Report of the Provincial Auditor 1988-89 (continued)

Mr. Chairman: — I call the meeting to order. Last time Mr. Anguish asked a number of questions of the auditor. The auditor has tabled a document with us this morning in answer to Mr. Anguish's questions. If the members want to take a few moments to digest this information.

Mr. Rolfes: — I just have a question if I may for . . . not for clarification, for information purposes. Would you know what the class B common shares were worth . . . (inaudible interjection) . . . It says . . . At the time, yes. There was 5.2 million in promissory notes and 1.155 million class B common shares of WESTBRIDGE. What was the worth of each of those common shares?

Mr. Wendel: — Mr. Chairman, Mr. Rolfes, subsequently they ended up at the same worth as the class A shares. They were exchanged one for one.

Mr. Rolfes: — That wasn't my question. My question was: at the time that this arrangement was made, what was the value of a class B share? I mean they may eventually be the same, but at the time that this took place, what was the value of a class B share? And I also want to know what the value of a class A share was at that time.

Mr. Wendel: — Mr. Chairman, Mr. Rolfes, the question then relates to the second item on the page?

Mr. Rolfes: — Yes, the second item on the first page, February 24, 1988.

Mr. Wendel: — The value that would be ascribed to them would be on the next page, down at the bottom on the left-hand side, class B common shares.

Mr. Rolfes: — Were at $10 per share.

Mr. Wendel: — Yes.

Mr. Rolfes: — Okay, thank you.

Mr. Anguish: — Mr. Chairman, I have to leave in a few moments. I have my critic area up for the Crown Corporations Committee, so I'll excuse myself around 9 o'clock.

The question I have for the auditor, I'm wondering whether or not in the course of your audit, whether you have or whether you're considering reviewing the appraisal prepared for WESTBRIDGE by Richardson Greenshields? In particular I'm thinking of the valuation of the Leasecorp group.

Mr. Wendel: — Mr. Chairman, Mr. Anguish, we will be reviewing that appraisal for the purposes of determining whether or not the note to the financial statements are appropriate for the amounts disclosed in them.

Mr. Swan: — Could I ask for that to be repeated. We just can't hear you.

Mr. Wendel: — Mr. Chairman, Mr. Swan, we will be reviewing that appraisal, and the purpose for review will be to determine whether or not the notes to the financial statements of WESTBRIDGE are fairly disclosed, where they disclose the market value of the shares.

Mr. Anguish: — As far as you know, the sales, the merger and amalgamation of these companies and provincial assets to form WESTBRIDGE will be done at value or fair market value.

Mr. Wendel: — Mr. Chairman, Mr. Anguish, the first page of the document that I've tabled today goes through a number of transactions there, and those transactions are all with related parties on a very complex . . . There are no gains and losses recorded because they are with related parties, so they would be recorded at book value throughout.

So in the final analysis, what you have is a disposal of $25 million worth of assets at book value, and the amount they received for that is disclosed in note 8 and 10 or 11 of SaskTel's financial statements. The receipt . . . what they've owed for that $25 million in book value of assets is 1.625 million class A common shares, 2.955 million class B common shares, and a promissory note of $1.8 million bearing interest at nine and three-quarters per cent due January 1, 1992.

Mr. Anguish: — Let's go back to the . . . on page 2 of the document being handed out today, at the bottom of the page under the first column entitled "Province of Saskatchewan," the total at the bottom shows to be $51 million. Would that $51 million represent book value or fair market value?

Mr. Wendel: — Mr. Chairman, Mr. Anguish, that would represent the value ascribed to those companies by the valuator, which would be his estimate of the market value.

Mr. Anguish: — So did the valuator use fair market value or did the valuator use book values of the company's assets?

Mr. Wendel: — Mr. Chairman, Mr. Anguish, that would be fair value.

Mr. Anguish: — So that reflects fair market value, the $51 million?

Mr. Wendel: — In the valuator's opinion.

Mr. Anguish: — Is the valuator in this case Richardson Greenshields?

Mr. Wendel: — Mr. Chairman, Mr. Anguish, that's correct.

Mr. Anguish: — As far as you know, was there any other valuation done?

Mr. Wendel: — Mr. Chairman, Mr. Anguish, I'm not aware of any other valuation.

Mr. Anguish: — On page 3, note (a), I want to read that into the record. You say in your document, and I quote:

> The consideration given on the transfer of assets from the Province of Saskatchewan was valued at estimated fair market value, which was substantially based on the estimated future business value of the operations acquired. However, these transfers have been accounted for using the continuity of interest method, whereby the net assets are recorded at the historical amounts recorded by the predecessor entities. Accordingly, the fair value of Class A and Class B shares issued has been reduced by $26,248,000.

Could you interpret for me how that relates to the $51 million that was assigned as a value to the province of Saskatchewan's assets?

Mr. Wendel: — Mr. Chairman, Mr. Anguish, as I stated earlier, these are transactions between related parties, so you cannot have a gain or a loss when dealing with yourself. All you can record, for the acquisition of those shares in your books, is what you had before. You can't write the assets off until you've actually . . . the transaction with an outside party, till you've actually disposed of the shares to an outside party. At that point you've had a transaction, you can book your gain or loss, or a portion thereof.

