there is some apprehension in some circles that maybe our terms of reference are not broad enough, and our procedures may be required to change, maybe drastically, and if another three or four years from now we may be well behind the times if we don't consider keeping a close look on the terms of reference that are used and possible changes in that field.

MR. SCHREYER: . . . constant vigilance.

MR. ZIPRICK: Well, the change that took place basically made the legislation here very comparable with Canada's, and previously we had the Comptroller General who was performing two functions. He was Auditor and also maintaining the accounts - that's the central accounts. That portion was removed and now the Department of Finance is maintaining the accounts so, as a result, the Public Accounts are not now prepared by the Comptroller General or the Auditor but are prepared under the direction of the Minister of Finance. So that was the big change. We've been working out this change and we've been transferring staff and making adjustments and this is pretty well completed now.

MR. CHAIRMAN: Thank you. Mr. Schreyer.

MR. SCHREYER: Mr. Chairman, I'd like to see if Mr. Ziprick could perhaps give greater precise definition to the suggestion that there perhaps could well be some changes in the auditing report on the part of all those organizations or entities that are recipients of transfer payments from the Crown, be it grants or loans or loan financing or whatever. It's my understanding, a very distinct understanding, that literally all organizations and entities, school divisions, a large number of voluntary welfare agencies, all such entities now have very formal provision for formal audits and reporting thereon as to the reasonableness of expenditures incurred by the respective organizations. Are you perhaps thinking of some relatively small organizations which may not have provision in their charter or articles of incorporation for a mandatory auditing? Because it's my impression, sir, that even the smallest organizations that are recipients of grants or loan financing do have . . . they are formally enough established that they have this mandatory requirement for an auditing process. And so, what new procedure could be injected here, except perhaps to have a direct report thereon by the professional audit firm to the Auditor General of the province? That's about the only change. Or are you suggesting that in fact some of these organizations don't have any required auditing at all?

MR. ZIPRICK: Well, to my knowledge, other than in some loan situations which we run into with some of these loan companies who have not been appointing auditors, and some other small organizations, by and large, to our knowledge, all of them do have auditors and do have fairly strict control in the expenditures. We are not that sure that the explanation as to the purpose of the funds always goes through that cleanly, and that the auditors that are auditing these organizations really have a complete knowledge of the purpose of the funds, and whether they apply, during the course of the audit, those kind of checks to make sure that these purposes are being fulfilled. And then we have no direct reporting from the auditors. So this is where we would see the missing link. It largely is that the auditors, having gone through, should really report and say that the X number of dollars that was received from the government, or the Crown, were used for the purposes that they were intended and fully accounted for, and I don't know of any situations where they're not being accounted for, and if we do know we certainly pursue it very vigorously. But the system, the way it is now, doesn't lend itself or is not set up to be positive about this acknowledgment. And so, essentially, I would say what you're saying: what we're looking for, is it reported? For instance, the Comptroller General of the United States, he issues instructions that public funds can only be used, if they're used for these purposes, the levels of kind of expenditures that may be employed for expense accounts and these, so they do get into more detailed control. But essentially I would say that the auditors over here would be using good judgment in every case and I'm not too concerned about that area. But it's just a statement from the auditor saying that this is the situation, or if there is a lack of accountability, that he makes a positive statement that there is a lack of accountability and in what area.

MR. SCHREYER: Well, Mr. Chairman, there is perhaps more to pursue here in the way of refinement, but I won't do that here and now. I think basically . . . Well, my problem, Mr. Chairman, it's my very distinct understanding that organizations that exist in the province under articles of incorporation, or charter, require by definition an auditing procedure, and accordingly all of their expenditures before they will be certified by a chartered accounting firm, must be deemed to be, in their opinion after perusal of the books, to have been reasonably incurred for the purposes and objectives of the organization. Therefore, if that applies to the whole, it applies to any part thereof, and the part that is relating to Crown transfer payments would be subsumed by their total report. So I sense an element of duplication or redundancy. Still, perhaps, if the argument is that for the sake of better assurance that some redundancy or duplication is to be suffered, perhaps that's a premise we ought not to resist, I don't know.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: Well I wonder, Mr. Ziprick, if you could indicate, based on this report, how many audits were undertaken as a result of the direct request to the Minister of Finance.

MR. ZIPRICK: Essentially only the ones that are noted in here.

MR. SPIVAK: So the ones that are noted here came directly as a request to the Minister of Finance. Is that right? Were there any by direct order of the Lieutenant-Governor-in-Council?

MR. ZIPRICK: No.

MR. SPIVAK: In the case of those audits that were done as a result of a request to the Minister of Finance, did you request him to give you that authority?

MR. ZIPRICK: I think that basically these last ones, they arose through the various discussions, and it was agreed as a matter of - not agreed, but during the course of this committee it was felt that this would be the approach and he agreed that an audit should be carried out.

MR. SPIVAK: So what you're suggesting is that these audits that were undertaken and which are referred to and we'll be discussing in greater detail later on, came about really as a result of discussion within this committee and in the Legislature, and general agreement that you would receive instructions from the Minister of Finance to proceed.

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

MR. JOHANNSSON: We did agree at one point to proceed page by page and we're dealing with Page 1, which deals with the legal requirements of the Provincial Auditor's Act, and it seems to me that we're moving much beyond it into specific discussion of, for example, the material on Page 18 and 19, 20 and 21, and that the preoccupation is much more with that rather than with the legal provisions listed on Page 1. It seems to me that this discussion could better come later under those headings.

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

MR. GORDON JOHNSTON: It's the same point of order. I wish to introduce some comments relating to the recommendations of broadening the scope of audit, and I believe it's related to Page 1. And that's all I say about that, but I do wish to pursue a point that is related to Page 1 but actually it's on Pages 27 to 29, that relates to the terms of reference of the Auditor.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: On the point of order, Mr. Chairman, I indicated that we will be pursuing these matters in greater detail. It was not intended to pursue any facts or conclusions or deal with it, or any summary of any information. I think we're concerned here at this point with determining the scope of the Auditor's responsibility and the limitations and the capability, and it's spelled out in specific and I think this general discussion has probably been very helpful in trying to understand his position and the involvement of what I would consider is probably a more clear understanding, both by the Legislature and by the Auditor and his staff and others, with respect to the general terms of reference.

My concern at this point in asking the specific - well, I don't want to get into the substance, really, of what my question was, because I'd like to make a comment on that. I just think it's appropriate at this point to discuss this matter at this time, not in any detail of any specifics - and I want that clearly understood - but in the principle of how he functions

(MR. JOHNSTON cont'd) . . . . under these particular authorities, under the particular sections which provide the authority for him, and I think it's appropriate that this be discussed here.

MR. ZIPRICK: I could say this, that in every area that money is being expended or transferred, we take a look and see, you know, under what conditions it's being transferred, and take a look at the files. Now, I'm not saying we're looking at every one of them, but we do carry out tests to see that certain conditions are being met. Now, once the money goes to this other organization and they have whatever audits they have, we don't have any input as to the kind of audit and we don't have any assurance, direct or otherwise, from the auditor that public money, to the extent it went in there, was used for the purposes that they were intended. Now if anything, anywhere in the files, arouses our suspicion for any reason whatsoever, we would certainly bring that to the attention of the Minister of Finance and the minister concerned, and I can assure the members that at no time, as long as I've been involved, that at any time that anybody interfered and said, "Well, you know, we will not allow you to pursue, to get satisfaction and answers to the things that concern you," it's always been followed through. But it's just like the question of CFI was brought up, and we were not doing the audit of the MDC at that point, it was being done privately, but in any event the reports were coming forward even when we took over the audit, and we pursued the situation.

