

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

Tuesday, 9 June, 1987

TIME — 10:00 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. D. Blake (Minnedosa)

ATTENDANCE - 9 — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Kostyra, Storie

Messrs. Blake, Maloway, Manness, Santos,
Scott, Smith (Ellice), Mrs. Carstairs

APPEARING: Mr. F. H. Jackson, Provincial Auditor

Mr. J. Singleton, Deputy Auditor

Mr. C. E. Curtis, Deputy Minister, Finance

Mr. J. Downey, MLA (Arthur)

Mr. D. Orchard, MLA (Pembina)

MATTERS UNDER DISCUSSION:

Annual Report of the Provincial Auditor for
the fiscal year ended 31st March, 1986

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MR. CHAIRMAN: We will reconvene our meeting on the Auditor's Report for the year ending March 31, 1986. We are on page 4.

Mr. Manness.

MR. C. MANNESS: In the middle of page 4, the Auditor, Mr. Jackson, has again made the recommendation that a multiyear financial plan should possibly be presented to the legislators of this province so as to give them a better opportunity to determine the state of finances in the province, so as to lend more or less support to some of the objectives of government.

I would ask Mr. Jackson the level of detail he would like to see come forward in such a multiyear budget.

MR. CHAIRMAN: Mr. Jackson.

MR. F. JACKSON: Mr. Chairman, initially we think that the multiyear plan probably should be the current year and the year into the future, but that the departmental level of expenditure and overall budgets should be disclosed.

We don't anticipate that, when you get into multiyear planning, you would be extremely precise the farther you go into the future, but we would think that it would provide a general road map for the next year or two, to provide some indication of the general thrust at this point in time of what are the intentions.

MR. C. MANNESS: Mr. Chairman, the government has made some vague reference in the Budget to providing

some type of forward budget. I'm wondering if the government has provided any of that detail to you, Mr. Jackson. Do we know anything more at this time? Indeed, do you know anything more at this time as to what the government's intentions are?

MR. F. JACKSON: The government provided me with copies of their consultant's report shortly after it was completed. We had the opportunity to review that. Beyond that, we haven't seen anything further.

MR. C. MANNESS: Mr. Chairman, when Mr. Jackson says their "consultant's report," are you referring to the Decter Reports?

MR. F. JACKSON: Yes.

MR. C. MANNESS: Mr. Chairman, then I ask Mr. Jackson, when you talk about a multiyear plan, are you also asking for a full forecast of projected revenues?

MR. F. JACKSON: We would find it awfully difficult to relate in a meaningful way to the expenditures without seeing some figures for the revenues.

MR. C. MANNESS: Could Mr. Jackson indicate whether this is occurring in other provinces, to the best of his knowledge? Indeed, are their legislators provided with more information than just a single-year budget, a single-year estimate of revenues and expenditures?

MR. F. JACKSON: I can't give you any exact information in that regard. I know that Canada has tried, somewhat with mixed results actually, to do multiyear forecasting. I'm not just sure how far the other jurisdictions have gone in that direction.

MR. CHAIRMAN: Mr. Kostyra.

HON. E. KOSTYRA: I know when I've been reviewing the various provincial budgets that come down, a number of them do have multiyear budgets, and a number don't. I don't have the precise figure. A number of provinces do have it - Alberta is one that I've seen lately - others don't have it.

MR. F. JACKSON: Quebec also has it.

MR. C. MANNESS: Mr. Chairman, I'm wondering then if the Minister at this time would use this opportunity to inform the committee of specifically the model he has in mind to provide additional forecasts for those of us who, from year to year, listen to his Budget.

HON. E. KOSTYRA: I don't have any more specific information than that which I provided to the committee prior to the commencement of these hearings of the committee, and that is that we are working on that.

At this point, I don't have any specific recommendations developed in terms of how and when we will implement that.

MR. C. MANNES: Again, Mr. Jackson, I'd like you to expand on your comment. Why do you think it would be of greater assistance to legislators to have this additional information? Obviously, you write this for good reason, but do you feel it would give us an opportunity to ask more in-depth questions, that it would give a greater focus to the revenue side of government because indeed, as you're well aware, it receives scant attention, relative to expenditures? Could you expand on your comment?

MR. F. JACKSON: There are several reasons why longer-term planning is considered to be advantageous. It can be of assistance to the government in making policy decisions with longer-term implications. It can be an aid to both elected and administrative officials in anticipating future fiscal problems, enabling them to take corrective action when necessary. It can be of assistance to both Treasury Board and government departments in operational planning. It can help with the provision of more accurate Estimates of Revenues and Expenditures in the annual Budget process. It can provide an indication to bond-rating agencies and other interested persons of the presence of systematic financial planning, and can be of assistance to the general public in understanding the long-term costs associated with current and proposed government activities, and the critical issues that the province will face in the future.

In summary, we think that it can provide a framework for more properly evaluating the current Estimates in relation to the longer-term projections.

MR. C. MANNES: Mr. Chairman, I would ask Mr. Jackson whether or not he sees a major credit crunch approaching this Provincial Government, indeed the Government of Manitoba, whoever it is in the near future, given the fact that we're refinancing now at a significant level and that we have an interest rate which, although it's moderate at this time, certainly is not locked in to the present levels and could increase significantly? Does he see a major vulnerability to our fiscal standing? Is that why he's saying that legislators should be presented with more information at the time of the Budget, so they can pass judgment accordingly, taking into account the greater needs for interest costs that are coming due obviously over the next decade?

MR. F. JACKSON: Our office is not staffed with experts in the field of economics, and we don't intend to convey any kind of a message at all that indicates an expertise as far as the borrowing markets are concerned. We're just aware that, across Canada, the deficits of government generally are of increasing concern. We're also aware that they take an increasing amount of the revenue portion for financing expenditure costs. What's happening is that certain of the flexibility is being removed from government.

MR. C. MANNES: Mr. Chairman, that begs the question: Are there any guidelines, any standards, any

benchmarks as to what percent of expenditures should cause great concern within your department, Mr. Jackson, that share that is being directed towards interest? Five years ago, it was roughly 4 percent for the expenditures; this year, it's close to 12 percent and indeed it's growing. At what point do you, as the Provincial Auditor, write within your annual report that you're very concerned about that level? Or indeed, is it not your role at all to make comment with respect to what portion of expenditures are directed toward servicing the deficit?

MR. F. JACKSON: We don't feel that it's part of our prime responsibility to make comments in that regard. Our role is to ensure that there's appropriate information so that the members of the Legislature can do that.

MR. C. MANNES: And again to sum up then, Mr. Jackson, you feel that could be done much more appropriately if we were given, as legislators, a detailed review of estimated expenditures for some series of years forward and also a best attempt to forecast revenue and to again try to come up with some meaningful deficit numbers and/or indeed decreasing deficit numbers, hopefully?

MR. F. JACKSON: Yes. We think that's all part of sound fiscal planning.

MR. C. MANNES: Mr. Chairman, then to the Minister: When can we expect from this government a program or at least a policy, some indication to the public that they will lay before us a meaningful attempt to provide a multiyear financial plan, a multiyear budget?

HON. E. KOSTYRA: As I said before, we are reviewing that as a result of the changes that have been made with respect to a number of fiscal and financial planning matters in government. Once we're in a position of making a decision, I'll make sure that Mr. Mannes and all members are aware of the government's intention in that regard, whether it's at Budget time or prior to Budget time.

MR. C. MANNES: Mr. Chairman, my question then to the Minister: Will that happen in calendar year 1987?

HON. E. KOSTYRA: Well, I believe that we'd be trying to at the beginning of a future calendar year, rather than during the current calendar year. In other words, it's something that would come out at the time of Budget. So, it certainly won't be done for this calendar year.

MR. C. MANNES: Well, could the Minister tell me then, who within his staff is actively working upon this new policy, this review, or however you want to describe it? Who is doing the work?

HON. E. KOSTYRA: It's basically being reviewed by the two branches of the department: (1), the Treasury Board function, of course, looking at the expenditures side; and also the other side of the department that looks at the revenue side.

MR. C. MANNES: Back to Mr. Jackson and this whole area, Mr. Jackson, does your department watch closely

Tuesday, 9 June, 1987

or at all the actual revenues with the forecasted revenues of government as relayed to the public through the disclosure of those figures within the Budget? To what degree do you follow their actual progress?

MR. F. JACKSON: We have an ongoing review of both the expenditure side and the revenue side with Budget projections so that, if there are any significant deviations, we can be alert to that to determine what the causes are.

In the Public Accounts, there are explanations for variances from both expenditure and revenue and we satisfy ourselves that those explanations are appropriate or we would take exception to them. From an audit perspective, we're always concerned that there be a meaningful Budget approach and that the figures that are used for public display are based on the best estimates available at the time that they're put together, and we review that process.

MR. C. MANNESS: Further to that point, Mr. Jackson, you say you would react to them if there were major discrepancies. You would do that then on a yearly basis, because I would take it that you have no responsibility in the quarterly reports because they're unaudited as such. So your reaction then would occur basically one time a year, if warranted?

MR. F. JACKSON: That would be the public response that you would see. However, if we detected that there is significant variance appearing on a monthly basis, we would be in discussion with officials to try and isolate what the reasons for that were.

MR. C. MANNESS: I think that opens up the broader question then, Mr. Jackson. In some cases, no doubt, you have had opportunity or reason to engage those discussions with people within the Department of Finance or indeed individuals of the government. To what degree are you responsible to make them known, not only to members of the government or staff of the Department of Finance, but indeed members of the Opposition? What are the rules, written or unwritten, that say that members of the Opposition should also share in those concerns that may occur on a monthly basis?

MR. F. JACKSON: Our experience has been that we haven't had significant cause for concern on a monthly variance. On an annual variance, after discussion with appropriate officials, sometimes the explanations have had to be changed as both ourselves and the Department of Finance seek to have a better understanding of certain explanations.

We expect that the Public Accounts in their entirety basically, fairly present the situation that is purported to be presented. If it doesn't and there is a significant variance in our view, we would comment on that.

MR. C. MANNESS: Well, Mr. Chairman, Mr. Jackson is talking about Public Accounts. The Public Accounts that I have access to are quite often the best part of a year after the fact. I'm talking more about the situations on a daily basis whereby, obviously, the Provincial Auditor's Department, through whatever

analysis it does, it's maybe within the fiscal year, most likely within the fiscal year, may have found some reason to question. I guess I'm questioning why indeed that information, or whether indeed the concern that you have as an Auditor, a representative of the people, so to speak, why you wouldn't make that known also to the Opposition?

MR. F. JACKSON: Well, one of the things that you're faced with is the Auditor has a certain role to play, and management has a certain role to play. If we bring a concern to management's attention and that matter is corrected, we feel that the audit function has served its purpose.

One of the things again that happens is that reports, to be meaningful, have to be timely. We quite agree with that, I think we've had some discussions on that point in times past. Our report, I guess, was available for distribution in late December last year. It's now six months after that fact. In our view, it would be more timely to have the debate earlier than now.

MR. C. MANNESS: Mr. Chairman, moving onto the next subject, Jobs Fund, and I won't spend a lot of time here.