Mr. Anguish: — Well is the province of Saskatchewan dealt with? Their assets, are they dealt with in one particular manner as you've described, and Leasecorp group's assets would be treated in another manner? Is there a difference because those companies are private and coming into the merger and the province of Saskatchewan's assets were public?

Mr. Wendel: — I'll let Mr. Heffernan answer that.

Mr. Heffernan: — Yes, I think if you look at note (b) on page 3, it says: "The share acquisitions of both Mercury Group and Leasecorp (Western) are accounted for using the purchase method."

What that means is that since WESTBRIDGE was dealing with outside third parties, they actually recorded investments in the amount of the consideration given. So in this case they are recorded at the market values.

Mr. Anguish: — So if I understand this correctly, the assets of the province of Saskatchewan were purchased by WESTBRIDGE at a discounted value, and the assets of the Leasecorp companies and the Mercury Group were purchased by WESTBRIDGE at inflated values. Is that correct?

Mr. Heffernan: — This is the method that general accounting principles require. In the case of the province of Saskatchewan, all the dealings were with related parties. In other words, you're dealing with yourself. You're not allowed to just transfer assets around and record gains. That just leaves it wide open then for any company to just trade assets with its subsidiaries and record gains. So until the province of Saskatchewan actually deals with a third party, when they're selling the shares or assets, they can't record any gains.

Now in the case of Leasecorp and Mercury Group, they actually are dealing with third parties, so that you'll notice that the consideration given is the same as the assigned values in those cases, with Mercury Group and Leasecorp.

Mr. Anguish: — What regulation and what Act says that the province of Saskatchewan cannot make a gain, but the private companies coming in, the Mercury Group and the Leasecorp group, can make a private gain? You see where . . . it says on page 2 of the article that you've handed out this morning: "Net assets acquired, at assigned values. Excess of acquisition cost over assigned values." The province of Saskatchewan, nothing; the Mercury Group, 2.5 million; Leasecorp Western, 4.9 million, almost 5 million; and a million dollars for Leasecorp Systems.

Leasecorp Systems didn't have any assets whatsoever, yet there's a million dollars assigned on to them. I don't understand how a company that is still the major shareholder, being the province of Saskatchewan, cannot make a profit out of this transaction into Crown investments corporation but yet the private companies, the Mercury Group, the Leasecorp Western, Leasecorp Systems, all make very handsome profits off of the acquisition of those companies.

And I'm wondering what is the article or what is the regulation or statute that says that the province can't make a profit but these companies can.

Mr. Heffernan: — Mr. Chairman, since February 24, the company, WESTBRIDGE, has sold shares to the public, and in those cases gains have been made and were recorded in SaskTel. I believe SaskTel made a $6 million gain in the first issue of shares to the public. So that while the province can't make gains on its own transactions, once it starts to sell to the public, and it has done some of that, then it can record gains and it has recorded gains. So they have made some money on it.

Mr. Anguish: — So a public company, a Crown corporation which is public, if they sell to the public they can make a profit, but if they sell within themselves they can't make a profit.

Mr. Heffernan: — For accounting purposes, yes.

Mr. Anguish: — For accounting purposes. Now was it SaskTel that made the profit on those share sales or was it in fact WESTBRIDGE that made the profit on those shares?

Mr. Heffernan: — Yes, WESTBRIDGE and CIC (Crown Investments Corporation Industrial Interest Inc.). They were public shares too for a while and . . . SaskTel, I'm sorry.

Mr. Wendel: — It was SaskTel and CIC that would have made the profit . . . CICIII.

Mr. Anguish': — From WESTBRIDGE shares? So WESTBRIDGE didn't make any money; it was CICIII and SaskTel that made the money?

Mr. Wendel: — Because they held the shares, when they sold them they would have recorded the gain.

Mr. Anguish: — Okay, so they sold some of the shares that they were given in the initial acquisition.

Mr. Wendel: — That's correct.

Mr. Anguish: — They floated those on the public stock exchange then? What's going on?

Mr. Heffernan: — What happened was at the time that the first share issue was made, the province of Saskatchewan, and that would be I guess . . . the province anyway, owned 80 per cent of the shares. Okay. Now after the public issue, the province's share was down to 60 per cent . . . or 61 per cent. The shares that WESTBRIDGE sold — these were shares issued by WESTBRIDGE — were at a price higher than what SaskTel and CICIII had paid for the shares so that their equity in WESTBRIDGE actually went up. So they recorded that as a gain. Because WESTBRIDGE itself became more valuable, it sold shares at a higher rate than what SaskTel had paid. SaskTel then can book that gain.

Mr. Anguish: — So $10 versus $15 shares have gone up, they made a profit, and that money went into SaskTel and CICIII.

Mr. Heffernan: — Well the money goes into WESTBRIDGE.

Mr. Anguish: — So then the money doesn't all go to SaskTel.