The reports with regard to the CFI financial statement and audit came forward, certified, and then when a closer look was taken the audit was not directed in the same sort of way that we would direct it with regard to public funds. So there's different understandings between auditors, so if there was a more direct communication then these misunderstandings could be overcome.

Now I'm not saying that there's difference in competence. Far from it. Chartered Accountants are Chartered Accountants, went through the same training; some are a little better than others, but they're all trying to do a job. So these people, be it in the private sector or the public sector, are all trying to do a job. But looking at it and being experienced in . . . public money and wanting to get certain kind of information dealing with public money, you have a different kind of an approach. So this is the area that I'm saying that there should be more probably direct communication, and it would be useful. But I am not concerned, you know, as to whether they are professionally carried out or not. You can carry things out professionally but you may not be carrying out fully the mandate of the people that have sent the money across. And this is the area that I feel that there should be more communication and I don't, you know, as far as I can see, if there is more communication, and other than the paying for the services, I have no concern that the professional Chartered Accountants carrying it out, be it private or public, would pretty well follow the same kind of procedures and approach.

MR. SPIVAK; I wonder, Mr. Ziprick, if you'd indicate whether you've been requested by the RCMP to complete any audit in the past year, up to the present time.

MR. ZIPRICK: Why, we've had discussions with the RCMP and like if I . . .

MR. SPIVAK: No, I understand discussion, but have you been requested to complete an audit by the RCMP directly, or have you been requested through the Minister of Finance or the Attorney-General to complete an audit?

MR. ZIPRICK: No.

MR. SPIVAK: You haven't been requested to complete any audit?

MR. ZIPRICK: No.

MR. SPIVAK: You've had discussions with them with respect to certain matters.

MR. ZIPRICK: Yes.

MR. SPIVAK: But not an audit?

MR. ZIPRICK: No.

MR. SPIVAK: Not a request for an audit. May I ask, have you completed a study?

MR. ZIPRICK: I could say they've asked me for permission if they could carry out an audit, or have somebody carry out an audit, but they didn't ask me to carry out an audit.

MR. SPIVAK: They did not ask the government to carry out an audit, or the government, through you, to carry out an audit, they asked to do an audit themselves. Is that right?

MR. ZIPRICK: Because, you know, if I feel the RCMP are getting involved in some area where really the concerns are maybe between creditors and shareholders or something that really is outside of the scope of accountability of public money, now it's still a breach of laws and I can see the RCMP and the Attorney-Generals being concerned to make sure of accountability between there, but as far as the Provincial Auditor is concerned and the Provincial Auditor's office, our mandate is not to enforce the Companies Act laws and see whether they're being complied with, our mandate is to see that public money is being accounted for. So I would want to stay away from any involvement in auditing that concerns enforcement of the Companies Act, and I would say that they look for assistance somewhere else.

MR. SPIVAK: Were you asked to complete any audit by the Attorney-General's Office?

MR. ZIPRICK: Well, in conjunction with . . . The Attorney-Generals don't have authority to ask me to complete an audit, but they can consult with the Minister of Finance and we can get direction either by the Lieutenant-Governor-in-Council or the Minister of Finance.

MR. SPIVAK: Well then, maybe I should put another question. I asked whether the Minister of Finance had authorized you to do certain audits and you have indicated yes in connection with the matters that are subsequently reported. Was there any additional audit requested by the Lieutenant-Governor-in-Council over and above what comes through the Minister of Finance?

MR. ZIPRICK: No, unless you mean . . . I don't know. Even some Acts like the Hydro Act, for instance, requires that we be appointed by the Lieutenant-Governor's Council as auditors. Now I don't recollect of any appointment this year, but there have been Orders-in-Council appointing us as auditors.

MR. SPIVAK: If in your investigation you determined that there's some matter of criminal nature, would you automatically refer it to the Minister of Finance or would you refer it to the Attorney-General?

MR. ZIPRICK: No, if we run across anything that has any suspicion of criminality, we immediately get involved. I usually contact the Deputy Attorney-General and we lay the information to him, and he will bring, of course, his appropriate staff, and so we generally assign . . . The auditor that's doing it, together with one of the legal counsels, will review the matter and make a recommendation as to whether the police should be brought in or not, whether there is sufficient evidence of the kind that would be of police involvement or not.

MR. ZIPRICK: If it's a police involvement, then the police are brought in and then the auditor, together with the solicitor involved and the police work very closely together to . . . and in those areas we do carry out audit work, sort of working very closely with the police to finalize the situation.

MR. SPIVAK: Have you ever reported to the Minister of Finance that you're not in a position to audit or to certify to an audit with respect to any of the investigations that you've undertaken?

MR. ZIPRICK: Generally when we carry out any kind of special audit we would not certify to financial statements in a way - that's a special audit let's say on an incorporated company - we would not certify to financial statements in a way that they could be used for creditors and others. We just are doing an audit for a specific purpose and it's not for certification. So generally, in our report we explain the situation as to what we found, what the difficulties are, how far we could carry an assignment out, how far we couldn't carry an assignment out, what kind of conclusions we could come to, and this is the report. Then it's usually discussed further as to what other kinds of actions should be taken, and generally speaking it we feel that some other kinds of actions outside of our involvement should be taken, we make those recommendations.

MR. SPIVAK: If this was the case, would you also consider it a responsibility on your part to report that to the committee or to the legislature?

MR. ZIPRICK: Well, it would depend on the magnitude of the situation and what the results were, really.

MR. SPIVAK: Have you in the past year found a situation in which you have not been in a position to do a proper review and have so reported it to the Minister of Finance or to the government?

MR. ZIPRICK: Well, now, I think, maybe you're trying to zero in on a . . .

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MR. SPIVAK: No, I'm not, I just want to know in principle - no, I'm not trying to . . .

MR. ZIPRICK: . . . specific situation and we made reports, and we would have carried the reports through to the Legislature through this report. Because of the matter being before the courts we felt we should not express our opinions on matters that the Court is now in the process of developing and will be expressing opinions on.

MR. SPIVAK: Again, I am not asking for the specific, I'm asking whether there has been a situation, and I'm not asking for the detail and I'm not putting a particular situation before the scrutiny of this committee, I'm asking whether, in terms of your powers, you've had occasion this part year to report a situation to the Minister of Finance or to the Government of a situation where you could not review the matters as you would in the normal course, in a proper manner and therefore have indicated to them that you are not in a position to, you know, fulfill the responsibilities you really had under this Act.

MR. ZIPRICK: That couldn't conclusively establish everything that we were after? Oh yes.

MR. SPIVAK: You have.

MR. ZIPRICK: Yes.

MR. SPIVAK: Was there only one incident, or was there more than one incident?

MR. ZIPRICK: I think there was more than one but I'd have to search the files, I don't want to be too positive on that.

MR. SPIVAK: I wonder if you can indicate whether - you've made a study of, or completed a study on valuation of the northern programs per se and the money that is handled by transfer payments and through the normal channels with respect to the funding and the way in which the money has flowed to the variety of different programs. Have you completed any particular study on that?