Yesterday, we were given an opportunity to delve into some depth into the Jobs Fund and, finally, the Minister in charge provided a breakdown of appropriations, something that we've requested for a number of years. I don't even know whether the Provincial Auditor had a chance to see what it was that the Minister did provide to us yesterday. Under some firm requests from the Opposition, the Minister finally shared with us some of the material that he was reading from, a further breakout of Jobs Fund activities.

I don't have them with me, but I am wondering if this type of information - and again it's an unfair question because probably Mr. Jackson hasn't seen it, and maybe I'd better provide the information and then ask for a comment a little later on.

The question I would ask at this time and serve notice to Mr. Jackson is: Would that type of information that was provided be more acceptable, more in keeping with the recommendation that he indeed has made within his last year-end report, requesting greater disclosure in that area?

I will provide that information to the Auditor and, if you'd like to comment in due course upon it, that would suffice in that area.

Moving on, Mr. Chairman, to the last item on page 4, "The Review of Government Control Over Compensation by Crown Agencies," I'd like to move into a wide-ranging discussion on Crown corporations per se with the indulgence of the committee, just not the compensation aspect.

I'm wondering if Mr. Jackson could tell me, at this point, whether there are any internal audits being carried on with respect to any departments of government and/or any Crown corporations that, to this point, have not been announced by the Minister of Finance.

MR. F. JACKSON: Well, I would take it, in regard to the question of the internal audit, that many of the departments of government have their own internal audit staff and they have ongoing internal audits going

on constantly. The same is true of the various Crown agencies. Certainly all of the major ones have internal audits that are going on and are really representative of management concerns in that they're an arm of the management of the entities involved, generally, with the approach to identify problems before they get significantly out of control.

So yes, there are an extensive number of internal audits going on, both in government departments and Crown agencies at any given point in time.

MR. C. MANNESS: Then let's be more specific in the question then, Mr. Chairman, and I will. Are there any Special Audits being carried on that, up to this point, have not been announced by the Minister of Finance or indeed any Minister of the Crown?

MR. F. JACKSON: I don't believe that I'm aware of any that are going on at this particular point in time, other than the MPIC Report that is awaiting release, I understand.

MR. C. MANNESS: There have been none that have been completed that the public is not aware that your department has conducted?

MR. F. JACKSON: Not to my knowledge.

MR. C. MANNESS: Well, Mr. Chairman, let's be even more specific. Mr. Jackson, can you tell me then, over the past year, not only the number but specifically the Special Audits that you did conduct? And I'm not talking now basis this year. I'm talking over the last year, the fiscal year '86-87.

MR. F. JACKSON: Sure. The audits that have been conducted and completed since March 31, 1986 are the following: we did an audit into the Manitoba Public Insurance Corporation; we did an audit into the Workers Compensation Board; we did an audit in relation to the Brokerage Building; we did an audit of the October Partnership; we did an audit of aspects of the Department of Natural Resources; and we did a further audit on the Manitoba Public Insurance Corporation.

MR. C. MANNESS: Mr. Chairman, I believe Mr. Jackson is using this as his reference, the March 31, '86. My question is: What has been done since that point or indeed is that . . .

MR. F. JACKSON: These are done since March 31 . . .

MR. C. MANNESS: It's listed here, but it's not part of that year.

MR. F. JACKSON: Yes, that's right.

MR. C. MANNESS: Mr. Chairman, we'll pass page 4 if the other members agree.

MR. CHAIRMAN: Pass page 4. Page 4—pass.
Page 5.

MR. C. MANNESS: The middle of that page, Mr. Chairman, "Various Departments - Overexpenditures,"

I would ask the Auditor whether the 17 instances of overexpenditure were of major concern to him? Is this out of line with preceding years, and can he tell me specifically what has happened within the '86-87 year, and whether or not we can expect overtures in other departments once he files his next report?

MR. F. JACKSON: What we're seeing here is, in a sense, a technical aspect of the commitment control within departments that has caused a technical violation of legislative control, if you will. The number of them is more than what would normally occur. Many of them are quite small in amount and, in fact, we've since learned that one of them is in error. So instead of saying 17, we should be really saying 16 because in one of the departments - I think it's Urban Affairs - there was a change in one of the programs and the appropriations didn't identify the change as readily as it might have. So we're dealing with 16. Many of them, I think, were under \$100,000, at least several of them were, and there were really one or two major ones.

MR. C. MANNESS: Mr. Chairman, those were on the basis of March 31, '86. Again, a whole year has transpired since that point in time, and can the Auditor tell us what happened during that fiscal year?

MR. F. JACKSON: I think I would ask the Department of Finance to respond to that question, in that what we were looking for was the Department of Finance to initiate improved controls and information sessions for departmental staff, so that this was eliminated from happening again, if possible.

HON. E. KOSTYRA: I was just asking staff. We don't know that's the process that we're in right now in reconciling all of the accounts, so it's just premature to say whether or not again this year it is the same, worse or better.

MR. C. MANNESS: The item above that, Mr. Chairman, page 5, Department of Cultural, Heritage and Recreation, Mr. Jackson, are you aware of any other departments of government or indeed any other Crown corporations of government that are paying salary costs of employees who are basically civil servants and, quite frankly, should not be paying that cost? Those wages should be more accurately reflected within the appropriations of some department of government.

Obviously, here you've pointed out a case where the Lotteries Foundation is paying the salaries of some people within the Department of Culture, Heritage and Recreation, outside of regulations or outside of an act.

MR. F. JACKSON: Again, what we're dealing with here is compliance with the statutes. What was required would have been an Order-in-Council to declare this trust money as general revenues, and then it would have been quite appropriate for the expenditure to have been charged to an appropriation. So, what we are pointing out is that there is an Order-in-Council that was required that didn't get passed.

MR. C. MANNESS: Mr. Jackson, are you saying then that the act itself allowed for an Order-in-Council to be passed to transfer these trust funds?

MR. F. JACKSON: That's right.

MR. C. MANNES: Then the more general question to Mr. Jackson: Are there any other departments of government that are not properly identifying their wage costs, indeed are hiding them in some Crown corporation? I think, specifically, of the development agreements within the Department of Industry, Trade and Technology. There you have a case where many of those development agreements are being administered by staff within the Manitoba Development Corporation, Mr. Jackson. It would be my view that staff should be accounted for, that their wages should be paid out of the appropriation of the Department of Industry, Trade and Technology. Is that of concern to you?

MR. F. JACKSON: That's another example where the legislation provides for reimbursement to the Crown corporation from expenditures incurred in respect of administering government programs. For 1986 and 1985, it was approximately \$100,000 in each year of staff costs that could have been charged to a government department that weren't.

MR. C. MANNES: Well, that broadens the question then, Mr. Chairman. What happens in cases - and again I'll use as an example the Manitoba Development Corporation - where there are loaned monies coming back because indeed there were a number of loans that were entered into under the Development Corporation. Some of them are being paid back in an orderly fashion. I suppose I could use the Department of Housing; I could use, in fact, the Jobs Fund where there's Loan Authority been granted and indeed there are outstanding loans, money is being returned.

I would ask you, Mr. Jackson, that money that's being returned as repayment on loans, does it go to the department? Does it go to the Consolidated Fund, or should it, in all cases, go to the retirement of some of the debt associated with the Loan Authority, as granted?

MR. F. JACKSON: The procedure that is established and is closely followed is that, when the Department of Finance provides funds out of Loan Authority to any of the agencies, they also provide that agency with a repayment schedule. That repayment schedule generally coincides with the term of the loan for the purpose that the money was raised.

So, if it's a 20-year loan, then the commitment of the agency is to pay interest and principle sufficient to retire the debt at the end of the 20 years. What happens is that the agency is responsible for making a payment to Finance in each of those years. What happens is that, for example, if there was Jobs Fund money that was borrowed and lent to the Manitoba Development Corporation, they would meet their commitment and repay that debt by a certain year and, if the debt wasn't due and repayable to the lender at that point in time, that debt would cease to be Jobs Fund debt and would become General Purposes debt.

MR. CHAIRMAN: Mr. Minister, with a comment.

HON. E. KOSTYRA: I had a comment or a question on the previous point that we were discussing back on the Lotteries.

I was the Minister of Culture from 1981 on, and I recall at that time that the same practice that you're highlighting here was in place, whereby staff from the department were paid out of Lotteries. I'm wondering why this is the only year that this has been raised.

MR. F. JACKSON: There is more than one trust type of account, and certain of the payments are quite acceptable because of the legislation for The Lotteries Act to be made for government purposes. Others can be, but they can only be made if there's an Order-in-Council passed to provide that situation.

HON. E. KOSTYRA: So, some of the staff that are paid from the Lotteries Trust Fund and have been paid for a number of years, that is not an illegitimate activity?

MR. F. JACKSON: Not at all.

MR. C. MANNES: I just still want to pursue though my former line of questioning.

Mr. Jackson says that the Crown corporation that has Loan Authority basically enters into a contractual agreement with the government that they will pay back those loans over some period of time. My question then to Mr. Jackson is: That Crown corporation, whether it be the Housing Authority or whether it be the Manitoba Development Corporation, that in turn enters into some loan agreements with clients or individuals and has that money repaid back to them in due course, is there some commitment or some requirement of them to take that money which is paid back to them and turn it specifically over to the government, or can they handle it in any fashion they wish?

MR. F. JACKSON: They can't handle it at all in any fashion they wish. If the funds were advanced for a certain purpose and raised for a certain purpose, they can only be used for that certain purpose. However, if there were fortuitous circumstances that caused certain payments to be made in advance of the amount that was required to be paid back to Finance, they could use it for that purpose, i.e., if it was Jobs Fund money, they couldn't use it for any other purpose other than what the Jobs Fund provided the authority to be used for.

MR. C. MANNES: Could the Manitoba Development Corporation, which is also receiving loan repayments, could it as an organization take the funds that are returned to it and use it for the purposes of paying wages of staff, or would it have to take all of those funds and again return it to the government or reissue them in additional loans?

MR. F. JACKSON: Well, what you've got in the agency is you've got a common dollar, and you can't say that this dollar is for wages and that dollar is for repayment because you can't track the common dollars. But if, in effect, \$1 million was loaned to an agency for Jobs Fund purposes and it paid back .5 million and the agency was only required to remit .25 million to the Department of Finance, that would leave .25 million in that Crown agency for Jobs Fund purposes. It could possibly make a new loan to some other new party -

no, it can't because, once it's used the money for that purpose, it's expended it and it should be paid back then to the Department of Finance.

MR. C. MANNESS: Mr. Jackson, are you watching - when I say "you," I'm talking about your department - is it watching carefully first of all, the degree that repayment schedules are being followed; and secondly, the specific location that funds that are being received, funds that are being paid back to the various Crowns or departments of government who are vested with the power to loan? Are you watching carefully what happens to that money when it's returned?

MR. F. JACKSON: That's one of the areas of concern from an audit perspective. Part of our process is a confirmation process on an annual basis between the Department of Finance and the Crown agencies for just that reason.

MR. C. MANNESS: Do you draw a note of that anywhere in this report or a report to come in the future, as to how that process of audit is continuing, to what degree it's been fairly conducted at this point?

MR. F. JACKSON: It hasn't been an area of concern up to now.

MR. CHAIRMAN: Mr. Downey.