Mr. Heffernan: — No, but their asset has increased in value, because of the shares that WESTBRIDGE has sold and kept the cash themselves was higher than the price that SaskTel had paid. So their investment has increased in value and they can record that as a gain.

Mr. Anguish: — Who kept . . . I don't understand that.

Mr. Heffernan: — WESTBRIDGE has kept the cash.

Mr. Anguish: — WESTBRIDGE kept the cash.

Mr. Heffernan: — Yes. But SaskTel's investment in WESTBRIDGE has gone up because . . .

Mr. Anguish: — But it was SaskTel and CICIII that sold the shares. It was WESTBRIDGE that sold the shares.

Mr. Heffernan: — WESTBRIDGE sold the shares. CIC (Crown Investments Corporation of Saskatchewan) and SaskTel owned shares, own shares in WESTBRIDGE. It wasn't their shares that were sold, it was actually new shares issued by WESTBRIDGE.

Mr. Anguish: — So it was WESTBRIDGE that made the money.

Mr. Heffernan: — Yes.

Mr. Anguish: — The value of the shares held, went up in value at the time of the transaction for CICIII and SaskTel.

Mr. Heffernan: — Yes. WESTBRIDGE got the money. WESTBRIDGE became actually more value asseted as far as SaskTel and CIC were concerned. In accounting they can at that point record that gain. So the value of the investment has gone up.

Mr. Anguish: — But there's no actually moneys. It's their asset value that increases. There's no money coming back into SaskTel and CICIII who are going to turn it back into Crown investments corporation.

Mr. Heffernan: — That's right. In fact in the long run, depending on the market value of those shares, they may or may not make money.

Mr. Anguish: — Whose regulation is it that you can't make a profit?

Mr. Heffernan: — It's not a regulation, it's for accounting purposes only. That's why in the notes they also give the market value, just so that you're aware that these may actually be worth more than what's booked in the financial statements. But for accounting purposes they can only record what . . .

Mr. Anguish: — Mr. Chairman, I have to go because my critic here is up before the Crown Corporations Committee. Mr. Lyons, I believe, has some questions. And if I could be excused.

Mr. Lyons: — Just following along on that line of questioning, Mr. Wendel. Back to the little . . . page 3, point (a) on page 3 which appeared, I believe, on the prospectus as well. There was the same type of financial note on the prospectus. That the fair value of the class A and class B shares issued has been reduced by $26.248 million; that those are the shares that are held by the province of Saskatchewan. I wonder if you could explain what that note means and from whence it was derived.

Mr. Wendel: — Mr. Chairman, Mr. Lyons, it would be from the prospectus. The note was derived from the prospectus and from the financial statements of WESTBRIDGE. And what it means is at this point there can be no gain or loss reported on the fair value of the assets transferred to WESTBRIDGE because they were still dealing with themselves under generally accepted accounting principles. So what they had to do was continue to value them at book value. That's all the note is saying.

Mr. Lyons: — What is the reduction of the difference between . . . I take it then the difference between book value and other value, which is fair market value, is the 26.248 million between those assets that reported at its historical levels and what? What's the other side of that equation?

Mr. Wendel: — On page 2 of that document; the first column is called "Province of Saskatchewan." Now what it says there is $51 million was being the ascribed value by this valuated . . . to these shares. However as it states earlier, the book value of those shares is only 24 million, or 25 million, whatever, 24.752. So the difference would be that $26 million that they're talking about.

Now what they've decided to do is they valued the note at face value, 23.2 million, and they forced the difference through to the value of the shares which is 1.552 million. But it's only for the purposes of accounting. That's how you would have to book it because you can't make a gain dealing with yourself.

Regardless of what these values are here that are disclosed in this prospectus, the real value that would be received for the sale of the assets won't be determined until such time as those shares are sold on the market. Have you read here from note 8?

Mr. Lyons: — Yes. So if the share price was $5, then the province would record a 50 per cent loss on the share value given, the value of the common class A and B shares.

Mr. Wendel: — If they sold those shares and you'd get the proceeds from that and compare them to what you had booked in your accounts at book value, the gain or loss would be whatever it was.

Mr. Muller: — If it were $15 it would be **. . .** (inaudible) . . .

Mr. Wendel: — That's correct, yes.

Mr. Lyons: — So the actual value, based on this historical continuity, the actual value that was given to WESTBRIDGE was what, $24 million? The actual value of the assets?

Mr. Wendel: — Yes.

Mr. Lyons: — 24.752.

Mr. Wendel: — At that date that was the book value of the assets. The actual value, share market value was a matter . . .

Mr. Lyons: — This was the assigned at the $51 million, right, so nobody knew. Okay. All right. That explains that particular note.

Mr. Anguish had asked a question earlier on and I'm sorry I've forgotten the answer, so perhaps you can refresh my memory. I believe he asked whether or not in the auditing of this particular transaction, whether or not you would be looking at the valuation assigned by Richardson Greenshields. I can't remember the answer if you were or weren't.

Mr. Wendel: — Yes, Mr. Chairman, Mr. Lyons, we will be looking at that valuation, as I stated, for the purpose of determining whether or not the market value is disposed in the notes to the financial statements where appropriate.