MR. ZIPRICK: Well, we are now in the process of carrying out a study in seeing how the accounting and auditing can be handled more effectively. That's in the process of being carried out in a number of ways and the government is also moving in the direction of accounting so a system will be developed, but it's not in any finalized stages yet.

MR. SPIVAK: May I ask, is that study being worked with another department, with the Department of Finance as an example, or is this study initiated by yourself, or is there a study being initiated somewhere else and you're participating in it?

MR. ZIPRICK: No, the study basically stems from what I've said in the report here, and it's been broadened to, as I recommended, to include the Department of Finance. It takes on the Co-op Developments - now they've been doing something on their own but all this is going to be brought more into a co-ordinated set-up. The whole thing stems around the availability of accounting services for the work in the north. It's pretty difficult to get the kind of accounting services in that area, so we're saying that there should be a system established whereby a service bureau or some approach where reasonable accounting service will be provided, there will be reasonable management information. We appreciate that it is somewhat costly but this is an education process that is very desirable and will we are satisfied prove very effective. Now it's not good enough to just go in there and try to do an audit on something that is not reasonably well organized - and I might say here we're not looking to anything sophisticated or highly elaborate - but if there's not an adequate information system to carry out the basic business, then the thing to do is to develop a system as such. Now admittedly, if it can be done on the spot, so much the better, but much of this work cannot be done on the spot because it's difficult to get the kind of people at this higher level out there. So it may be necessary to employ a service bureau approach and a communication in that way and we will carry out the audit. There would be no difficulties. As far as I can see, the audit in itself is not too much of a problem, if the accounting and the management information organization is in such a way that it is readily auditable. Now this is in the process of development and some stopgap approaches have already been taken on a short run but within this area of the more complete total package this is what's been mentioned and Finance is now getting involved with us.

MR. SPIVAK: Have you participated with external consultants hired by the government in connection with a study of pretty well all funding, not all funding, but the main funding of northern programs over the past little while. Have you been involved, has your department been involved with such a study with consultants?

MR. ZIPRICK: No.

MR. SPIVAK: No one from the government has brought to your attention a study that's

(MR. SPIVAK cont'd) . . . . been undertaken in connection with that or the findings or conclusions of that study?

MR. ZIPRICK: No.

MR. JOHANNSSON: Once again, I think Mr. Spivak has an obligation to relate his comments to what is before us and . . . he's been ranging very widely. Now I have no objection to his putting his questions later on.

MR. ZIPRICK: Excuse me, I stand to be corrected. The Assistant Provincial Auditor just tells me that we have been participating in the funding and the control and financing under the Northland Agreement fairly recently. Now if that's . . .

MR. SPIVAK: Can you tell me who the principals were involved in that study?

MR. JOHANNSSON: Mr. Chairman, once again, I have no objections to the questions, per se, but we have established a procedure at the beginning of this session, and the Leader of the Opposition is not paying any attention to that.

MR. SPIVAK: Mr. Chairman, on the point of order. I'm asking the Provincial auditor - and he wasn't aware of the information and I don't expect him to know everything in his department - about his powers, his terms of reference, and I think we now have an indication that there is in fact an external study being undertaken; and I think there's nothing improper, but at the same time this is then within the scope as he visualized his responsibilities under these particular sections and I think in dealing with that I have a perfect right to ask if that is the case . . .

MR. ZIPRICK: I don't know about the extent of the external study in that matter. I'll have to take this as notice and it's something that at the next meeting I could . . .

MR. SPIVAK: Well fine. I . . . concerned about pursuing it. I would be interested, Mr. Chairman, if Mr. Ziprick could indicate who is undertaking the study, the terms of reference and where it stands at the present time and if any information has been furnished to his department or not.

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

MR. CHERNIACK: On a point of order. I think this is an accountability from the Minister and I think Mr. Spivak knows that there's a question period in the House where he could ask these questions. I think he knows that there's a way to put in an Order for Return. I'm not sure whether the Provincial Auditor is now required to look into questions of this nature. We're in session now; the Minister is there almost every day and so is Mr. Spivak. Now surely these questions can be asked in this way. I just don't think the Auditor should be put on a search and seek requirement in something that is an ongoing thing in a department, not in the scope of his audit.

MR. SPIVAK: Well I'll put the question another way, Mr. Chairman.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: It's within the scope of your authority as you see it for the Department or for yourself, the Provincial Auditor to hire external - not necessarily auditors but external consultants - who could review programs of government, the method of accountability of those programs, the control and the problems affecting transfer payments. Is that correct?

MR. ZIPRICK: No, we . . . Essentially it's the government's responsibility to lay on the proper procedures, the proper accountability and whatever is required to carry out a program, and to the extent that they have to hire consultants to do that it's their responsibility. Now if there was a very blatant abuse naturally we'd have some observations but if it's done in the normal course they would either hire staff or consultants, but it's their responsibility to lay out the system of control before a program is undertaken. We will review it and we will express an opinion.

As a matter of providing information we don't, including the Public Accounts, we don't feel that we should be providing the information. That information should be essentially obtained from the departments concerned, because the difficulty that would ensue under that kind of a system, there would be a continuous flow of information and nobody really know where the situation stood. So we carry out an audit and we will make our observations under our reports. But if anybody comes to us just seeking information as to what's in the accounts of the province we usually direct them to the department concerned and say you get your information from there.

MR. SPIVAK: I have one other matter I would like to ask Mr. Ziprick and I don't want to particularly get involved in a specific except to find out first whether - I'm going to make a



(MR. SPIVAK cont'd) . . . . certain assumption, if it's wrong then you correct me right away and then the question that would follow would not follow. This has to do with the accounting error of McKenzie Seed.

Can I ask was your department involved prior to the acknowledgment of an accounting error, and if that was not the case, did you become involved after there was an announcement or knowledge conveyed to you that there was an accounting error?

MR. ZIPRICK: No. We are not involved in McKenzie Seed at all.

MR. SPIVAK: All right. So the fact that there's been a public announcement that in one company in which there is governmental involvement that there's been an accounting error of some \$600,000 would not normally under your terms of reference put you in the position of going into the matter right away. Is that correct?

MR. ZIPRICK: No. See the only place we would get at it and we have got at it is through the files in the Manitoba Development Corporation because there's a loan involved. Now how good those statements are or how bad the information in there we don't verify and we don't know, so whatever accounting errors took place . . . Now since it has become known well naturally they have to obtain explanations and the file has to be updated.

MR. SPIVAK: From whom? You're talking about your office?

MR. ZIPRICK: No, the MDC has to provide them but . . .

MR. SPIVAK: Your office isn't involved at all, is it?

MR. ZIPRICK: Well we're only involved in examining the MDC file but we don't go into see how or why the error arose and the control over McKenzieSeed. That's completely out of our . . .

MR. SPIVAK: All right. Then as Provincial Auditor with responsibility really as a protector for the public and to see that there's proper accountability - and this is not meant to in any way relate to yourself personally or to the members of your staff - you're basically saying that in this situation in which there is an acknowledgment of a significant error in dollars, that there really is no responsibility on your part to proceed, unless of course I guess an investigation was ordered by the Minister of Finance?