MR. J. DOWNEY: I have a couple of general questions and concerns, Mr. Chairman, that I'd like to ask Mr. Jackson.

The first question would be dealing with the availability of information from departments or from Crown corporations. Has the Auditor's department had any difficulty getting the necessary information to carry out audits and that type of thing with this department?

MR. F. JACKSON: One of the things that is part of our mandate is to report to the Legislature whether or not we have received full and complete information and cooperation, as far as obtaining the information we're requesting.

From an office perspective, there's never been a single instance where we've requested information and have not obtained it. We take that very seriously because if, in effect, there's information that is not being made available, we have no idea as to what the ramifications of that might be. So that would be included in our report to the Legislature, if there's ever one single instance that we didn't get the information we had requested.

MR. J. DOWNEY: Mr. Chairman, Mr. Jackson indicated that they carried out an audit - in fact, two audits I believe it was - on the Manitoba Public Insurance Corporation. Was the Auditor's department contacted or have full knowledge of the information that was shredded, information that went from the Minister's office to the Archives Building? Was he fully informed and reported to on that information?

MR. F. JACKSON: That was one of the matters that was considered in our report to the Minister of Finance

on the Manitoba Public Insurance Corporation. I can say that, whilst we have no absolute guarantees that we saw all the information that was shredded, we've concluded that there's a reasonable basis for assuming that we saw all of the pertinent information that was there. We came to that conclusion by reviewing Ministers' files for different years, from looking at the transcript lists of the information that was in those files, from looking at ERIC committee minutes, and looking at Cabinet minutes.

MR. J. DOWNEY: Mr. Jackson has indicated, ". . . in his report to the Minister of Finance." What report is he referring to when he refers to a report to the Minister of Finance?

MR. F. JACKSON: That would be the report prior to the conclusion of our report on the Manitoba Public Insurance Corporation.

MR. J. DOWNEY: I don't recall the Legislature or any members of the Legislature seeing that report. The Minister of Finance, when would he have received that, Mr. Jackson?

MR. F. JACKSON: My understanding is he would have had that report for June 4, 1987.

HON. E. KOSTYRA: Yes, I can confirm that we have received the Special Audit that I had requested into the Manitoba Public Insurance Corporation. It was received last Wednesday or Thursday, and it would be our intention to have that released once we're able to review that, within a week to 10 days.

MR. J. DOWNEY: Mr. Chairman, as the Auditor is responsible to the Legislature, would he see any need for any delay in the actual presenting of it to the Legislature or to this committee? Would there be any necessary need for the government to review it ahead of all members of the Legislature?

MR. F. JACKSON: I would imagine that there may well be certain points in any extensive report that administration might want to give some consideration to prior to it being debated.

MR. J. DOWNEY: I find that somewhat strange, Mr. Chairman, being responsible to the Legislature, any member or the government getting any special pre-knowledge of or information dealing with the accounts and affairs of the public. I ask the Minister: Would he be prepared to make that information available later today? We have the Legislature sitting at 1:30 p.m. Would he be prepared to table that report from the Auditor dealing with the Manitoba Public Insurance Corporation this afternoon?

HON. E. KOSTYRA: No. As I indicated, the report was received last week. As the member is aware or, if he's not aware, some of his colleagues are aware that it's dealing with some very complex matters with respect to reinsurance and other affairs of the Manitoba Public Insurance Corporation. It would be our intent to have that report reviewed, tabled publicly within seven to

ten days and then, at the appropriate time, there'll be a meeting of the legislative committee to continue its review of the Manitoba Public Insurance Corporation, which would obviously include the review of that report and other aspects of MPIC.

MR. J. DOWNEY: Well, I find it somewhat strange, Mr. Chairman. We've seen massive losses from reinsurance under the government-controlled Public Insurance Corporation. The chairman of the board is a Minister of the Crown who has been responsible for the activities of the Manitoba Public Insurance Corporation. A Special Audit was called by the government, leaving the impression that it was being reviewed and looked into. The Auditor comes back with a report, and now it appears as if the government aren't prepared to give us that report today. I find it strange that there's any need at all to hold up information which the Minister has received earlier this week - June the 4th, I believe, the Auditor has indicated.

I can see no reason, when the work has been carried out by the Auditor, why there should be any delay in the provision of that information. I think he can talk about comprehensive, he can talk about all different kinds of things. I think it's incumbent upon him and, I think, particularly on the Auditor's department to provide that information and provide it today, because it is available. I can see absolutely no reason, Mr. Chairman, why the Minister or the government would not want to make that information public upon receipt of it unless, Mr. Chairman, there was some other need to do something with the report with the government. I ask the question: Why would the government not want to release it today and remove all suspicion as to what is in that report from the Auditor?

HON. E. KOSTYRA: As I indicated, the report will be released within a week to 10 days. The report will be available for members, prior to any review by committee.

As I indicated, it's a complex report that requires some opportunity to review before it is tabled. There is no question that we will provide that report. I've indicated it will be tabled within seven to ten days and members will have ample opportunity, and indeed the public, to review it prior to any in-depth committee review of that report.

MR. J. DOWNEY: Mr. Chairman, I have not got the answer as to why the Minister isn't prepared to table it today. Let's just review what has happened at the Manitoba Public Insurance Corporation.

We've seen millions of dollars of incurred losses by a public Crown corporation, of which the Minister has been the chairman of the board and supposedly responsible for it. We've seen a - and I would like to ask the Auditor a little more specifically, dealing with the shredded documents which he refers to, that he is satisfied that there was nothing that would impair or - it wasn't the word "impair" - but would cause any problems in his audit.

What documentation did he go on? What Ministers' records did he go on that would indicate that nothing pertinent to his work was actually destroyed? Is that part of the report which he's dealing with? Has he

actually reported, in the report to the Minister of Finance, actual events or actual documentation which was shredded? Is that part of the report?

MR. F. JACKSON: That's what I indicated previously, that element of our audit is included in our report.

MR. J. DOWNEY: The element as to what documents were shredded from the Minister's Office by the Archives, before they were placed? All documentation which was shredded, there is a record of those documents?

MR. F. JACKSON: There isn't a record of all those documents in the report. One of the things that you're faced with, once documents have been shredded, you're never sure of what they were. What we attempted to do was to review all of the other sources of information that were available to us, to ensure that we had the best possible way of trying to construct what might have been in those records and anything pertinent to our audit was seen.

HON. E. KOSTYRA: Yes, just in response to the earlier comment by Mr. Downey, I would just remind Mr. Downey that it was the request of the Minister responsible for the Manitoba Public Insurance Corporation, on his request, on his behalf, that I requested the Provincial Auditor to look at a number of matters related to MPIC, so it was a request of the government to do the review of the reinsurance issue, to do the review of documentation, just so that the record is clear, Mr. Chairman.

MR. J. DOWNEY: Was that request put forward before or after the documents were shredded from the Minister's Office?

HON. E. KOSTYRA: Well, I mean the member is trying to be somewhat foolish. He knows that the . . .

MR. J. DOWNEY: Foolish?

HON. E. KOSTYRA: Yes.

MR. J. DOWNEY: I take strong objection to that, Mr. Chairman, to the Minister's comment, and want a withdrawal and an apology.

HON. E. KOSTYRA: If I could conclude my answer, Mr. Chairman. The member knows that the issue of the documentation was raised and, subsequent to that, the government requested a Special Audit into that matter and into the reinsurance issue.

MR. J. DOWNEY: So in other words, Mr. Chairman, we have two reports from the Auditor, one dealing with the shredding of documents from the Minister's office and another one dealing with the overrun of expenditures in the Manitoba Public Insurance Corporation.

HON. E. KOSTYRA: There was one report requested of the Provincial Auditor, examining a number of areas, including the issue of reinsurance and including the

issue of whether or not the documentation is sufficient to respond to all of the concerns with respect to missing documentation.

MR. J. DOWNEY: Mr. Chairman, I heard the Auditor just a few minutes ago indicate that he wasn't absolutely sure that all information pertinent to his investigation was available. Is that what I understood him to say?

MR. F. JACKSON: Yes.

MR. J. DOWNEY: So, in other words, the Auditor and the public cannot be assured that all of the information pertinent to getting a full disclosure of the activities of the Public Insurance Corporation is not as absolute and as total as what we initially thought was the case, from what the Auditor indicated. Is that correct, the understanding that I have?

MR. F. JACKSON: Yes.

MR. C. MANNESS: Mr. Chairman, some general questions to Mr. Jackson in this whole area, Mr. Jackson, when you have a report that's completed somewhat similar to the one that you've put in the hands of the Minister of Finance last week, can you tell me whose report you consider that to be?

MR. F. JACKSON: It's a report of the Provincial Auditor's Office and it's directed to the Minister of Finance in response to his request for me to undertake that work.

MR. C. MANNESS: Mr. Jackson, we found out that you provided that to the Minister because of a direct question that was asked. A great concern of Opposition members is that indeed, unless they ask specifically the right question, given the right set of circumstances such as a meeting today that, quite frankly, governments can sit on reports for a period of a month or two months if they so wish, because of course it's unknown to us when indeed you completed that review.

What responsibility do you have, as a Provincial Auditor, a servant indeed to the Legislature? What responsibility do you have to us, to those of us in Opposition, to indicate to us that you presented the government, indeed the Minister of Finance, with a completed copy of that report?

MR. F. JACKSON: I have a responsibility to be forthright at all times. That report was in process for a number of weeks. It was uncertain as to precisely what time it might be completed. I would have responded to any member's question in exactly the way that I responded to a question today. When asked, is the report complete or not complete, the day it was complete, you would be told it was complete, had that question been asked.

HON. E. KOSTYRA: Just a couple of points, Mr. Chairman. First of all, any Special Audit is done upon the request of the Minister of Finance. Every Special Audit that this government has requested, to date, has been provided in its total form to members of the Legislature.

As I indicated, it would be our intention to provide this report in its total form to members of the

Legislature, including the covering letter which will provide the date in which the report is sent and received by the department.

It's surely not unreasonable nor abnormal for any report that the government receives, to have the opportunity of reviewing it prior to providing it to the public, and that's not some new revelation or new development with respect to any reports that this government has dealt with. I dare say that's happened with previous governments and other governments in other jurisdictions in Canada, and I repeat that the report will be made available to all members of the Legislature, and indeed the public, in a week to 10 days. It will be in ample opportunity, prior to the next sitting of the committee that it will be continuing its ongoing review of MPIC, so that members will have the opportunity to review that report and have further opportunity to ask whatever questions they may have on the contents of that report and the government's and the corporation's response to that report.

MR. C. MANNESS: Mr. Chairman, I'm not satisfied. The question hasn't been answered. My question again to Mr. Jackson and/or to the Minister: What responsibility is there upon either of them to indicate to the Opposition that document is now completed, that internal audit has been completed, or I should say Special Audit has been completed and has been filed with the Minister?

It's a matter of timing, Mr. Chairman. The Minister today indicates that he was going to provide that information to us in seven or ten days. I have to accept his word. But quite frankly, if my colleague hadn't asked the specific question as to whether or not the audit was completed and turned over to the Minister of Finance, how do we know for sure that would have occurred?