Mr. Lyons: — Okay. Do you have any idea when that's going to be done, Mr. Wendel.

Mr. Wendel: — Mr. Chairman, Mr. Lyons, in about three weeks; we're about 80 per cent complete.

Mr. Lyons: — And that will be included in next year's auditor's report, or are you intending to issue a special report?

Mr. Wendel: — Mr. Chairman. Mr. Lyons, I think as a matter of course if there is something to report, it would be included in the next year's annual report, unless there is something of such significance that I had to bring it forward.

Mr. Lyons: — You won't be able to make that determination for three weeks or thereabouts, a month to three weeks.

Now I want to get straight in my mind the **. . .** and I understand this point (a) now . . . the purchase method of accounting. I wonder if you'd enlighten us as to . . . Is that another, just another term for fair market value method or . . .

Mr. Wendel: — I'm going to defer to Mr. Heffernan . . .

Mr. Heffernan: — It's the actual cost incurred.

Mr. Lyons: — The actual cost incurred in the purchase of the . . .

Mr. Heffernan: — I guess it's another way of saying it is: it's the fair value of the consideration given, is what's booked in this case. So it's the opposite of what you do with related parties. So you actually book for what . . . if you gave fair value of $10 million purchase a company, that's what . . . your investment would be valued at $10 million.

Mr. Lyons: — Whether or not there was an asset base there that would sustain the $10 million purchase price.

Mr. Heffernan: — That's right. The book value of the company that you purchased might be considerably less than what you paid for it, if you felt there was value in a company over and above the book value . . .

Mr. Lyons: — And I notice that in the case of both Mercury Group and Leasecorp Western, that there was an assigned value or net assets acquired at assigned values in excess of acquisition cost over assigned values. In the case of Mercury, the excess of acquisition cost over assigned values was $2.533 million.

Would the purchase method — and this is I guess the heart of the question I wanted to ask — does the purchase method just deal with that gross price, if you like, 4.9 million? Or is it based on something else in terms of the accounting? Like apparently it was $4.9 million was paid for the acquisition of Mercury Group. The purchase method would therefore just assign that value?

Mr. Heffernan: — Yes. How the accounting works is in this case you have a company, Mercury Group, that had net book value, I believe, of 2.367. That would have been the actual figures on their financial statements before the purchase. The actual purchase price that WESTBRIDGE paid was 4.9 million, as you indicated.

The difference then is between . . . the excess of what you pay over what was the book value is usually called goodwill. Now did I answer . . .

Mr. Chairman, I stand corrected to an extent. My colleague refreshed my memory on how this works. Where do you have a situation where the purchase price is higher than the book values of the entity you were purchasing? You look at each individual asset on an entity and determine what its fair value could be. What's the highest fair value you can assign to that? So you do that, go through each asset, your fixed assets, inventory receivables, and so on, and assign a market value to each of those assets. If the purchase price you paid is still higher than that value then the excess of the difference goes to goodwill. That's the more accurate description.

Mr. Lyons: — And it's automatically transferred to goodwill whether in fact there's . . . I mean it's pretty intangible, but I recognize that and I'm . . .

Mr. Heffernan: — It's usually based on an estimate of the future . . . present value of future cash flows from this organization discounted back to the present value. It is a subjective basis, but it is done.

Mr. Lyons: — In this case though, because it's in an amalgamation and that the customer base was obviously going to be much different customer base and its future would be much different from its past. Basically what you're saying is that even though it was assigned to goodwill, based on your explanation that the . . . I mean because it becomes part of an integrated . . . when you take it as a separate entity and you put it part of an integrated company I guess.

Or it becomes just part of the assets of another company with a different client base and a different customer base and a different future, that you couldn't use the past very accurately as an indication of future earnings potential. Would that be a fair comment?

Mr. Heffernan: — That would be true to the extent that things were going to change in the future, yes. Now I presume in certainly the case of the Mercury Group that the clientele were going to change considerably. So the past, in that case, may not have been very relevant. And they've been looking to what contracts that they would have with the government.

Mr. Lyons: — But like you say, this is subjective and on some levels it's subjective. But the determination of goodwill or the assignment to goodwill is basically a method of explaining the difference between the real asset base of a company and what the purchaser paid for the company. And it may or may not have any meaning in reality. Because there is . . . I think we all recognize there is such a thing as goodwill. You have a good name and some companies that's obviously . . .

Mr. Heffernan: — It's called an intangible asset in accounting, and it is required to be amortized over a minimum period of time.

Mr. Chairman: — Do you just have one question, Herb, or a series?

Mr. Swan: — Yes, I just have one question I wanted to get.

Mr. Lyons: — Go right ahead, Herb.

Mr. Swan: — As you speak of the 2.533 million goodwill, now this company had a certain number of contracts. It had a lot of software that it brought in that governed the operations of other . . . like automotive leases and that sort of thing. So part of that goodwill would be an estimated value of what you might be able to sell — that kind of product to other users. It's not just an imaginary value, it's a real value, in a sense. That the people who valuate this company and look at goodwill, they're looking at what the possibilities are of selling those services to other companies. So it's not a real value but it's a goodwill value, and I think that's something that you're missing in your answer here.