MR. ZIPRICK: That's right. There's no obligation. See, the way that the lending approaches work is that people who are interested in money make approaches to the MDC. There's certain laid down procedures that have to be followed through and information gathered on the file and logic. Now on a test basis we see that this kind of information is in the file, that the logic is employed to do it, but we do not go into the other organization to see that in fact they have these things kind of set up in that way. It's all done by the MDC accounts investigators, and if something goes astray in any of these areas we have had no input in the observation. So all our input is to review on a test basis to see the kind of information that would be reasonably required to assess, determine the position is there, that whatever legal contracts, agreements and whatever have you should be on file, that they're there, and right now this is as far as it goes. If there's errors become apparent or there's mismanagement becomes apparent in this other organization, we have no right within our present jurisdiction to move in and say, well let's take a look at it and see what's going wrong, what's the mismanagement, how is it all . . . That's all for the MDC, their officials to straighten out and if the government ordered us, as they did in the CFI case, we would go in but otherwise regardless of how much mismanagement there may be on the surface we have no way of going in.

MR. SPIVAK: Mr. Ziprick, how do you know if the issue is only one of mismanagement at this point? I mean you've used the word "mismanagement", there may be wrongdoing as well. I'm not suggesting there is but I mean at this point what you are basically saying is that you don't know?

MR. ZIPRICK: I have no way of knowing and my responsibility now is to not - I don't have a responsibility to go into that other company to find out. They have their own auditors; they have their own system and as it stands now that system is supposed to look after it. As I understand it now, I have no obligation to go into these private, or companies incorporated outside of the government, and go in.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, I would like Mr. Ziprick to comment on my impression that he does not need any authority or requests from government or from the Minister of Finance to investigate any departmental accounts of government.

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

MR. CHERNIACK: My impression is that the only authority he needs is when he is interested in looking at accounts of corporations other than government.

MR. ZIPRICK: That's right.

MR. CHERNIACK: And my impression also is that the Provincial Auditor did not always have the authority to look at accounts of even Crown agencies, such as Hydro, MDC and others.

MR. ZIPRICK: Well, it's not that clear. We have not always had the authority to audit the accounts, but there is some obligation on the Auditor. For instance Manitoba Hydro: I don't know if it's still in the legislation, but there was a requirement that the Provincial Auditor under certain circumstances could go and carry out a special audit or direct a special audit to be carried out, and so there are a few situations like this. So I would say, if a wholly-owned company or an enterprise or agency of the government, and even if there were other auditors, if we had reason to suspect, we would pursue it and get satisfaction one way or another.

MR. CHERNIACK: Did you ever have occasion to pursue any accountability from the MDC until you were instructed to do so in connection with CFI?

MR. ZIPRICK: No. As a matter of fact, prior to that the Provincial Auditor's office was not auditors and really had nothing to do with the MDC. The money was turned over, they had their own audit, the financial statements, and only if there was some concern expressed by the auditors would we get concerned.

MR. CHERNIACK: Did you ever see a concern expressed by an auditor of the CFI before you took over?

MR. ZIPRICK: Well, the MDC financial . . .

MR. CHERNIACK: I mean MDC.

MR. ZIPRICK: Yes. They came forward each year and the report was unqualified.

MR. CHERNIACK: Unqualified.

MR. ZIPRICK: Unqualified. So there was really no concern as far as our office was concerned about any difficulties.

MR. CHERNIACK: Who directed you to take over the audit of a number of Crown agencies?

MR. ZIPRICK: Well, we were directed by the Lieutenant-Governor-in-Council in 1969 or somewhere. By an act of the Lieutenant-Governor-in-Council, we were directed to carry out audits of a certain number of agencies.

MR. CHERNIACK: So you actually took them over from private auditors, didn't you?

MR. ZIPRICK: Yes.

MR. CHERNIACK: Like Hydro, Telephones and the universities?

MR. ZIPRICK: Yes. We took over, I think, five at that time.

MR. CHERNIACK: And since then have you been taking over the audits of Crown agencies?

MR. ZIPRICK: Well, we are doing all the audits of Crown agencies, I think now, and also wholly-owned companies where there's no other shareholder except the government. Now, we still don't do the audit of Manitoba Museum of Man and Nature but we do carry out a special review of the accounts. There might be another one or two like that that we don't do, we're not specifically the auditors.

MR. CHERNIACK: Well, without tying you down, is it your impression that anything now that is wholly owned by the government comes under your responsibility in addition to all governmental operations, the Consolidated Fund, etc?

MR. ZIPRICK: That's my understanding.

MR. CHERNIACK: And that only where there are shareholders other than the government, that there is an independent or a private auditor.

MR. ZIPRICK: That's my understanding. That's the way the . . .

MR. CHERNIACK: That's your impression.

MR. ZIPRICK: That's my impression.

MR. CHERNIACK: Have you ever indicated an advisability for an authority to look at any accounts of which you are not the auditor, where you've not been granted that authority?

MR. ZIPRICK: No. No.

MR. CHERNIACK: Now when you talked about the form of reporting that you would like to have that you don't have now, I am under the impression that the grants given by, say, the Department of Health and Welfare, all the welfare grants, Children's Aid - I don't want to single them out - but all of those, are they not required to file financial statements certified by an auditor with the department?

MR. ZIPRICK: There is no regulation that directs that, that this must be done, but in most cases they are being filed and we look for it and ask for it, and generally speaking I

(MR. ZIPRICK cont'd) . . . . would say it's being complied, but I wouldn't say in every instance there is an audited financial statement, no.

MR. CHERNIACK: Are you aware of the extent to which the department itself investigates the spending of money by welfare agencies? I take in, in welfare, the broad scope of Children's Aid and . . .

MR. ZIPRICK: Well this would vary on the circumstances. Now, for instance, the Department of Health and Social Development, we went into that area quite extensively and they lay on a pretty good, strong system of following up and they have a pretty good laid down procedure. Other departments are not nearly as systematic, and this is why we would like to have some consistency in what's expected. Then in, for instance, the Department of Health and Social Development. Now maybe other people would not place that much importance, but I feel that it's fairly important that there be a communication directly from the auditor saying that the money that's gone across, it's gone into their books and I've accounted for them in accordance with my understanding, or seen that they were accounted in accordance with my understanding for the purpose that this money was intended.

MR. CHERNIACK: Well then, are you saying that - I think you mean, in most cases, the addition you would want is that the auditor, the private auditor, be required to have that kind of a sentence in his report addressed to you as Provincial Auditor, so you could say, "I have received a direct certification from the private auditor that public moneys have been spent by that agency or organization in accord with the purpose for which the grant was made."

MR. ZIPRICK: I feel that would be a very useful and effective control, and it should not, you know, incur any significant cost.

MR. CHERNIACK: It just, you think, puts an additional onus on the private auditor to know that he is signing that kind of certification.

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

MR. CHERNIACK: But his certificates now, if they are qualified, would you not be aware of that?

MR. ZIPRICK: Yes, we would. There again, we examine on a test basis but the department generally is supposed to look at all these, and if they were qualified they're supposed to act in the first instance and we would also note to see that appropriate action is being carried out.

MR. CHERNIACK: On your test basis have you found any occasions where qualified reports have been filed and there has been what you thought an inadequate investigation of the . . . I'm thinking of Health and . . .

MR. ZIPRICK: Well, you know, I can't recollect offhand but these kind of things that the auditor notes something, he discusses it with the official and then the official proceeds, and so it's not clear as to whether it was initiated by the department in the first instance, by us in some instances, but I know personally of no situation where there might be something untoward that should be pursued and is not being pursued because, if I did, I would certainly have it pursued.

MR. CHERNIACK: And you would report it here.

MR. ZIPRICK: And I would report it here if it was of the kind that warranted that kind of report.