So again, Mr. Chairman, when we know that these are being conducted, is it up to us to phone Mr. Jackson then on a weekly or a biweekly basis to find out the status of the investigation, to what point you are almost reaching the end or prepared to deliver it to the Minister? Or indeed, is there some responsibility on the Auditor and/or the Minister of Finance to tell us they've either sent and/or received that report?

HON. E. KOSTYRA: The onus is obviously with respect to the government to deal with reports like that. Let me just remind you that the government requested that report of the Provincial Auditor. We made public that request. I would suppose there was nothing incumbent on us to make that request public, so you can argue the point that, if the request wasn't made public, you wouldn't know that in fact the report is in progress, other than the opportunity of asking questions here.

But point No. 1 is that our request to the Provincial Auditor was made public. In fact, I believe the Letter of Transmittal was tabled in the Legislature, so that you were aware of the requests. You were aware when the request was made, and it's not been uncommon certainly for the member who is raising the issue to, from time to time, ask questions on the status of various government activities in terms of receiving reports or other matters that are under review.

As I indicated, the report will be tabled within seven to ten days, an ample opportunity for the committee

Tuesday, 9 June, 1987

that's seized with the review of MPIC to have sufficient time to review it prior to that committee meeting.

Obviously, if we were not in Public Accounts today, the member could have asked a similar question in the normal sitting of the Legislature or if, by chance, that committee that's seized with MPIC were to meet - obviously given the member's awareness of the requested report - that they would ensure that report would be received prior to any further in-depth committee review of MPIC. So there's obviously ample opportunity to ensure that the report is going to get the kind of airing that members want to have on that report.

MR. C. MANNESS: Mr. Chairman, the Minister conveniently overlooks the issue here. The issue isn't the MPIC Report, not my questions. My questions are, firstly, to what degree is the government responsible for sharing indeed with the public and the Opposition their request for the Auditor to do an audit, and I say that because, Mr. Chairman, this committee sits once a year. Secondly, the Legislature sits for basically four months out of twelve and, yes, in the MPIC case, the Minister and the government did indicate to the public that they asked the Provincial Auditor to undertake an inquiry.

But, Mr. Chairman, what responsibility is on the government and the Auditor, who is a servant of the Legislature, firstly, to serve notice to the Opposition and to the public that there's been a request of government to undertake an inquiry; and secondly, what responsibility is there on the government and the Provincial Auditor to let the public know that inquiry's been completed and a report has been filed with the government?

HON. E. KOSTYRA: I'm just asking for a copy of the specific legislation, but I don't believe that there is any requirement for the contents of a Special Audit to be made public. The practice of this government has been to ensure that all of those matters are made public in their entirety. All Special Audit requests have been made public, and the actual letter of request has been made public, and the subsequent report has been made public, subject to whatever discussion or debate that members of the Legislature will want.

So I don't know what the member is suggesting, but it's been the practice of this government to ensure that all of those requests are made public; and secondly, all the reports are made public for review and debate in the Legislature, and there's no requirement to do that.

MR. C. MANNESS: Mr. Chairman, not being intimate with the act, I have no way of debating that issue with the Minister. But I do know that Mr. Jackson and his department are servants, not of the government, but of the Legislature.

I would have to think that if the government goes to the Provincial Auditor, who's a servant of the Legislature, and requests of Mr. Jackson, do a Special Audit, all the workings then and all the findings of that Special Audit indeed are the responsibility, not of the government, but of the Legislature, and that's the point I'm trying to make. The Minister says that this

government has made public the findings of Special Audits. Mr. Chairman, that may or may not be the case, but the point . . .

HON. E. KOSTYRA: It's true. What do you mean, may or may not be the case?

MR. C. MANNESS: Well the Minister says, it's true. I accept his word. But more importantly, when Mr. Jackson has completed those audits, shouldn't indeed the Opposition know of the date that it's been completed? Do we have to wait a period of time, whether it's 10 days, maybe it's two months before the government decides, indeed if it's out of Session, it should release that report.

Then the further question to Mr. Jackson: How long will you wait, Mr. Jackson, for the government, if you do complete a Special Audit and you do turn it over to them, how long can you wait for the government to make that public or indeed does the government not have to make that public?

MR. F. JACKSON: There's provision in The Provincial Auditor's Act that, if there is an item so serious in the opinion of the Provincial Auditor that he could make a special report to the Legislature if in fact there is a matter that he considered to be so serious that it should be reported forthwith to the Legislature.

MR. C. MANNESS: And if we're not sitting at that time?

MR. F. JACKSON: That could be reported to the members of the Legislature in the same way that my annual report is reported to the Legislature, through a mailing.

MR. C. MANNESS: A final question here, to Mr. Jackson, does the government have any leeway in editing any of your reports? I'm talking about a Special Audit. Do they have the opportunity at all to change any aspect of your report before it's made public?

MR. F. JACKSON: My reports are my responsibility. No one has ever suggested, nor have I ever considered, changing my report.

MR. C. MANNESS: Mr. Chairman, that's not the question. I'm sure Mr. Jackson would not change his report, and I don't want to leave that inference. My question is: can the government change your report without your understanding? I'm talking now, not about your year-end report, I'm talking about the Special Audits that are being done.

MR. F. JACKSON: It would be an interesting public controversy that could develop if that was attempted.

MR. CHAIRMAN: Mr. Orchard and Mr. Downey.
Mr. Orchard.

MR. D. ORCHARD: Mr. Chairman, a question to Mr. Jackson, basically you indicated, in terms of the MPIC Special Audit which you completed and forwarded to the Minister on June 4, you took that route because

it was requested by the Minister of Finance. Now can I assume from that answer, Mr. Jackson, that as a member of the Legislature, if I have a matter where I believe there has been improper spending within a department, can I refer that matter to you, as a member of the Legislature? Your offices would be used to investigate that. Would I receive a report on that without, for instance, the Minister of Finance or the Minister responsible for the department being aware that investigation was going on?

MR. F. JACKSON: One of the things that you're broaching, I would take it, is the approach that's sometimes used by other investigative branches per se the Comptroller-General's Office of the United States. They function on a different basis and they're staffed differently, etc., than what our office is organized or staffed or has a mandate. They do respond about 60 percent of their time to the interests and concerns of various members of the Congress. Legislative Auditor's offices in Canada aren't structured that way and aren't staffed that way.

To answer your question very directly, if you raised a question with us, we would pursue it, just as we would with any other concerned citizen in Manitoba; we do. If it was a matter of concern, it would find its way into our report to the Legislature. If it was not a matter of concern, as a result of our investigation, it would not be seen in our report to the Legislature and there would in fact be no report on it.

MR. D. ORCHARD: Just following on that response, Mr. Chairman, if a member of the Legislative Assembly then was to make you aware of the suspicion - these are always what you're informed of, you're never given direct evidence or else you wouldn't need the Provincial Auditor - but if you were made aware of the suspicion which you thought was serious enough to cause your department to investigate, could you indicate whether the Minister responsible for the department, in which potentially the allegation has been made, is that Minister informed that there is an investigation ongoing by your office as Provincial Auditor?

MR. F. JACKSON: No. We do what work we consider to be appropriate and necessary on our own volition. The Minister involved would only be aware if there were some direct allegations concerning that Minister.

MR. D. ORCHARD: In that case, what would your process be? Would you first go to that Minister, or would you investigate the allegation first and then go to the Minister?

MR. F. JACKSON: We're not sure that we would have anything really to talk to the Minister about unless we did some investigative work first.

MR. J. DOWNEY: Mr. Chairman, I have a question to the Auditor dealing with the shredding of documents, No. 1; and the major losses incurred by the Manitoba Public Insurance Corporation.

Mr. Jackson, would you consider that to be a fairly serious problem that the taxpayers have or that the public have or should have, the shredding of documents which are pertinent to any or all public recording?

MR. F. JACKSON: The shredding of documents is a part of the process that's in place through the documents control and retention procedures that are in place for the province. Except for a very few specific documents, most documents are eventually shredded. The timing of that can be of significance.

Shredding is ongoing every day. It's the identification of the retention and the assurance that those records are maintained for the intended length and duration that's important. If, of course, documents get shredded in advance of that, it's important.

MR. J. DOWNEY: I would take it, dealing with the Manitoba Public Insurance Corporation and what we're being told is, through some unknown control mechanism or some system of destruction that really was not of the norm, and dealing with the fact that the Minister looking after the corporation, it was his records or the records from his office that were shredded. That was extremely untimely, I believe just about a year after, the timing in which the documents were pertinent or established. So you're saying it is of fairly major concern to you. That's the way I take it. Your answer, I take it, is yes.

As well, Mr. Chairman, the substantial losses incurred by that same corporation, being the reinsurance business, being several millions of dollars, I believe, reported to be \$58 million, as well to be of pressing importance or extreme importance.

MR. F. JACKSON: Pressing importance, yes.

MR. J. DOWNEY: I go to the act, Mr. Chairman, and the Auditor has said "pressing importance." I'll read section 13(4): "The Provincial Auditor may make a special report to the Assembly on any matter of pressing importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report, and each special report made under this subsection shall be delivered to the Speaker of the Assembly . . ."

I would think, Mr. Chairman, in view of the fact that the Auditor reports to the Assembly through the Speaker, that the report which the Minister of Finance is now not prepared to give us for 10 or so days, I would think it would be incumbent upon the Auditor to provide that report to the Legislature. I don't want to put him a difficult situation, Mr. Chairman, but I would think it would only be a fair request of this committee.

I would ask Mr. Jackson if he is prepared to do so, and provide the information.

MR. F. JACKSON: When I completed that report, it was one of the things that were considered, whether or not it was of such a pressing matter that it should be forwarded forthwith to the Speaker. In my opinion, it was not. I chose to complete the process that I was requested to complete, and forwarded it to the Minister of Finance.

It's my understanding that will, in turn, be turned over to the members of the Legislature.

MR. J. DOWNEY: Mr. Chairman, I appreciate the Auditor's position, and I realize that the act says he "may," but today it's of pressing importance and we

Tuesday, 9 June, 1987

aren't getting it tabled. It's now being left up to the hands of the Minister.

Mr. Chairman, the unfortunate thing - and the Auditor, I want him to clearly understand where I'm coming from. The record of this government, I think we cannot leave in the hands of the government pertinent information as to the activities of Crown corporations and the reporting that is necessary for the public. That's the reason I'm raising the question. We've had far too many experiences with Crown corporations; we've had far too many experiences with other activities of this government when it comes to the handling of public monies, that we cannot leave such important reporting and pertinent information in the hands of this government, and not delivered directly to the Legislative Assembly.

My comment would be, Mr. Chairman, to the Provincial Auditor, I think it is certainly within the power of the Auditor to very carefully scrutinize what activities the government is carrying on, and I would hope that, for the present report that we're talking about and any future reporting, this particular section of the act is very carefully looked at, and I'm sure it will be. I think that's part of the whole reporting system.

As well, Mr. Chairman, it answers the question of my colleague from Morris dealing with between Sessions that the Speaker is to be provided with that information. As I indicated, there are far too many cases where this government has not been as straightforward as they should have been with the public and the use of public monies. All we have to depend on is the Provincial Auditor to carry out their responsibilities, which I'm sure they have and will continue to do so. I just want to again emphasize that particular instrument which the public depends on.