Mr. Rolfes: — It would be interesting to know how much of Mercury's business was already done with at the time with Crown corporations and with government. I think a fair amount of it was already done with Crown corporations and government.

Mr. Swan: — Some, but they have a lot of others too.

Mr. Rolfes: — Yes, oh I know the family well.

Mr. Swan: — They're good business people.

Mr. Rolfes: — Good supporters too.

Mr. Swan: — Well I hope so.

Mr. Rolfes: — Yes.

Mr. Swan: — Most businesses are.

Mr. Rolfes: — Yes, he contributed fairly well.

Mr. Wendel: — Mr. Chairman, Mr. Swan, I think to answer that question, it would be the valuator that had determined what this company is worth, and they determined the company'd be worth $4.9 million. And that was the consideration that was paid to that company. And the difference between the $4.9 million and the real assets of the company would be the amount of the goodwill.

Now that's an accounting term, "real assets." Now we call those other assets you're referring to "intangibles," but they are in a sense real assets too, but they're not . . .

Mr. Swan: — But they're part of that goodwill figure.

Mr. Wendel: — You can't see them; they're part of the goodwill, yes.

Mr. Swan: — Yes. They're very real assets.

Mr. Wendel: — But not in an accounting sense.

Mr. Swan: — But your first answer would have left the impression that goodwill was just a fictitious figure out there somewhere, and that's not the case when you're valuating companies.

Mr. Wendel: — Well it was not my intent to give that impression, but it's . . .

Mr. Swan: — Well, that's the way it came across.

A Member: — It didn't come across that way at all.

A Member: — It sure did to me.

Mr. Lyons: — Well, Mr. Wendel, Mr. Swan mentioned some intangible assets. What would be assigned in the case of the Mercury Group? Mentioned something about leasing automobiles or software or whatever. Wouldn't that be included in the real assets of the company, have an assigned value?

Mr. Heffernan: — What the valuator would have looked at would have been what it expected future sales from this corporation, based on in part what contracts it has right now and what, I guess, new business they would be expected to generate and simply based on future cash flows to set a valuation for the company, which in this case is set at 4.9 million.

Mr. Lyons: — That would include the . . . in doing up the Mercury Group was made up of a number of different entities. Would he have valuated all the assets of the separate entities as well, in terms of putting it together?

Mr. Heffernan: — Yes, he would have.

Mr. Lyons: — Okay. The expected future cash flows, I think was the phrase you used, would be based on what? I mean, is the projection hypothetical, or based on existing contracts with the provincial government, or based on expected future contracts with the provincial government? Because I notice there were a number of . . . I'll leave it there right now.

Mr. Heffernan: — Mr. Chairman, normally that would be the case. You would be looking at present contracts. You'd be looking at what would reasonably be expected as new business in the future, and so on.

However we're at a bit of a disadvantage here because we haven't studied the valuation as yet. But that's normally how valuations are done.

Mr. Lyons: — Well if you think you're at a disadvantage, try working off this little set of notes to figure out what's going on.

You say you haven't done the evaluation of the valuation — you haven't done the evaluation of the valuation yet.

Mr. Heffernan: — That's right.

Mr. Lyons: — On note (c) on page 3:

The acquisition of the shares of Leasecorp Systems is accounted for using the equity method. The purchase cost of $1,000,000 represents goodwill, resulting from the company's marketing rights with the licensed suppliers of the software system.

When I look at the table on page 2, we have this Leasecorp System that apparently had no assets. I just don't understand how a company can be listed at absolutely zero assets. I mean, as an establishment there had to be some costs associated just in incorporating it. You'd think there'd be some liabilities there if nothing else.

Mr. Heffernan: — Yes, I'm not fully conversant with this company yet myself but the . . . and why they would have absolutely no assets or liabilities. But the prospectus says that the company has exclusive rights to distribute software products, which are based on IBM's minicomputer and personal computer products to Hyundai and General Motors dealers in Canada. So that's what they based the goodwill on, was these exclusive rights to distribute.

Mr. Lyons: — Okay, would this be the leasing arrangement, the automotive leasing that Mr. Swan was talking about earlier, that it was in the hands of Leasecorp Systems?

Mr. Heffernan: — Could be.

Mr. Lyons: — Or Leasecorp System. But it wouldn't be part of the assets of Mercury Group?

Mr. Heffernan: — I understand it wouldn't, no. I'm not sure, either.

Mr. Lyons: — I take it from your answers that you haven't done the audit of Leasecorp Systems or the valuation of Leasecorp Systems?

Mr. Heffernan: — I think my staff are well into it but I haven't seen it yet.

Mr. Lyons: — No, okay.

Mr. Rolfes: — Mr. Chairman, I just have a couple of questions. The valuator, Richardson Greenshields, did they also do the valuation of the Mercury Group at the time? Were they the ones who did the valuation?