MR. CHERNIACK: One other question then. Is there anything to prevent a more frequent report to the Legislative Assembly other than the Annual Report?

MR. ZIPRICK: Well, the way the system is now set up the Act says I shall report annually. Now if I was to report more frequently, it would have to be laid on as to how frequent and . . .

MR. CHERNIACK: No, but is there anything to prevent your signalling to the attention of the public of Manitoba in any way you wish, any matter that you think is of importance that cannot or should not wait for the annual report?

MR. ZIPRICK: Well, you know, if there is anything that transpired that concerned me so much and I, let's say, brought it to the attention of the government and it was not disclosed, I would take it upon myself to disclose it under any circumstances. There is no way . . .

MR. CHERNIACK: At any time.

MR. ZIPRICK: At any time. There is no way if there were any serious matters that were going on that I could sleep and say, well it's fine, there's an Act says that I can't report on that. It all hinges on what kind of a situation is it; and if it was a serious situation that



(MR. ZIPRICK cont'd) . . . . needed drastic action, I'd have to take that drastic action and if I misjudged the situation I would have to carry the brunt. On the other hand if I was right, then the other side would have to carry the brunt.

MR. CHERNIACK: So we have the assurance that in the event that such a circumstance developed, that the people of Manitoba somehow would know about it and not wait for some annual report to come in.

MR. ZIPRICK: Well, regardless of what terms of reference there are, I have always understood and I have always taken the approach that if I run across anything that was fairly serious and was not being acted upon and yet warranted the attention of the people of Manitoba, I'd make a point to disclose it, and I wouldn't care, you know, what the consequences were, because I feel that's one of the obligations that I'd have.

MR. CHAIRMAN: Mr. Johnston, Portage la Prairie.

MR. GORDON JOHNSTON: Yes, Mr. Chairman. My comment is directed more to the committee than to Mr. Ziprick, but in the terms of reference of the Provincial Auditor one of the clauses states, and I'll quote it, Clause (f) "as to such matters as he desires to bring to the attention of the Assembly." Now I take that to mean that the Provincial Auditor is making suggestions that he would like to have implemented by the committee, which would facilitate the work of the committee, and some of those suggestions are under the heading of Comments and Recommendations Concerning the Legislative Management System.

One of the considerations - Pages 28 to 29 - one of the considerations made by the Auditor was touched on by Mr. McGill, that the Public Accounts Committee should meet more often than just during the session, and perhaps that could be discussed when we come to that section of the report. But another recommendation is made, that if it were to be implemented this year and we accept Mr. Cherniack's suggestion that we go page by page, it would be impossible to implement and mean anything in the consideration of this report, and that is the recommendation is made, and it was made for the second year in a row, and I quote in part: "In my report to the Legislature last year, we recommended that the departmental managers appear before the Public Accounts Committee so that they could participate in providing accountability for expenditures with regard to the administration of programs."

Now, if the committee were to accept that suggestion this year - I don't know whether it would have to be done by way of a motion - then I would assume that it would refer mainly to managers who are mentioned, or their organizations are mentioned, on Pages 20 and 21. The heading is Comments of Specific Organizations. Some of those comments are pretty damning. There are statements of inefficiency and the hiring of unqualified people, and consequently some of the departments are missing inventory, there are statements here of mismanagement. So if we are going to broaden the scope this year of the terms of reference of the Auditor-General, then we should deal with it while we're at the terms of reference, and, if necessary, I would make a motion that the departmental managers as mentioned in Comments of Specific Organizations, on Pages 18 to 26 inclusive, be instructed to appear before this committee at the appropriate time.

I don't know if any further explanation is in order, but obviously, if we're going to consider the report page by page, then that action would not be possible if we had to wait until we arrived at Page 28, I believe it is, because you would have already have passed the sections dealing with Comments of Specific Organizations. So I have made the motion, Mr. Chairman.

MR. CHAIRMAN: We have a motion by Mr. Johnston. Do we have a seconder? Mr. McGill?

MR. MCGILL: Mr. Chairman, I would be pleased to second that motion. I think Mr. Johnston has made a very good point here and that this would effectively add to the ability of this committee to deal with the concerns that have been presented to us in this report by the Auditor, that if they are left for a page by page discussion of this report, then as Mr. Johnston points out, the situations that we want to cover will have been passed, and I think we should deal with this motion and provide this additional information directly to the Public Accounts Committee.

MR. CHAIRMAN: Mr. Graham, do you wish to speak to the motion?

MR. GRAHAM: Yes, Mr. Chairman. Like Mr. McGill and Mr. Johnston, I feel that this would be most appropriate that we have this opportunity at the Public Accounts Committee hearings to deal directly with some of the concerns that have been expressed by the Auditor, and I think it would be a most beneficial move if this committee adopted that procedure. I think

(MR. GRAHAM cont'd) . . . . that not only other members of the Legislature but the public at large would be the beneficiaries of a move of that nature and I wholeheartedly endorse it.

MR. CHAIRMAN: Does anyone else wish to speak to the motion? --(Interjection)-- Yes. I didn't know whether it was to the motion or before. You're on the list. Mr. Cherniack.

MR. CHERNIACK: The motion was made before I was on the list.

MR. CHAIRMAN: That's right. --(Interjection)-- Yes, you're on the list also but . . . Do you wish to speak to the motion?

MR. SHAFRANSKY: Mr. Chairman, I believe that, you know, you had a list and the motion was introduced at this time. I believe we were talking on a particular topic. Is it in order that the motion be introduced before other people have a chance to ask questions along the lines that were being pursued?

MR. G. JOHNSTON: On a point of order, Mr. Chairman.

MR. CHAIRMAN: Point of order. Mr. Johnston.

MR. G. JOHNSTON: I'm willing to allow my motion to stand to allow other members who wish to speak to complete their remarks before the motion is considered.

MR. CHAIRMAN: Then I have Mr. Craik.

MR. CRAIK: . . . Mr. Chairman, my remarks, and I don't think were directly on the motion.

MR. CHAIRMAN: Did you wish to wait?

MR. CRAIK: Yes.

MR. CHAIRMAN: All right. Mr. Shafransky.

MR. SHAFRANSKY: Mr. Craik has indicated that his remarks were not on the motion. Mine are not.

MR. CHAIRMAN: Also, do you wish to defer then?

MR. SHAFRANSKY: Well, Mr. Johnston indicated that he would defer his motion until . . . hold the motion.

MR. CHAIRMAN: All right. Mr. Craik.

MR. CRAIK: Are you then holding the motion?

MR. CHAIRMAN: We're holding the motion.

MR. CRAIK: Well, Mr. Chairman, I wanted to point out really with regards to the terms of reference on Page 1 that there is a very subtle but important difference I think being placed on the terms of reference. The final clause indicates that the Auditor will report on such matters as he desires to bring to the attention of the Assembly, but even in departmental matters it appears that the authority is usually through the Minister of Finance, and if it goes beyond that into associated corporations of the government, it's by Order-in-Council or from the Cabinet. Now I think there's a tendency here to arrive at the conclusion that your terms of reference are being exercised in the same way as the Auditor-General of Canada but I think there's a very important difference - is that historically the Auditor-General of Canada has taken his instructions upon occasion from the Commons Committee that examines the accounts. And secondly, he has also undertaken quite a number of investigations on his own without reference to the government or to the committee until such a time as he desires to report. I think that it's the interpretation difference that is the important difference between what's happening in Manitoba and what's happening in Ottawa.