HON. E. KOSTYRA: I'd just again like to ensure that the record is clear, that the request for this Special Audit was made by the government. That request was made public . . .

A MEMBER: It's information we want, Mr. Minister.

HON. E. KOSTYRA: Do I have the chair, Mr. Chairman?

That request was made public so all members were aware of the request and what questions were specifically raised to be answered by an in-depth report, a Special Audit of the Provincial Auditor. I indicated that report has been received; that report will be made public. It will be done in a timely fashion to ensure that the necessary discussion can commence on that report prior to the next sitting of the committee that's charged with the responsibility of reviewing the Manitoba Public Insurance Corporation.

MR. J. DOWNEY: One final comment, Mr. Chairman, it was also this same government that we saw the shredding of important documents dealing with a public Crown corporation. It was that same public corporation, Mr. Chairman, that lost \$58 million-plus in reinsurance money. It was incumbent upon them to call a Special Audit by the Auditor's department and it's, as well, incumbent to provide that information so we can see the activities that were carried on by this particular government, Mr. Chairman, and I think it's the Auditor's

responsibility, as well, to make that information available because it is of pressing public importance as far as I'm concerned.

Thank you.

HON. E. KOSTYRA: Again, those issues that the member raised were the ones that were contained in the request that I made to the Auditor with respect to the Special Audit. It will be those that will be responded to in the Special Audit and will be subject to legislative discussion, either in general session or in committee, and specifically the committee that's charged with the responsibility of reviewing MPIC.

MR. CHAIRMAN: We're on page 5 of the Auditor's Report.

Mr. Orchard.

MR. D. ORCHARD: Page 5, I believe, has the issue on MTX, and I'd like to pursue a few questions with Mr. Jackson.

Mr. Jackson, after the House rose last summer, the so-named Plunkett Report became a document of public discussion. The Plunkett Report is dated December 31, 1984 and dealt with MTX Telecom Services, particularly in SADL and the related business ventures in Saudi Arabia. Mr. Jackson, can you indicate when your office, yourself, or your assigns were given the Plunkett Report? When did you receive it?

MR. DEPUTY CHAIRMAN, D. Scott: Mr. Jackson.

MR. F. JACKSON: Well, you've referred to something called the Plunkett Report. My understanding is that there are several versions of the so-called Plunkett Report and the copy that we got, which was not nearly the same copy that you've used to advantage, was received I believe in late December or early January.

MR. D. ORCHARD: Mr. Chairman, to my knowledge, there are two Plunkett Reports - and I should have brought the second copy of it to make sure that I'm working from your copy - but I'll just pass this across just to make sure we're talking of the same document, or whether it's identifiable to the same document. There are not significant differences between that one and the original one before it was slightly modified.

MR. F. JACKSON: I don't have our copy of the so-called "Plunkett Report" with us, but we've reviewed them in detail and there was extensive and significant variances, in our opinion, between the copies that we read and an earlier version to the point that one would not really recognize the message as being the message in our opinion.

MR. D. ORCHARD: I wonder if I might work off the one that I believe is the copy, and I'll tell you what. Could the Provincial Auditor send me a copy of the Plunkett Report that was reviewed by the Provincial Auditor, and that would allow me to compare it with what I'm led to believe is the final report that went to the Provincial Auditor?

MR. F. JACKSON: If we can have your copy of the report, we could make a comparison of the two copies.

Tuesday, 9 June, 1987

As a matter of policy, we do not provide our working papers or information that comes to our review to anyone so, once it's our working papers, it stays as our working papers. But we'll be glad to point out to you any of the significant variances between ours and yours.

MR. D. ORCHARD: Okay, I've got another copy in my office and I will do that. I guess the interesting thing is that presumably the copy of the Plunkett Report that you received was the final public version. If that were the case, I don't know the constrictions or restrictions you would be working under as Provincial Auditor in making that available, if it was the final public document or the public Plunkett Report. I don't know where the difficulty would be.

MR. F. JACKSON: I didn't know that there was a public Plunkett Report. I thought the report that we were referring to was an internal document for the MTS Board.

MR. DEPUTY CHAIRMAN: Mr. Orchard, if I could interject just for a second, perhaps rather than Mr. Jackson trying to table some of their working papers, if you could provide Mr. Jackson with your report that you have and he can see if it's consistent.

MR. D. ORCHARD: Mr. Chairman, that is exactly what I indicated I would do.

MR. DEPUTY CHAIRMAN: Very well.

MR. D. ORCHARD: Mr. Chairman, in terms of public, certainly the Plunkett Report was not like the annual report. During the whole MTX unveiling, the Plunkett Report did become a public document.

Mr. Chairman, now it presents me with some difficulty in asking specific questions on the Plunkett Report, but since it was reviewed December or January, could I ask the Auditor a question as to whether part of the information that was part of the report received by the Provincial Auditor's Office alluded to the fact - and I'll quote the one paragraph from the Plunkett Report, which I understand is the final version.

"On June 7, 1983, SADL was given a commercial registration. It commenced business on the same day. However, up to that date, losses had been incurred. These were accounted for in the company as incorporation expenses and were capitalized."

Do you recall that being part of the Plunkett Report?

MR. F. JACKSON: I'm awfully sorry, I don't recall any detail at all on what was the Plunkett Report. It would be inappropriate for me to say I remembered or didn't remember it.

MR. D. ORCHARD: Mr. Chairman, would any of the Provincial Auditor's staff be able to provide that answer today?

MR. F. JACKSON: Well, we'll try with Mr. Singleton.

MR. CHAIRMAN: Mr. Singleton.

MR. J. SINGLETON: I think I'd be in the same position as Mr. Jackson. It's some months since I've had

occasion to look at that report, and I think I'd feel at a disadvantage trying to make concrete statements based on my recollection at this point in time.

MR. D. ORCHARD: Well then, Mr. Chairman, I don't know whether this committee will sit again so we can pursue this. I don't know what the . . .

HON. E. KOSTYRA: It's usually in your hands.

MR. D. ORCHARD: Yes, and just possibly we should count on - I'll provide this copy to the Provincial Auditor and they can go through it because . . .

MR. F. JACKSON: Excuse me. Whether or not we sit again, if you have a specific question, we can respond to that question in writing, whether or not the committee sits again or not.

MR. D. ORCHARD: Well, that's true. The reason I pose the questions on the Plunkett Report is - and I am making an assumption that may be flawed, that this is the report you received and, if it did, it has a number of pretty interesting revelations of information. For instance, I think it would be of concern that losses were capitalized and that would be something that I think the Provincial Auditor would then question.

I think, given the background that we were told that Datacom is our 50-50 joint venture in Saudi Arabia, operated as a separate entity, the Plunkett Report indicated clearly that it and Datacom should be considered the same and books could not be recreated, etc. Those kinds of things if they were part of the Plunkett Report that he received, I think would cause your office some concern.

The reason I posed the question is that Mr. Mackling, when he was Minister responsible, tabled the May 28, 1985 letter from yourself, Mr. Jackson, regarding the Manitoba Telephone System with an accompanying appendix. I want to ask you specifically some questions later on, on that, as to what you were alluding to, because sometimes accounting terms are sort of like language used in international affairs, where we're very genteel in our . . .

MR. F. JACKSON: Maybe I can respond to your earlier question about the cause for concern it should have caused us in regard to the setting up of some start up costs or incorporation expenses or some losses prior to incorporation. That isn't totally unusual at all. One of the things that we've seen is the Manfor entity, where the Receiver's losses prior to the formal start up of the thing were incorporated. In fact, when you get new pieces of equipment into a plant, it's usual to set those costs up as part of the initial start-up expenses, and they get amortized over a number of years into the future.

MR. D. ORCHARD: Mr. Chairman, can I ask Mr. Jackson from the appendix which was attached to his May 28, 1985 letter to Mr. Mackling, and this is a three-page appendix dated April 29, 1985, from the Provincial Auditor's Office.

It's indicated here that: "Because of the nature of MTX's business and the increasing significance of their

Tuesday, 9 June, 1987

operation, we recommended that the system's internal audit conduct an in-depth review of the operation. Internal audit has completed a review of the operations and has prepared a report on their observations. We conducted an overview audit of MTX for 1984-85, which included a review of internal audit's report."

Mr. Chairman, I wonder if that is the same internal audit report that's dated April 2, 1985. Is that the internal audit?

MR. F. JACKSON: Mr. Singleton is answering in the affirmative, so I would accept that.

MR. D. ORCHARD: The report further goes on to say: "Our overview and observations of MTX's operations are included in a separate report."

Mr. Jackson, I might ask, who received this separate report, this overview?

MR. J. SINGLETON: In accordance with our normal practice for distribution of our overview audit reports, a copy of the report goes to the Minister responsible for the operation, to the Minister of Finance and to the chairperson of the board.

MR. CHAIRMAN: Mr. Orchard.

MR. D. ORCHARD: Mr. Chairman, I presume, since this was written April 29, 1985 and alludes to an overview observation of MTX's operations and were included in a separate report, that had to be prior to April 29, 1985, could you, Mr. Jackson, provide myself with a copy of that overview that went to the Minister responsible, Mr. Mackling, the Finance Minister of the day, and the chairman of the board?

MR. F. JACKSON: That again is part of what we don't normally do. The Minister responsible or the Minister of Finance have copies of that information. I would suggest that report should be directed to them.

HON. E. KOSTYRA: I presume the request would stand to me. I'll just take that as notice and respond to the member subsequent on that report soon.

MR. D. ORCHARD: Mr. Minister, I assume that you're going to dig out that overview and provide me with a copy of it?

HON. E. KOSTYRA: I'll respond to your request for it, as to whether or not we can respond to it.

MR. D. ORCHARD: In other words, you're going to indicate to me whether you will make available the overview from the Provincial Auditor on MTX's operations? Mr. Chairman, to the Minister, why would you even hesitate in providing that overview as part of the information that has come forth on MTX that we can learn from? Why would there be any possibility you might not want to provide that?

HON. E. KOSTYRA: I don't know. That's what I'd like to find out.

MR. D. ORCHARD: Well, Mr. Chairman, can I speculate for the Minister one reason why he might not? Maybe

the Provincial Auditor had indicated some concerns that the government knew, in early 1985, a piece of information that we were told subsequently at the hearing by the then Minister responsible, Mr. Mackling, that he had absolutely no knowledge. Might that be one of the reasons why you would choose not to provide that document?

HON. E. KOSTYRA: I can't speculate on something I don't know, and I won't.

MR. D. ORCHARD: Mr. Chairman, I guess Mr. Kostyra indicated earlier on in response to questions from my two colleagues that they provide all information. The Auditor has said, if anything was changed between his report and the report released by the Minister's office, it would become an issue of public debate.

I guess I'm at a loss to understand why this particular report from the Provincial Auditor might be one that you, all of a sudden, wouldn't want to provide to the House and to the Legislature when you've been so open and forthright on internal audits and special investigations and Special Audits in the past. Why would this one be one that you would put a reservation on?

HON. E. KOSTYRA: I didn't put a reservation on it. I said I'd take the member's question as notice and provide him with response.

MR. D. ORCHARD: Mr. Chairman, the response may well be you can't have the report, which flies in the face of what you said to us just within the last half-hour at this committee.