Mr. Heffernan: — Yes, it does. The valuation that the valuator did was of all the companies listed on page 2.

Mr. Rolfes: — Richardson Greenshields did the valuation of all the companies?

Mr. Heffernan: — Yes.

Mr. Rolfes: — Okay, could you tell me . . . SaskTel in its dealings with WESTBRIDGE and its transactions with WESTBRIDGE, SaskTel, as far you know, did not have an independent valuator do any valuation of WESTBRIDGE or the groups involved? I mean not just WESTBRIDGE, I mean all the groups involved, because, you know, in their transaction SaskTel certainly, I would think, would have an interest in finding out whether the valuations that were done were in their best interests and how much of that goodwill that they would be willing to accept or not accept.

Mr. Heffernan: — Yes, all parties including SaskTel were directly involved in the transactions, and Richardson Greenshields did valuations on all assets transferred.

Mr. Rolfes: — So SaskTel simply accepted Richardson Greenshields' valuation?

Mr. Heffernan: — Yes. Yes, they accepted it, but they were part of the valuation process themselves.

Mr. Rolfes: — Part of the team was Richardson Greenshields?

Mr. Heffernan: — Yes, all parties were involved in the valuation.

Mr. Rolfes: — Do you know who the individual was from SaskTel that was on the team?

Mr. Heffernan: — No, we don't know that.

Mr. Rolfes: — Would you be privy to that?

Mr. Heffernan: — I presume we can find out.

Mr. Rolfes: — Well I would certainly like . . . You see, to me I find SaskTel's interest in this is of considerable proportion, and I would have thought that SaskTel would have done an independent audit and an independent valuation of all the companies involved rather than doing one combined with the other people involved. It certainly was in the interest of The Mercury Group and Leasecorp and Leasecorp Western to get the best valuation that they could from their point of view. And if SaskTel only had one member involved on the valuation team certainly . . . I'm more interested in the goodwill than in the actual valuation of the assets that there are. I would have expected that SaskTel would have done their own valuation, but you say they didn't. They . . .

Mr. Swan: — Is the hon. member discrediting Richardson Greenshields? Is that the crux of the question?

Mr. Rolfes: — If the member from . . . if he doesn't understand that there can be a conflict of interest, then I think he has his chance to ask questions at his time.

Mr. Muller: — You're challenging the integrity of Richardson Greenshields.

Mr. Rolfes: — I'm challenging the intelligence of the members opposite.

Mr. Muller: — Integrity, I said.

Mr. Chairman: — Well let's . . . not here to challenge intelligence, Mr. Rolfes.

Mr. Rolfes: — Well I can't do that because you have some base to work with.

Mr. Chairman: — No, no, Mr. Rolfes.

Mr. Rolfes: — Well he has no business interrupting.

Mr. Britton: — He didn't.

Mr. Rolfes: — He didn't this morning.

Mr. Chairman: — Let's stick to the matter at hand. I see that it's 9:30; you may want to take a break after this next answer.

Mr. Heffernan: — Mr. Chairman, we understand that, as I said before, all parties including SaskTel were involved in the process of coming to valuation on this transaction. But, as I said before, we haven't done our study yet of the valuation, so we don't really know. We will know by the time we're done.

Mr. Wendel: — If I could, I'll add one more point. It is possible SaskTel may have done something else, but that would be a question you would have to address to SaskTel and whether or not they did anything more than this.

Mr. Chairman: — Could I just say that all this debate and inquiry may be good for the mind but not good for the constitution and that we take a break at this point.

Mr. Rolfes: — Good enough.

The committee recessed for a short period of time.

Mr. Rolfes: — I think my questions had been answered, Mr. Chairman.

Mr. Lyons: — Thank you, Mr. Chairman.

Mr. Wendel, page 4, I want to ask you a few questions about the statements that appear here on page 4 of the hand-out that you provided the committee.

Under acquisition of subsidiaries, Lease Corporation Ltd.:

> On September 30, 1988, effective August 31, 1988, the Corporation acquired 100 per cent of the outstanding shares of Lease Corporation Limited (Lease Corporation), an established computer leasing company. Prior to the acquisition and as part of the purchase arrangement, Lease Corporation redeemed certain common and special shares for assets which included an investment in WESTBRIDGE Computer Corporation. This resulted in a reduction of the retained earnings of Lease Corporation from $4,067,000 to $59,000.

Obviously this was a substantial reduction in retained earnings, and I take it that given the acquisition it would result in a substantial reduction in retained earnings for WESTBRIDGE as well, or for future, based on the difference between $4 million and the $59,000.

I wonder, could you provide us with an explanation of first of all, what certain common and special shares for assets which included an investment in WESTBRIDGE corporation, what does that mean?

Mr. Montgomery: — Mr. Chairman, Mr. Lyons, essentially we're not complete, our review of this information.

Mr. Lyons: — So you're not able to provide us with. . .

Mr. Montgomery: — Not at this time.

Mr. Lyons: — Not at this time. I noticed in a note on the table, net assets acquired at assigned values. Who did the assignation of those values?