Now last year, if we can use it as an example, there was a motion placed before this committee. First of all the motion said to instruct the Provincial Auditor and then it was changed, we were advised by the Minister of Finance that we could not instruct the Provincial Auditor as a committee to do anything, that that authority came from the Minister. Which was quite different from the interpretation that had been put on the new Auditor's terms of reference brought in in roughly 1970. Now it's that difference in interpretation I think that is critical as far as the operation of the Provincial Auditor as opposed to the Auditor-General of Canada. I don't think it should go unnoted that although the terms of reference may allow the Provincial Auditor here that latitude it is not being exercised and it's not being interpreted that way. I think, you know, in particular there are repeated cases now, with the government's involvement in different corporations, where there is a very apparent conflict of interest that can arise between the expenditures of a department and the operation of a Crown corporation under the MDC in which the people of Manitoba have an investment through the MDC, and it's in those cases where there is going to be a conflict of interest crop up if in fact you don't take your own lead on these things or take the lead of the suggestion of the committee or of the opposition or of anyone else in

(MR. CRAIK cont'd) . . . . investigating the relationships.

Let me give you one example, which isn't necessarily a case of conflict but where it could easily be raised. What happens in the case of the Manitoba Housing and Renewal Corporation awarding a contract without competition to Misawa Homes? Now is it within your power to insure the Legislature that in fact the contract is awarded in the best interests of the people who are supplying the money for MHRC as opposed to a case where it was a company that had - Misawa which had no money involved in it of a public nature through the MDC. Now if you have to go back to the Minister for approval to investigate a contractual arrangement between MHRC and Misawa Homes is the Minister not then placed in a possible conflict of interest position where a government - not Crown corporation but a corporation in which the government has substantial investment, may in fact be made to look good financially because they have driven a very equitable agreement from their point of view with MHRC, but MHRC on the other hand is paying out all the money.

So are we not in the position that if the interpretation is not more along the lines of the powers that have traditionally been exercised by the Auditor-General of Canada, are we not in the position of not having the Provincial Auditor in a position of autonomy where he can go in as a third party, without any reference to the Minister of Finance or to the government, investigate that and satisfy himself and then the committee that the best interests of MHRC and the taxpayer are being served?

MR. ZIPRICK: Well I could comment on it this way. First of all what the committee was trying to direct me last year, the committee of the parliament couldn't do it to the Auditor-General neither. Because as I understand it this committee does not have authority to give me power to go and ask for the books of a third party. And the same situation prevails in the Auditor-General. So that if the Auditor-General wanted to investigate, let's say T. Eaton Company, because T. Eaton Company had received some public money, as I understand it he cannot investigate the T. Eaton Company on his own. Neither could I. Now if the committee has just asked me to provide certain kinds of information, to report certain items that I find and it was approved by the committee I would see nothing wrong with me carrying out that because I don't have to take any kind of legal steps. But when the committee directs me to go and audit somebody else's books I'd have to have legal power to do that. Otherwise that other corporation or whatever have you would say, well you know under what authority? Well the committee asked me to do it. But that's not good enough. You have to have legislative authority, and I wouldn't have legislative authority and neither would the Auditor-General.

Now with regard to the case that you mention in the Housing and Renewal Corporation, we certainly would investigate that situation. If they were awarding a contract to somebody it would have to be on a tender basis as far as we're concerned, and particularly if it's a non-arm's length situation we are very very careful to see just how it's been carried out, and one of the reasons of us getting so involved - and this was not brought up by anybody in the Legislature or in this committee, we took it on our own and pointed out when the Housing and Renewal Corporation started dealing with the housing development in Churchill which is really part of a government department, and working these contracts, we felt obliged to indicate exactly how these contracts were gone into and how they were being handled. They're not an arm's length contract and they're really internal operations so we're trying to give the whole picture as to how it operates.

Let's say the Manitoba Housing and Renewal Corporation, the contracts that they go into, we look at those quite carefully to see that they're on tender basis, that there is arm's length situations and if there's no arm's length situations we want to know, you know, what controls are there that this will not be abused. And we don't need direction from the Minister of Finance or the government as to whether we're going to go in there and we do not take any direction as to what we will report or what we won't report. I would say in those areas this is the areas that we would bring to the attention of the Legislature any kind of break of procedure even though nothing untoward has happened, and this is one of the reasons that we have dealt quite extensively with regard to the dealings of the Housing and Renewal Corporation and this Churchill housing development. So in this area I can assure you that we have the authority and we would certainly get fully involved and if there was any attempt to dress up the situation we would certainly expose it without any hesitation, and to my knowledge there isn't any situations like that that we have not exposed or would not have exposed.

MR. CRAIK: Do you examine the departments specifically for cases where there are not tenders - competitive tenders?

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MR. ZIPRICK: We examine the purchasing procedures laid on under the Purchasing Act - we see that they are complied with, that the lowest tender is awarded, that if it's not the lowest tender, that there is good reason given why it's not the lowest tender and whatever reasons are given makes also sense to us and in our judgment is a reasonable approach. Now I must say that obviously we cannot do that for every one but on a selective test basis we do that each year or more often as we see the need. That applies to the government purchasing, all the tendering and the contracts that are placed by the government. We do the same thing in all the corporations that we audit, in other words, government agencies, we follow out the same kind of review to see that there is tendering and that. Now if there is any involvement in a non-arm's length situation of tendering or passing money from one to the other, we always insist that in the financial statements that that item must be shown separately. If there's a receivable and payable between one and the other we insist that it must be shown separately, it cannot be buried as part of other receivables and payables, and if there are any dressing up situations we try to indicate what they are and how we feel about it. Does that clarify some of the . . . ?

MR. CRAIK: Well, Mr. Chairman, my major concern here was that - first of all that the Auditor-General's terms of reference have been stated to be the same as yours but the operation is somewhat different in that the Auditor-General has, you know, traditionally taken a more pro-active role in his investigations than has been done here even under the new legislation in Manitoba.

MR. ZIPRICK: I wouldn't say that he's taken a more pro-active role. What he's been doing has been reporting much more in detail on various things that he's found. Now I know that they didn't report everything but he's just taken samples of items that he's found and he's reporting them in detail. Now we have not followed this procedure. I have reservations about that kind of procedure because the moment you start reporting in that way you're bringing up issues that you lose your power of exposure of something important, you're dealing with all kinds of less important items and you're - in other words you're screaming "wolf" as you're going along and then when you've got something really important to scream people may not listen to you.

So we try to make a very close judgment, that if we get a good reaction from the people in the administration field, that they want to clean up and they are carrying out a good system and have been conscientiously carrying out their work, we don't feel that we want to chastise them and expose errors that will occur under any circumstances, because all that does is downgrade an effective system. So it's a judgmental area I agree, but the powers here have been given for us to exercise the judgment and our approach is to exercise it in the most positive and best possible way to get results, and if we are not getting results we would certainly come out very very strongly and indicate that we are not getting results. On the other hand, if we are getting results, we're afraid that if we were doing too much reporting on the basis, well you know we found this or we found that and they had to do this and they had to do that, then we would lose a lot of impact of getting something done at the administrative level. So a lot of diplomacy and good judgment we feel has to be exercised in that area, and this is what we try to do.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Well let me, Mr. Chairman, ask Mr. Ziprick a general question then. Is the role of the Provincial Auditor, does it not become under the present terms of reference increasingly complicated as we have more Crown corporations or companies in which the government has an equity involvement, with those companies or Crown corporations dealing with provincial departments, line departments, on contracts and other things that involve a transfer of funds from one to the other?