HON. E. KOSTYRA: I have not provided any response to the members, so he can speculate all he wants and, until he has a response, I think in fairness he should wait and see what the response will be.

I'll make the point again, that every Special Audit that this government has requested - and we're not talking about any Special Audits. We're talking about the normal course of review by the Provincial Auditor that goes on, on a regular basis with respect to all departments and all agencies. We're not talking about Special Audits.

MR. D. ORCHARD: Mr. Chairman, I will await with bated breath, the Minister's response on that.

To Mr. Jackson, following further on your appendix, dated April 29, 1985, there is a section 3 called, "New Matters - Approval of Advances to MTX." The second line of that - well I'll read the whole thing so that it's not taken out of context. "From time to time, MTS advances monies to MTX to enable MTX to overcome short-term cash flow deficiencies." The next line says: "The approval process for these advances is quite informal and is generally just a verbal approval on the part of the Director of Finance."

We're talking several millions of dollars if my memory serves me correctly on these advances. In accounting language, sometimes you use very diplomatic language. Is the approval process for these advances quite as informal and generally just a verbal approval? Is that considered to be a warning to the reader, Mr. Mackling?

MR. F. JACKSON: The fact that it's in that appendix is that we didn't consider it to be appropriate. We

Tuesday, 9 June, 1987

considered that something more formal would be appropriate and that we made recommendations to that effect.

MR. D. ORCHARD: Mr. Chairman, further on, on the new matters, on page 3 under the general heading, "Financial Reporting to the Board with respect to MTX and SADL," this section begins by saying: "The Board of MTS receives complete and accurate financial reports from its subsidiaries on an infrequent and irregular basis." Now I take from that, at some point in time, you must have been made aware of complete and accurate financial reports being made available.

MR. J. SINGLETON: Yes, in our view, at the time we were conducting those reviews, complete and accurate reports were available as the auditors signed off on the Annual Report for MTX. Other than at those times of the year, reports tended to be infrequent or incomplete.

MR. D. ORCHARD: I guess that's where we have difficulty in committee, quite frankly. And this is where I'd like to know the marrying that we have as members of the Legislature between the Provincial Auditor's office because we, until approximately nine months ago, never received anything close to a complete and accurate financial report from the subsidiary, namely, MTX or the joint venture SADL. Now, I just want to make sure I'm correct from Mr. Singleton's answer. Did that complete and accurate financial report include one dealing with SADL, the 50-50 joint venture?

MR. J. SINGLETON: Okay, let me clarify that for you. The annual financial report of the Telephone System included financial results of MTX. In the numbers for MTX were included numbers related to SADL. Those reports were audited by independent public auditors and, as such, we considered those to be complete and accurate reports.

MR. D. ORCHARD: Then those, Mr. Chairman, are the complete and accurate reports, the same ones that we receive periodically and reviewed at committee and didn't get the correct answers on when we posed some questions in terms of aging accounts, etc., etc. You might wish to change the terminology of complete and accurate financial reports in retrospect, because certainly they weren't such.

MR. F. JACKSON: Hindsight always provides one with a fair bit of illumination that may have seemed unwarranted at an earlier point in time. In fact, we were communicating with the test auditors and we were given to understand that, within limits of materiality, they considered them to be appropriate, hence our terminology.

MR. D. ORCHARD: This report is of course, April 29, '85, the covering letter one month later. But I would ask of the Provincial Auditor or Mr. Singleton whether the May, 1985 Arthur Andersen and Company audit on Saudi Arabia Datacom Ltd. with the covering letter and a very serious series of improprieties or - I'm looking for the right kind of accounting terminology - problems in

SADL, was that Arthur Andersen and Company report available? It's dated May, '85. Was it available to you prior to your providing this to Mr. Mackling on May 28, '85?

MR. F. JACKSON: Maybe I should have the first go at that.

It's my understanding that, in our communication with Arthur Andersen, there were some problems that had been rectified and, in general, they felt that they were able to certify to the financial statements without undue concern. I think that report that you are referring to came to our attention subsequent to ours.

MR. D. ORCHARD: This one goes to Mr. Holland, who was then general manager and CEO. It's quite an incredible document really in terms of the number of things that it uncovered. You're indicating to me that, as of May 29, '85, this particular report was not available to you?

MR. F. JACKSON: That's right.

MR. D. ORCHARD: Mr. Chairman, in terms of the internal audit, it was available to you. The MTS internal audit of April 2, '85 was available at the time that this report was issued. That one's correct, I believe.

Now even that report has some pretty significant warning signals, and I may be wrong, but I detect that they were identifying internally in MTS some problems with their operation in Saudi Arabia. One statement that stands out, that the issuance of MTX monthly financial statements has not been timely, that was a repeated criticism. Another one, that numerous instances of payments being made to suppliers on the basis of documentation, other than the original supplier invoices, were observed. From an audit point of view, this situation was rather disconcerting. I'm bits and piecing out of this thing, as so much of the information we needed to work with was not readily available nor discernible.

Now having that kind of an internal audit from MTS available - and it was apparently discussed with Mr. Miller, the then chairman of the board of MTS - maybe I'm missing the strength of the message to the Minister responsible in your report to him, Mr. Jackson, but it appears to me that the concerns that even MTS had internally were not adequately - maybe I'm choosing the wrong words. But I don't detect that they were put in very strong language in your report of April 28 and subsequent report to the Minister on May 29.

MR. F. JACKSON: One of the things that you are seeing is that, yes, we were aware of that report; yes, we had discussions with the internal audit staff; yes, we were assured that steps had been taken to correct those deficiencies; and yes, we thought that the situation was serious enough to include in our March 31, 1985 report to the Legislature. In that report, we point out several matters that we consider to be basic to a well-run organization and the fact that they weren't in place for that organization.

MR. D. ORCHARD: Mr. Chairman, on the MTX circumstance, back in 1984 Mr. Ziprick was then the

Tuesday, 9 June, 1987

Provincial Auditor, and I had received information at that stage of the game that our accounts receivable were getting to be fairly sizeable. I attempted to get to the bottom of that in two ways, first of all, through committee. Unfortunately, I did not have the second aspect of the question, knowledge of the necessity to pose the second aspect of accounts receivable, that being the notes payable portion which they were using as a method of, in effect, hiding the real substantial exposure we had over there.

But I pursued that during the committee, in which the - well I won't get into the political aspect of it - but I got nowhere on that in 1985. But the second aspect that I pursued was to go and sit down with Mr. Ziprick, I believe it was December or November of '84, to discuss with him some of the concerns I had about MTX and the Saudi Arabian operation and accounts receivable, and some of the allegations that were being made to me by people who I thought knew what they were talking about.

Now, in discussion with Mr. Ziprick over that issue, he indicated that the Provincial Auditor's Office had also received similar concerns voiced, and I don't know whether it was anonymously or in person. Is it fair to assume that the Provincial Auditor's Office was, at that stage of the game in late '84, early '85, trying to find out information on the Saudi Arabian operation of the Telephone System?

MR. F. JACKSON: Yes, it's fair to say that, and it's interesting to hear that you had a discussion with Mr. Ziprick because we weren't aware in our office of any such discussion. We were aware that the former Provincial Auditor had received a call pertaining to certain allegations as to improprieties in MTX and the Arabian operations. However, the allegations were of such a nature that they were extremely broad, and the person who was supplying the information could not be precise in any way, shape or form. It made it extremely difficult to attempt to come to grips with the allegations that were put forward.

However, I can assure you that the office did respond to those allegations and did attempt to get information that would be helpful to proving or disproving the allegations. Considerable work was done in that regard. It was like trying to fight a boogeyman actually, because they were so imprecise that they were almost impossible to deal with.

MR. D. ORCHARD: Agreed. I assure you, I share some of your concerns there, because I likewise was accused of fighting a boogeyman even up until the 1st of August, 1986 when the then Minister was still saying, this is a highly beneficial operation when we were in to the tune of \$20 million and

MR. F. JACKSON: Well actually, just something further, that matter that you saw in our report about the informal advancement of funds, it actually was being used to provide part of the financing. We were of the opinion that all should have been part of a longer-term plan and had board approval for the limitations on how much funding should have been provided. If that funding was going to be exceeded, then there should have been new board authority, etc.

MR. D. ORCHARD: Mr. Chairman, I'm trying to find a reference here, and I probably can't find it very quickly here but it was a reference - and I'm going off the top of my head that 73 percent of the assets of MTX were accounts receivable, 90-some percent of that from Al Bassam International. That was part of information that was available, and I'd like to find it to determine whether you had that information at the time you wrote to Mr. Mackling on May 28, 1985.

Possibly I can just pose the question: Was that kind of information available at the writing of the audit report on May 28, 1985?

MR. F. JACKSON: Let me help you with that again. The attest responsibility for how much receivables were, what kind of receivables, etc., were not our responsibility. Now having said that, we had ongoing discussions with the accounting firm who had the responsibility for signing off on the financial statements, and we were given to understand in 1985 that there was sufficient action taken by management and sufficient further repayment that they could issue an unqualified financial statement for the year ended March 31, 1985.

MR. D. ORCHARD: Now, that's interesting that you had that assurance. What follow-up do you normally take or did you take in that instance to see, No. 1, that there was that kind of bringing up to date of the accounts receivable and notes payable?

MR. F. JACKSON: Well, one of the things that was instrumental for the accounting firm to come to grips and give that opinion was they had understood that the partner was going to be making a significant injection of further capital. In fact, the partner did make that further injection of capital.

Subsequent to that investment by the partner, things didn't get better and in fact, for 1986, they deteriorated significantly. Hence again, you see another item in our report to the Legislature saying that there had been no improvement.

MR. D. ORCHARD: Correct me if I'm wrong. That substantial injection of funds by the partner into the business, was that not on the basis that MTS-MTX would also inject equivalent amount of the funds?

MR. F. JACKSON: That's my understanding.

MR. D. ORCHARD: Then, Mr. Chairman, there's a second - this information was given to us as a result of asking for source documents used by Coopers and Lybrand to develop the report on SADL. It is the internal audit of April 2, 1985, by the Telephone System. It includes a memorandum in reply to that audit. It includes an appendix, MTX Telecom Services Incorporated, from the Provincial Auditors Office, April 2, 1985.

It appears as if the one that is dated April 29, '85 is different. There are two separate reports. I assume then that you were taking a look not only at MTX but also at SADL, because the April 2 report deals with SADL as the joint venture in Saudi Arabia.

There are a couple of things in here that are noteworthy. It says in last year's report: "We noted

Tuesday, 9 June, 1987

that reporting of financial information on the MTX Board with respect to SADL was not available on a timely basis. This situation continued subsequent to that report." And then you go on to say: "However, we understand that significant steps have been taken to bring about improvements."

What significant steps were taken that you are aware of to allow you to make that statement that the steps were taken to bring about significant improvement?

MR. F. JACKSON: To help you with that internal audit report and its place in the overall picture, it's my understanding that we, as an office, recommended that the internal audit function get in and do a fair bit of work in that area. So looking at the report subsequently told us that some of our suspicions or concerns were in fact confirmed. So we don't regard that internal audit report as something other than or different than part of what we're attempting to do. In fact, we consider that it is a direct follow-up of part of our recommendations.