Mr. Montgomery: — I believe those net assets acquired are essentially the book values. And I also understand the book values of the Lease Corporation was subject to an audit by the auditor of the Lease Corporation, which I believe was Price Waterhouse *.

Mr. Lyons: — I'm sorry. Was whom?

Mr. Montgomery: — I believe was Price Waterhouse.

Mr. Lyons: — I'm afraid I just don't understand the . . . Perhaps, I wonder, could you, do you have, given the knowledge that you have at present, could you provide just some explanation to the committee of the transaction which resulted in the reduction of the retained earnings from 4 million down to $59,000? I wonder if you could just give us a little explanation of what that . . . what took place there.

Mr. Montgomery: — Mr. Lyons, Mr. Chairman, my understanding — but this has not been substantiated by a review — is that on the purchase by WESTBRIDGE of Leascorp Western * and Leascorp Systems *, the earlier 49 per cent, the shares in WESTBRIDGE were held by Lease Corporation *. And this essentially is to remove that investment in WESTBRIDGE from Lease Corporation's financial statements at that time.

In other words, the Lease Corporation's financial statements includes an investment in WESTBRIDGE prior to this redemption.

Mr. Lyons: — So WESTBRIDGE redeemed the shares that Lease Corporation had, as part of the original deal to purchase Lease Corporation itself?

Mr. Montgomery: — I believe Leasecorp redeemed the shares, Lease Corporation.

Mr. Lyons: — Redeemed the shares from WESTBRIDGE?

Mr. Montgomery: — Lease Corporation held an investment in WESTBRIDGE.

Mr. Lyons: — In the form of shares?

Mr. Montgomery: — In the form of shares. I believe — and again this is based an understanding; it's not substantiated — that those shares were later . . . Mr. Chairman, Mr. Lyons, we'll take notice of that question. I think it will have to go back.

Mr. Lyons: — I wonder if you'll provide some, provide us with, when you have done the . . . or finished the audit, I wonder if you could provide us with an explanation of the nature of that transaction . . . the reason . . . which would include an explanation of the line here — it says where the net value of Lease Corporation was $59,000. Underneath that we see the excess of acquisition costs over assigned values of $12.941 million.

If you can provide us with how it came to be that that $12.941 million was determined to be the excess of the acquisition cost? Why was it that the acquisition costs, which I presume to be $13 million . . . I mean that's a lot of goodwill; $12.941 million is certainly one heck of a pile of goodwill. Or is there some other explanation for that figure?

Mr. Montgomery: — Mr. Chairman, Mr. Lyons, I understand that another valuation was done of this corporation by Richardson Greenshields, and the 12.9 million goodwill would be the difference between the recorded book value of those assets and Richardson Greenshields' valuation of the worth of that corporation. However, at this time we have not seen that valuation.

Mr. Lyons: — I take it you will be looking into the method by which that valuation was reached, because there has been assigned values of the . . . earlier on you said it was the auditor of the corporation which gave it the net assets of 17.948 million.

Mr. Montgomery: — I believe they are the recorded book values, and those numbers would have been subjected to an audit by the corporation, by the corporation's auditors. However, the valuation was done of the corporation, was done I believe by Richardson Greenshields, and the difference between the two, or the goodwill, would be the difference between the valuation of the corporation as assigned by Richardson Greenshields and the recorded value of those assets in the book.

Mr. Lyons: — As recorded by the company's own auditor, by Lease Corporation's own auditor?

A Member: — Yes.

Mr. Lyons: — Okay. I'll look forward to receiving that explanation on your audit of that. I'll leave that for a moment. Well, actually, I'll leave that until we can get some more information.

On point (b) of number 2, acquisition of subsidiaries:

> On March 1, 1989, the Corporation acquired the remaining 51% of the outstanding shares of Leasecorp Systems Limited . . . for cash and promissory note consideration totalling $1,250,000 (which we see in the table under Leasecorp Systems).

Once again the question arises, when we have assets . . . and I guess the question is Leasecorp Systems, the assets were $379,000 in assets. Would that be a number that was assigned by Leasecorp Systems' own auditor, the book value of the corporation as assigned by its auditor?

Mr. Montgomery: — I would believe so, Mr. Lyons.

Mr. Lyons: — With the net worth of, after liabilities deducted, of . . .

Mr. Montgomery: — That net figure is just a recorded value, it's not necessarily net worth of the corporation. It's the recorded value of the assets in the books.

Mr. Lyons: — Can you explain that?

Mr. Wendel: — Mr. Chairman, Mr. Lyons, what you record for accounting purposes may be considerably different than what the final net worth of a company might be if you put it up for sale, because in accounting you record things at historical cost.

So you may have bought a building 25 years ago that you've got on the books for a very, very low value for accounting purposes. It may be worth considerably more than that today. But that is not booked in an accounting sense. That'd be the type of thing where you could have a different value from accounting purposes than what something is worth when you put it up for sale.

Mr. Lyons: — Through appreciation or whatever.

Mr. Wendel: — Inflation, whatever it may be, yes.