MR. ZIPRICK: Well I would say our role is much more complicated in a smaller way than the Auditor-General's has been because the Auditor-General has not been faced with dealing with a development corporation and it's only recently that they have one. I don't know to what extent he's going to get involved in those accounts. I haven't discussed it with him. --(Interjection)-- I don't think so and I don't know how much involvement they've had in the IDB. But as far as we're concerned I know that getting into the accounts - that's the lenders' accounts of the Development Corporation, you get into a much more complicated situation and a much more complicated involvement.

I just recently received the Auditor's report of the Auditor of Nova Scotia and they in

(MR. ZIPRICK cont'd) . . . . the past year did a survey on the lending procedures and controls over their Development Corporation, and he had some observations and weaknesses and that, and this is I understand the first time that they've carried out this kind of review. But he felt that there was quite a bit of public money involved and he was obliged to do something in that area. Now we have been trying to do that for a number of years. It is a complicated situation I can assure you and a lot of good judgment is required or otherwise we could have a great big staff that would be chasing auditors around into these lending agencies - that they would have their own and quite a number and the result I don't know just what it would produce.

MR. CRAIK: My question isn't really in reference to the companies that may just have loans from the MDC, and I think reference has been made here to IDB and the relationship of IDB to the Federal Government, but IDB is principally involved as a lender, not as a party that involves itself in equity in these different corporations. I think there's a very important difference there. I'm referring specifically to the provincial scene where, for instance, you have a Flyer Industries which is selling school buses to the Department of Education, you have Misawa Homes which is selling homes to the MHRC, and any other number of arrangements where you have a line department of government actually purchasing goods or services, and it could be services in the case of a computer company selling time to the government; you've got almost, you know, a wide-ranging field of enterprises that the government is involved in through the MDC where they are actually selling goods or services to the government departments. And the question was whether or not the role of the Provincial Auditor is not becoming more complicated as a result of this relationship between a line department and a Crown corporation that may not be, in the Auditor's eyes, arm's length.

MR. ZIPRICK: Yes. It's very complicated, and this is why I say our role right now is more complex than the Auditor-General's in that regard, because they are not faced nearly as much as we have in this area. Now, you know, just as a good example, Flyer Industries and the school divisions or the Department of Education buying buses. Well it was not on any tendering basis and the whole thing has been disclosed now. We could comment on it, but I don't know just what we would say. I don't think that the Auditor has a right to say that the government, even though it's publicly disclosed and this is the way they want to do it, that they just shouldn't do it, that that's not the way, and stop them from doing it. I think that it's a known fact that's been disclosed, this is how the purchase was arrived at and the amount of money is disclosed, and so what more we could add to it I really don't know, other than being critical, and I don't feel that I'm in a position to be critical because here is a responsible, elected government that's doing things, and it's up to the people to criticize them in that area. I don't think it's up to the auditors to say, well, you know, you shouldn't get those buses from there because they're not the lowest tender. But if it was not disclosed, and if there was any underhanded - not underhanded, but kind of an under-the-surface kind of deal, we would make sure that it was disclosed; that if it wasn't disclosed in the Public Accounts and through the awarding system by Orders-in-Council or whatever-have-you, then we would make sure it was disclosed. Now whether we should group them all together and just as a matter of information be assisting the committee in that regard to exercise judgment, well that's another thing. In any of these kind of information-gathering situations, if it's practical for us to do it and it would be very useful to the committee to exercise judgment and the request was made, we would try to oblige and line up a report to be as useful as it possibly can in that regard.

MR. CRAIK: Well, you raised the question here about, you know, is it the Auditor's role to examine whether the buses are priced properly or not.

MR. ZIPRICK: No, I didn't say that.

MR. CRAIK: Okay, let me ask the question, though, that if the Auditor does not determine this, whether the buses are properly priced, who can? Most certainly members of the opposition aren't in a position to determine whether it's an equitable price to the school divisions of the buses. But doesn't this come back to your original suggestion that in other jurisdictions they've moved into efficiency determinations? Is this not an area that would be a very prime undertaking for an Auditor if he was going to determine efficiency?

MR. ZIPRICK: Well now we're getting into another area, and I agree with you. The Comptroller-General of the United States, he would have a team go in there and then he would comment on, you know, how much cheaper they could have got it somewhere else, and he would have people that are knowledgeable in this kind of thing investigate it and give an independent report. As a matter of fact, I have gone on record with the committee that I see merit in the Auditor's office participating in this kind of area, but right now in Canada there's no auditor



(MR. ZIPRICK cont'd) . . . . has that responsibility to carry out audits of that kind, and that includes the Auditor-General of Canada. So he would not carry out that kind of an audit.

I feel that if we're going to get into that kind of an audit, then we need legislative change, and I have heard . . . As a matter of fact, when I was on the Peter Warren show and he was doing some investigating to get a little background, he told me he was in touch with their Ottawa people, and they got sort of a leak from the committee that this was one of the things that their committee was going to recommend, that we're going to be given much broader powers and that. Well if they do recommend, then you people will have to deal with it and pass the legislation, and if you pass the legislation and the necessary authority for my office to carry out that kind of responsibility, we'll gear up and we'll do it, and we'll make observations of the kind you are suggesting, that a review will be made and an assessment will be made and we will give you a report.

I would say the Auditor-General is going to be faced with the same situation, and the Parliament of Canada, as to whether they make those amendments and to what extent they will want to go with the committee recommendations - if that's going to be their recommendations. But I would suggest that, seeing that the report is so close to coming out, that before we undertake to make any legislative changes that we should wait for it and make the necessary review. But right now I don't have that power, neither do any of the other auditors including the Auditor-General, and the only one that I know of personally is the legislation of Nova Scotia was changed four or five years ago and they did put a clause like that in, and that is with the approval of the Lieutenant-Governor-in-Council. The Provincial Auditor there can hire the necessary kind of staff and go in and carry out an investigation of that kind if he feels such an investigation is warranted, and that's the only one that I know that has that kind of legislation. I was told he has used it very little, he is looking at it, and they're thinking in terms of expanding it somewhat more, but he also is waiting for this Inquiry to see what direction the audits should take and to what extent there should be an involvement in this area, when the committee reports.

MR. CRAIK: Just let me ask, then, one final question. I gather from your comments earlier that you would automatically look at any case where a line department awarded a contract where there were no competitive tenders.

MR. ZIPRICK: Well the way we audit these, the auditor will go in and he'll take a sample group of purchases and he'll go behind there and in each one of these cases look at the tender to see whether there were tenders, whether the lowest tender was awarded, or whatever have you. Now if, in that group, he finds one that wasn't awarded to the lowest tender or there was no tender, there would be an exhaustive investigation as to why and what are the reasons. Now if there was outside of that group and we didn't spot it, well naturally we wouldn't see it. Now we also are alert in all our other audit work that if something gives us a lead anywhere along the line, even suggestions in the Legislature, we pursue the various observations and there's some suggestion that there might be, it immediately goes to the particular auditor to tell him: When you're taking a look at it, take a look at this specific case because there's some concern been expressed by somebody or other that there may be something that was done here not in accordance with the system. And so there's really two ways: one is, every time it's a laid on system we go in and we select a block of orders or contracts placed, and we go behind there to see that all the procedures were followed, and if they're not followed why weren't they, what's the explanations, and if there's no adequate explanation we'd pursue it. Then the other way is through our observations and getting about in the province, and that if any one of us noticed something we will pursue it in that area.