One of the things that was done or that we were informed of was that the senior officials in MTX and MTS were being involved to an increasing extent to implement an appropriate accounting system for SADL and to bring the MTX records to a satisfactory level. They had in fact recruited a comptroller-type person to relieve the president of some of his mundane accounting responsibilities so that he could concentrate on some of the higher level of responsibilities and, in fact, ensure that the accounting records that we considered necessary to have an appropriate understanding of the entity's operations were in fact in place. We were also given to understand that the records were being completed on a more timely basis than what they had been in the past, and in fact we saw some evidence of that.

MR. D. ORCHARD: Well, Mr. Chairman, that's an interesting observation because, in that same April 2, 1985 report from the Provincial Auditor's Office, under financial reporting, you make the statement: "Financial reporting of the results of operations on a monthly basis has not yet been achieved. Such reporting is essential to maintaining effective control of operations. We recommend that the goal of monthly reporting on a timely basis be actively pursued. This should be based on books of account that are maintaining current accurate position." What progress was being achieved if we don't even have such a basic accounting necessity of maintaining monthly financial statements on the operation?

MR. F. JACKSON: One of the things that was achieved was that for a couple of months the records would be completed on a timely basis and would be brought up to expectations with the understanding that would be continued. We would come back six or eight months later and find that was the extent of the situation and the fact there had been additional staff turnover or the president was involved with other priorities and there had been considerable slippage.

MR. D. ORCHARD: Mr. Chairman, was your contact person with MTX in these matters Ms. Talbot-Allan as the treasurer for the corporation?

MR. F. JACKSON: She wasn't at all the primary contact. The primary contact would have been Mr. Plunkett, but we also discussed certain matters with Ms. Allan.

MR. D. ORCHARD: That's interesting, Mr. Chairman, because one would assume - I believe her official title was treasurer of MTX - that certainly any concerns you would have with discussions with Mr. Plunkett would certainly come to her attention. Can you assume that?

MR. F. JACKSON: No. In the MTS operations, the treasurer has a fairly limited function. It's to a degree relating to the financial overview of the operations and on the treasury side of it, as opposed to the comptrollership side, as opposed to the financial reporting or as opposed to much in the way of MTX operations. In fact there was one matter in our report that dealt with the informal advances from MTS to MTX that we had extensive discussions with Ms. Allan. And that was an area that she had contact with MTX, and it was appropriate for her to have that contact and it was a concern that she had and it was shared by ourselves.

MR. D. ORCHARD: Mr. Chairman, the April 2 report, the April 2, 1985 report from the Provincial Auditor's Office, could Mr. Jackson indicate when and to whom that report was circulated?

MR. F. JACKSON: Which report is that? I'm sorry.

MR. D. ORCHARD: It's the April 2, 1985 appendix on MTX Telecom Services dealing with SADL and it's out of the Provincial Auditor's Office, April 2, 1985.

MR. F. JACKSON: It could have even been a draft report. I'm not certain at this point, but we can follow that up if you'd like.

MR. D. ORCHARD: Yes. I'd appreciate that because it was part of the source documentation that was given as part of the analysis of the Coopers and Lybrand Report.

Mr. Chairman, I guess the one thing that becomes again - and I simply make a point to the Provincial Auditor that, given the sorts of the problems you're alluding to and the information background that you had in terms of MTX, I don't know whether the language here was strong enough to forewarn the government or whether there was sufficient warning there. It's in accounting terms which aren't as blunt as maybe I or others would use, not being accountants and professionals, and hence was there and was ignored. I don't know which it is.

Would you say that your message was sufficient to have a Minister responsible in the government take some rather investigative action to determine whether the problems were there and whether they needed rectifying?

MR. F. JACKSON: Any of the matters that get into our report to the Legislature, we don't treat lightly. If they've got there, they got there because we considered it a serious matter and a matter that required attention.

MR. D. ORCHARD: Mr. Chairman, I simply make the comment basis on that, that I think there now appears

Tuesday, 9 June, 1987

to be a pretty good case that Mr. Mackling, in particular, and the government, in general, did not take some of these warnings and inclusions in the Provincial Auditor's Report very seriously and the then Minister of Finance, not this one, presumably was at least on the mailing list for some of these warnings. Now that's our good friend, the Member for Rossmere, who's no longer the Finance Minister, and maybe that's for very good reason.

Mr. Chairman, there are a couple of other questions that I'd like to pose to Mr. Jackson in terms of - throughout the MTX operation, there were guarantees by the Province of Manitoba, I believe through the Development Fund. MDC I believe was the conveyor of that \$4 million provincial guarantee. Was it direct? The Minister seems to be indicating it was direct.

MR. F. JACKSON: To my understanding, MDC was not involved with any guarantees.

MR. D. ORCHARD: Then could I ask the question: Was the Province of Manitoba directly involved in that guarantee with the Department of Finance, would that be the place? The Minister can maybe answer that.

HON. E. KOSTYRA: I'm sorry, I didn't hear the direct question. But I believe the answer to the question I did hear is that they're either done directly through MTS or there may have been on occasion a direct guarantee.

MR. D. ORCHARD: Again, if I could find it.

HON. E. KOSTYRA: There is on page 3-23 of Public Accounts, the Contingent Liabilities, and if you look under that you'll see MTX Telecom Services, a maximum guarantee of \$4 million and the outstanding as of March 31, 1986 at approximately \$2.6 million. So that would be directly by the government under the authority of The Financial Administration Act.

MR. D. ORCHARD: Could the Minister give me the page that's on again?

HON. E. KOSTYRA: 3-23.

MR. CHAIRMAN: Volume 1 of the Public Accounts. It shows all contingent liabilities.

MR. D. ORCHARD: Okay. Now, can I ask the question how, when that's a line of credit that was established at the Bank of Nova Scotia and it was guaranteed by the Province of Manitoba, \$4 million maximum, what is the process under which that guarantee is exercised? Is there a formal process in the Department of Finance wherein you are notified that the guarantee that you have provided is now being exercised and is there an authority which must be granted by the Department of Finance, either yourself as Minister or within the Department of Finance, to enable that guarantee to be exercised?

HON. E. KOSTYRA: First of all, the authority rests by Order-in-Council for the issuance of the guarantee. In this specific case, that was done in 1983, Order-in-Council 854/83.

I'll ask Mr. Curtis to explain how it's drawn down.

MR. CHAIRMAN: Mr. Curtis.

MR. C. CURTIS: Mr. Chairman, in this instance the bank had provided funds against accounts receivable and, in order to secure their loan against the accounts receivable, they required that a guarantee take place, and this was the guarantee.

MR. D. ORCHARD: Okay, that's what happened. Who gave approval, who was notified that was happening and was approval necessary by any officials or the Minister in the Department of Finance?

MR. C. CURTIS: This would have come through the Department of Finance, the Order-in-Council.

MR. D. ORCHARD: Now, when the Bank of Nova Scotia informed you presumably that a portion of that guarantee was exposed, if that's the proper terminology, or about to be used, what process, notification and/or approval is necessary through the Department of Finance?

MR. C. CURTIS: This call, I think, took place some time back and was in a series of several payments, as I recall, but the bank - and I'm not certain who they notified - notified the department. I would have to check back to find the precise dates of notification or who it was that was contacted.

MR. D. ORCHARD: Then when you issued this guarantee, and the bank has informed you that it is being utilized, what's the response of the department? Because I believe the maximum that guarantee was exercised - well, maybe I'll pose this question now. Mr. Curtis, given the wind-down scenario, how much of that \$4 million guarantee is going to be exercised, if any?

MR. C. CURTIS: All of the guarantee was paid out to the bank. They called the whole guarantee.

MR. D. ORCHARD: Now, Mr. Chairman, there seem to be gaps in the reporting process. What I'd like to know is, you give yourself, you agree, the Cabinet agrees, in 1984, to guarantee up to \$4 million at the Bank of Nova Scotia. Surely there are some questions asked as to why is this guarantee - the Minister can correct me, because he sat around the Cabinet table when that was passed. Surely this Order-in-Council was requested in the past, not so that it can be used, but as a means of backup that presumably would not be used, that there would be no exposure to the government. I don't think any Minister would have brought this guarantee to the Cabinet, saying we're guaranteeing this \$4 million and we expect to lose it as we now have.

So my question is: When this guarantee starts to be exercised by the bank, does that not indicate to the Department of Finance, to the Cabinet, to the Minister, that there are difficulties coming up, that this guarantee has to be used to secure our accounts receivable? I want to know what notification process

took place and whether indeed - and this would be a question to Mr. Curtis - the Minister was informed that this guarantee was being exercised?

HON. E. KOSTYRA: I don't have the specific answers to the questions. We'll have to take that as notice and provide it to the member.

MR. D. ORCHARD: Mr. Chairman, I appreciate the Minister doesn't have the answer to that, but I think that this Minister is shrewd enough to understand the direction of the questioning, that we have the province having to put up \$4 million to pay off - well, like the whole thing was just to refresh committee members' memories.

What we did in Saudi Arabia is we sold goods and established accounts receivable. Those accounts receivable, once they came past a certain overdue date, whether it be 60 days or 90 days, the way those accounts receivable were paid was that our customer, the sheik in Saudi Arabia or his companies and assigns would come to the bank and they would say, we're going to have you pay that accounts receivable and we're going to establish a note payable at the bank and we're going to sign the note payable. That way, MTX gets their million dollars or whatever the accounts receivable is, but the catcher was that the Province of Manitoba guaranteed the sheik would pay the note payable that he used to pay MTX. So in other words, we were guaranteeing payment of our own accounts receivable.

Now, given that was the scenario and then, given that we're into the millions of dollars, I want to know the reporting process by which officials in the Department of Finance gave approval to have this guarantee exercised, and I want to know if that approval was given independent of ministerial knowledge and/or approval, or whether the then Minister, Mr. Schroeder, was aware the guarantee was being exercised every time it was being exercised. I want to know the reporting procedure on how we, within the Department of Finance and as taxpayers of Manitoba, guarantee accounts receivable. Can that detailed process of notification be provided the next time this meeting sits?

HON. E. KOSTYRA: As I indicated, we'll provide that information, but it seems to me that the member, in part, has answered his own questions and he's aware that some of that information is not available to the decision-makers subsequent to the actions, but we can certainly reconstruct that for him. That obviously is part of the problem, or was part of that problem.

MR. D. ORCHARD: Mr. Chairman, now that's not quite a precise analysis by the Minister. This guarantee was put in place in 1983. Problems in MTX did not surface until late 1986. In the meantime, and the Minister could also provide this information to me, from 1983 on, when the province had a \$4 million guarantee, could you provide to us the chronology of when and to how much money that guarantee was exercised? Presumably it was exercised in stages.

There may have been a call on the guarantee of \$500,000 in 1983, another \$1 million in 1984, another \$1 million in 1985, I don't know. Can the Minister provide

that information, because here we're not talking about Telephone System employees who have been fired, not providing information? We are talking about the Department of Finance who was provided a guarantee, being asked to certify that guarantee for a certain dollar value. If the Minister is saying that the Department of Finance did not inform the government that was happening, then that's one matter, but I'd like to know what the formal process is and how this guarantee, the chronology, when it was exercised, in what stages, to what dollar values, and what the notification process was in each case from the Minister of Finance or to the Minister of Finance from the department. Was that information that can be provided at the next time we meet?