MR. CRAIK: Well why then specifically don't you examine the case of the purchase of school buses from Flyer?

MR. ZIPRICK: Well in what way exactly? Go and examine the Flyer . . .

MR. CRAIK: Well there are no tenders, it's a very massive expenditure, and the purchases are made on the instructions of the Department of Education through the school boards. Is there a technical reason why . . . ?

MR. ZIPRICK: But, you see, the government has not violated anything. The government has a legal right to make this award; it's known that the award was made without tender. Now if we're going to investigate and come with something conclusive in this kind of situation, we'd just about have to issue a tender of our own to outside people to say, "Please give us a bid because we want to measure to see how the government is making out on this situation." Or else go into the Flyer Industries and start examining their cost systems to make sure that we're only picking up the costs of those buses.

(MR. ZIPRICK cont'd)

Now I presume that their system of costing is such and they have an audit, that we are only paying for the cost of those buses. I don't know. But I would take it that their auditors would want to make sure that this kind of approach in the costing system is also in existence and, if it's not in existence, then obviously there should be some disclosure that there is a system designed to work in an arm's length situation that doesn't disclose the situation properly. But having paid the cost for those buses, the only way we could establish any other kind of a situation is to say okay, well we'll go to tender; we'll get tenders in from these various people, and then we'll compare and say, "Well, if you'd have gone to tender you would have "X" number of dollars and you're paying so much dollars. There's the difference." But I don't have any authority to go to tender and check out on this basis right now, so this is where, you know, if we had this other kind of authority now that you're talking about, then you would have experts that would go in and get quotations and determine that you've paid "X" number of dollars to this company and you could have got the same kind of buses for so much less. But within our present structure, I don't have that authority and that kind of expertise to even carry it out.

MR. CHAIRMAN: Mr. Shafransky. Mr. Cherniack wants to make an interjection, Mr. Shafransky, before you . . .

MR. CHERNIACK: May I interject to state that Flyer does not manufacture school buses, does not sell school buses, so let's talk about the past tense rather than the present.

MR. ZIPRICK: I'm sorry. I . . .

MR. CHERNIACK: Otherwise I want to get . . .

MR. ZIPRICK: Really we were talking about . . .

MR. SHAFRANSKY: We've had a number of resolutions over the past few years asking for the establishment of an independent Provincial Auditor. Now do you feel that your job as a Provincial Auditor is hampered in any way? Is your independence hampered?

MR. ZIPRICK: No, I feel . . . It's the same kind of independence as all the other provincial auditors and the Auditor-General of Canada.

MR. SHAFRANSKY: Well there's reference been made to the Auditor General of Canada, that he has more powers. Do you feel that there is any particular difference between the Provincial Auditor and the Auditor General of Canada?

MR. ZIPRICK: Well there is some minor differences in the wording of the legislation, but in essence the legislation is the same.

MR. CHAIRMAN: Mr. Shafransky, I think we covered your particular point pretty thoroughly in the first part of the meeting.

MR. SHAFRANSKY: Mr. Craik was following that same line of questioning and he wanted to bring out the fact that the Provincial Auditor seems to be hampered, and I think that we've had evidence to say that he is not.

MR. CHAIRMAN: Mr. Cherniack, you finally made it.

MR. CHERNIACK: Thanks, Mr. Chairman. Firstly, dealing with the school buses which were purchased some time ago from a Crown agency, which was Flyer at that time, my recollection is that it was announced that they were being bought on the basis of the previous tenders, there being only two suppliers as I recall it, and that the price was negotiated in line with previous tendering practices - that is, tenders had been received and a selection made, and then subsequent to that a decision was made to buy from the Manitoba Corporation at a price related to the previous tendering. I'm asking Mr. Ziprick if that price paid was substantially out of line with the previous cost. Would that be a matter that you would bring to the attention of the Legislature?

MR. ZIPRICK: There's no doubt that; as I mentioned before, we look at these kind of things and if the non-arm's length transactions are of a kind that are really designed to do something other than buying something, in other words getting money across to the organization, then we would make a point and observe in substantial detail just what we feel is trying to be got at besides purchasing the equipment.

MR. CHERNIACK: Okay. Next question, Mr. Chairman. Mr. Craik left me with the impression that he believed that there was a difference in procedures between the Auditor General and the Provincial Auditor, and my recollection of what Mr. Ziprick said was there was no difference in procedures but that there was a difference in the extent of reporting. Is my impression wrong?

MR. ZIPRICK: That's what I understand. Now, you know, in my communications and

(MR. ZIPRICK cont'd) . . . . reading what the Auditor General does, we basically operate on the same basis. Now, you know, there could be certain procedures that are somewhat different.

MR. CHERNIACK: But are not legislated.

MR. ZIPRICK: Not that I know of, and so it really rests in the reporting, and I think that there may be some, you know, lack of real understanding as to what the Auditor General of Canada does too.

MR. CHERNIACK: Next: If there was any obstruction by government or lack support of the Provincial Auditor's efforts, would that be reported?

MR. ZIPRICK: Yes, without exception.

MR. CHERNIACK: Well now, Mr. Chairman, I would like to ask this committee whether they would like the Provincial Auditor to be instructed to take over the audits of all corporations and all agencies where government has an investment in equity, partial, or makes loans, or gives grants. And that's a very important question and I raise that, Mr. Chairman, because I believe I and the government have been criticized in the past for turning more and more responsibility to the Provincial Auditor for doing audits which he had never done before. Now I think we've been criticized for that, and now this morning's discussion relating to that would seem to imply that there is something lacking, in that the Provincial Auditor doesn't do the audit for those corporations where private individuals may have some equity, or indeed where the government makes grants or loans, like - I don't know - Simplot, or any other loans made by MDC or the CDF or anything else. Now does this committee believe, or do members of it believe, that the Provincial Auditor should be instructed to do the audit for all of these? And if so, let's hear him so we know.

MR. CHAIRMAN: Gentlemen, we're proceeding nicely. We're on Page 1 of the Auditor's Report. I have two speakers on the list and we haven't got to Mr. Johnston's motion as yet, which has been deferred. What is your pleasure? Do you wish to carry on or . . . ?

MR. SHAFRANSKY: Mr. Chairman, I believe the normal hour of adjournment is 12:30; we have reached past that time. I don't know if it is the will of the committee at this time to proceed beyond this time.

MR. CHAIRMAN: Is it the will of the committee? Committee rise?

MR. GRAHAM: Mr. Chairman, on a point of order. I do not believe we can rise with a motion before the committee.

MR. CHAIRMAN: No, he deferred it, Harry. Did you not?

MR. GRAHAM: No he did not.

MR. CHERNIACK: What rule is he going by?

MR. CHAIRMAN: Order.

MR. G. JOHNSTON: Mr. Chairman, can I speak on a point of order?

MR. CHAIRMAN: Mr. Johnston.

MR. G. JOHNSTON: I want to be reasonable. If you'll hold the motion and put it at the next meeting, that's satisfactory.

MR. CHAIRMAN: Yes, that's what I intended to do. Agreed? (Agreed) Committee rise.