HON. E. KOSTYRA: Yes. I just point out, in reviewing the Public Accounts for the year ending March 31, 1985, at that point in time the principal amount outstanding was \$2.3 million, so during the year from March 31, 1985 to March 31, 1986, it was increased by approximately \$300,000.00. Obviously, some decisions have been made within that time frame to increase the amount outstanding as against that guarantee. Going back the previous year or two, we'd have to reconstruct that.

MR. F. JACKSON: Perhaps that would be interrupting at this point, but one of the things that I meant to follow up with was the comment that I made at the last committee meeting about the Jobs Fund and the availability of a general overview of information.

We took it upon ourselves to review the Public Accounts and other public information to provide a bit of an overview on the Jobs Fund from inception till now, and that information is available if you would like me to relay it to the . . .

MR. CHAIRMAN: Thank you, Mr. Jackson.
Mr. Orchard.

MR. D. ORCHARD: Mr. Chairman, in addition to the \$4 million guarantee by the Province of Manitoba, we also have a guarantee of \$3 million, guaranteed by MTX, and of course MTX being wholly owned by MTS, guaranteed by MTS. Can I ask whether the Department of Finance would have any involvement in the exercise of that guarantee offered by MTX-MTS to the Royal Bank, in this case, for \$3 million?

MR. C. CURTIS: Mr. Chairman, I'm not aware that there was any information passed on to the Department of Finance, but again . . . - (inaudible)-

MR. D. ORCHARD: A question on that same \$3 million guarantee by MTX to Mr. Jackson. Who, in your estimation, would monitor the exercise of that guarantee offered by MTX-MTS? Would that be strictly an internal MTS proposition or would you, at some point in time, or the external auditors, Arthur Andersen and Company, would they become involved in monitoring that?

MR. F. JACKSON: What you've just described is one of the treasury functions of the Treasury Division of MTX and MTS, so they would want to have the overall

Tuesday, 9 June, 1987

overview of what the position was with the financing at any point in time, and MTS's involvement in that, as well as when it's seen from a cash-flow basis, there might be a need to have further draw downs.

The attest auditors would want to understand what the position was at the end of a given fiscal year for the corporation, and certainly senior management within the organization would as well.

MR. D. ORCHARD: So it would be a relatively safe assumption that Ms. Talbot-Allan, as treasurer of MTX, when the guarantee was issued by MTS, would have been certainly knowledgeable, one of the persons knowledgeable of the draw down of that guarantee?

MR. F. JACKSON: I understand MTS was involved as well.

MR. D. ORCHARD: Well, I only say MTS is involved because MTX was a 100-percent-owned company of MTS so that if MTX did not have the financial resources, MTS would naturally.

MR. F. JACKSON: Sure, that's one of the expectations I would have.

MR. D. ORCHARD: Mr. Chairman, before the committee adjourns, I would go back to my office, get a copy of what I believe to be the final Plunkett Report and provide it to the Auditor, so that he can provide me with any potential variances in this one - and there may be more than two Plunkett Reports out there - and look forward to the next committee hearing where we can pursue questions on that specifically.

MR. CHAIRMAN: Mr. Manness, do we stay on page 5?

MR. C. MANNESS: What's the wish of the committee? Obviously, we're going to have to sit again.

HON. E. KOSTYRA: Let's go to 12:30 p.m.

MR. CHAIRMAN: Mr. Manness, page 5—pass.
Page 6 - Mr. Manness.

MR. C. MANNESS: Mr. Chairman, the Auditor draws note to the fact that there's a new accounting procedure in the area of assets and liabilities, taking into account or more clearly recognizing, I suppose, the debt-related transactions, foreign currency losses. Again, I'll ask the Provincial Auditor whether or not he has a better understanding this year, as to how the government intends to incorporate some of those foreign exchange losses within the appropriations on a yearly basis? Can the Auditor indicate whether there has been more of a formal policy developed by the government which has been presented to him?

MR. F. JACKSON: The policy that's reflected on this page 6 is the policy that was implemented for March 31, 1986, and what it does, what the main entry there is to do with the provision for unrealized foreign currency losses. What that really relates to is recognition of the fact that some of the currencies that we have debt in

have changed in relation to the Canadian dollar, and it's an attempt to recognize certain of that change in each of the fiscal years over the date of the existence of the debt up to the date that the debt is due.

MR. C. MANNESS: I understand that, Mr. Jackson. But can you tell me the method used to allocate a certain share of those losses to the current year? Has that policy that's been in effect basically now for a year but still - and I guess some portion of those losses is reflected in this year's appropriation?

MR. F. JACKSON: Yes, that's on page 90, I understand.

MR. C. MANNESS: 90 of this report?

MR. F. JACKSON: Yes.

MR. C. MANNESS: -(Interjection)- I don't know if I can wait that long.

Mr. Chairman, I would ask again if the Auditor could give me just a verbal description as to how the process works.

MR. F. JACKSON: Yes, my understanding is that they've adopted a procedure where they have an averaging method of recognizing the foreign losses that have been incurred. They take a portion of that and amortize or charge to each year's expenses the relative portion for the year.

MR. C. MANNESS: What portion? Mr. Chairman, in reviewing quickly page 90, I don't see it. It may be there but can the Auditor tell me what portion?

MR. F. JACKSON: It depends actually as to the point in time that the debt has been outstanding. It's done on an issue-by-issue basis. It's a fairly complex, long calculation. What they do is they relate to each debt issue. They relate to the amount of currency change that's taken place in that particular currency that the debt is in. They also relate to the number of years remaining to the date that the debt is due.

In establishing that \$256.4 million that was charged as a prior-year adjustment, all of those factors were considered up to March 31, 1985. Then for the '86 year, the consequences of the same policy were applied so that the '86 year bore its proportional share in relation to any changes that have taken place in the currencies, one against the other.

MR. C. MANNESS: Mr. Chairman, then I would ask either the Minister or the Deputy Minister of Finance if they could tell me specifically the figure that was entered into appropriation in the year '86-'87 and indeed in the budget for '87-'88. When I say the budget, I mean the appropriation.

HON. E. KOSTYRA: The figure on public debt costs, or . . .

MR. C. MANNESS: No. The portion representing some share of the foreign exchange losses.

HON. E. KOSTYRA: There are two ways, Mr. Manness. We will provide that information either at the next sitting

or else, if we're in Estimates prior to that, I've got that in that book, or certainly for this year.

MR. C. MANNESS: Mr. Chairman, I think I requested last year at this sitting the detail. The Auditor says it's complicated and I accept that, but I'm wondering if I could be provided with that detailed formula that comes up with some figure which of course ends up being . . .

MR. F. JACKSON: The formula itself isn't that extensive. It's fairly straightforward. It's working through every debt issue that we've got and relating every year of that debt issue. That's the complex, difficult part.

HON. E. KOSTYRA: I'd just ask Mr. Curtis to explain the formula.

MR. C. CURTIS: What we're attempting to do, Mr. Chairman, is to amortize the difference in foreign exchange year by year and, to do that, we take the increases or decreases in the foreign exchange for the previous three years and we amortize that over the remaining life of each issue - and that's in each currency - so that if a currency goes up in cost one year then we take the portion - if there were, let's say, 10 years left, we would take one-tenth of that increase and that would come into the year as an additional debt cost. So it is reflected, that increase or that potential cost is reflected in our debt costs for the year.

HON. E. KOSTYRA: Both in terms of our Estimates at the beginning of the year and actuals at the end of the year.

MR. C. MANNESS: Mr. Chairman, it just goes back three years, so the major significant losses in foreign exchange, it may -(Interjection)- it's the average over three years, the formula is three years. But once we're four years away from the major loss, that may no longer be reflected, or is it a running average to the extent that -(Interjection)- it's a running average.

MR. C. CURTIS: We change it each year. We in fact drop a year, so that the furthest year away is not any longer used, but it is the average of the current three years.

A MEMBER: Running average.

MR. C. CURTIS: Yes, running average. What happens of course at the end, if an issue is paid off or becomes due, then whatever balance is picked up as a cost of that year.

MR. C. MANNESS: Well, Mr. Chairman, we won't prolong that discussion now. I think we will enter it in greater magnitude during the Department of Finance Estimates. I've no further questions on it.

MR. CHAIRMAN: Pages 6 to 11, inclusive, were each read and passed.

MR. C. MANNESS: Question on page 12.

MR. CHAIRMAN: Page 12.

MR. C. MANNESS: Mr. Jackson, are you happy now with the manner in which Manitoba Properties Incorporated is being accounted and their activities are being accounted?

MR. F. JACKSON: Auditors are never happy. The Manitoba Properties Incorporated, there's sufficient information provided in the Public Accounts so that the activities of the Manitoba Properties Inc. can be properly interpreted.

MR. C. MANNESS: Mr. Jackson, is the government doing the public a service by not indicating at this point that the cost of servicing these shares indeed isn't an interest expense? I know there's a footnote within the Department of Government Services but indeed, Mr. Jackson, do you feel that the cost of leasing as it's showing as a lease cost shouldn't be brought somewhere else also, other than in your report, within the Estimates showing that indeed this is similar to a debt, to an interest cost?

MR. F. JACKSON: My understanding is that information was in a footnote and that one has to at some point recognize that this situation could be a long-term situation and the legal reality of it being there. We had an extensive discussion on this last year and, as I indicated at that time, certainly it's a financing mechanism that's being used, and the Department of Finance considers that there are ongoing savings of approximately \$10 million to the government. That changes year by year as the interest factors perhaps change with current financing as opposed to past opportunities. But we had to come to grips with the reality of this situation. Yes, it's a financing technique that's being used, but this corporation's out there. People are getting paid dividends; people are depending for part of their incomes.

So it's a real entity and our preference would be that there continue to be a note that says as far as the rental costs, under a previous basis, that would be an interest cost.

HON. E. KOSTYRA: Just one quick point, the fact that these interest charges are shown in Government Services, it is not descended from other interest charges that relate to publicly built schools which show up in the Department of Education as the cost of the debentures are repaid there and to the Manitoba Health Service Commission with respect to hospitals and personal care homes in the province. Those interest charges don't show as part of the public debt that show up under the respective departments as those debentures are paid off and the interest related to them.

MR. C. MANNESS: I thank the Minister for that. I'll have to start adding those in then, Mr. Chairman. I guess I react to some of the Budget summaries that are done by some of the financial houses who look very quickly through the Budget and somehow come to the conclusion that our interest costs, our statutory debt percentage of the total of expenditures is somewhere around 8 percent. Of course the Minister

Tuesday, 9 June, 1987

knows full well it's approaching 12 percent. I'm just wondering if it could be presented in some fashion that any person, with any elementary understanding of financial borrowings would add up those two figures and come up with the proper result.

Pass, Mr. Chairman.

MR. CHAIRMAN: Pages 12 to 17, inclusive, were each read and passed.

Page 18?

MR. C. MANNES: Pages 18, 19 and 20 can pass, and then I would recommend that we rise, Mr. Chairman, if that's . . .

MR. CHAIRMAN: Pages 18 to 20, inclusive, were each read and passed.

Committee rise.

COMMITTEE ROSE AT: 12:27 p.m.