Mr. Lyons: — At the bottom of page 4:

> The excess of acquisition cost over assigned values for Lease Corporation is supported by leased assets with an original cost at the date of acquisition in excess of $80 million administered by Lease Corporation. For Leasecorp Systems, such excess results from market penetration and the company's marketing rights with the licensed suppliers of the software system.

Is this note referring to the question that Mr. Swan earlier asked? That in terms of the actual value of the corporation, of Leasecorp Systems, would that explain the difference of the excess of acquisition cost over assigned values?

Mr. Montgomery: — I think, Mr. Lyons, Mr. Chairman, that what they're attempting to explain — the difference between the recorded value in the books and the assigned . . . or the valuation placed by themselves. And I suppose they're saying that the difference is because of Lease Corporation's market penetration or contacts or contracts that it has. But you're not recorded necessarily in the books.

Mr. Lyons: — In the audit that you're doing, these questions . . . I presume you will be examining the assumptions that these explanations are attempting to deal with. Would that be correct to say?

Mr. Wendel: — Mr. Chairman, Mr. Lyons, as I stated earlier, the purposes of our review of these valuations would be to determine whether or not the market values noted in the financial statements are appropriate.

Mr. Lyons: — Okay.

I just want to say — and this is not a question, Mr. Chairman; it's just a statement — that based on the answers that the auditor's given to the committee today, that it would probably be better to wait until his audit of the question . . . it would be better for the committee to examine it after the audit is done.

But I also wish to say that it's clear that it would be a much better method for the committee to have been able to call the officers of the company before the committee to answer these kind of questions.

I know the auditor's in a difficult position because there are certain things that the officers of the WESTBRIDGE corporation itself would be in a better position to deal with, either by way of explanation and also give us, as members of the committee, better and more full understanding of some of the questions that have been raised, than attempting to ask the auditor to explain the actions of the corporation. I find it unfortunate that, once again, that the members of the government have turned down the opportunity.

I hope, given the auditor's indication, that the audit will be finished in a relatively short period of time and we may have the opportunity to bring WESTBRIDGE before us to have the officers of the company answer these questions before the end of the legislative session.

And I would hope that, as we deal with other aspects of the auditor's report for this year, that we'll be able to, after leaving this chapter, be able to find methods of bringing WESTBRIDGE before us and not when the auditor's done it. And I hope the auditor would indicate to the committee when the audit of WESTBRIDGE is finished and has been finalized.

So, Mr. Wendel, I wonder if you could give us the indication that you'll be able to tell the committee when the audit is done, when it's finished, that when the audit is finished you will provide that information to the committee as to the date upon its completion.

Mr. Wendel: — Mr. Chairman, Mr. Lyons, I can undertake to do that.

Mr. Lyons: — Okay. Thank you. Like I say, I thought we're at a disadvantage, and I know that both the auditors are at a disadvantage and members of the committee are at a disadvantage in trying to get the information that we need. I've got no more questions concerning WESTBRIDGE.

I do have some on this chapter relating to 2.02. I wonder if the auditor could tell us — this says: "Less than 50% of the issued share capital is owned by the Crown, e.g., Ipsco Inc. " — I wonder if the auditor can tell us what percentage of the shares of Ipsco Inc. are held by the province of Saskatchewan or by one of its agencies in the province.

Mr. Wendel: — Mr. Chairman. Mr. Lyons, I have the Crown corporation's annual report in front of me, and they state in there that there's a 15.7 per cent voting interest in Ipsco held by CICIII, Industrial Interests Inc.

Mr. Lyons: — As of March . . .

Mr. Wendel: — December 31, 1988.

Mr. Lyons: — And of Saskoil, it's the . . .

Mr. Wendel: — The amount stated in here, Mr. Chairman, Mr. Lyons, is 33.8 per cent voting interest in Saskoil . . .

Mr. Lyons: — Now in 2.05 there is the note:

> That the Committee recommend that the Government consider preparing legislation to ensure that the duly audited financial statements for Crown agencies established pursuant to The Business Corporations Act are tabled in the Legislative Assembly, providing that the competitive position of the Crown Corporation is not prejudiced.

I don't know whether this is a fair question to the auditor but I guess it's a question of intent for public policy purposes. But for purposes of . . . I see in 207 it says:

> This matter is worthy of further study by the Standing Committee on Public Accounts to determine the accountability to the Legislative Assembly of corporations created under a Business Corporations Act where less than 100% of the issued share capital is owned by the Crown.

I wonder if you'd have any thoughts as to the appropriateness of yourself of being able to call these corporations before the Public Accounts Committee.

Mr. Wendel: — Mr. Chairman, Mr. Lyons, I would say that in the opposite point of view, if a matter is reported in this annual report and this annual report has been referred to this committee for consideration, then it would be up to the committee to decide whether or not they want to call a particular Crown-controlled corporation before it to discuss what I've reported in this report, to hear their views.

Mr. Lyons: — I notice that the report says this matter is worthy of further study — fairly nebulous. I can appreciate the position. I don't want to put you in a kind of position where you would have to make a statement — obviously what's a political, I guess is a political judgement. But from the point of view of being able to have information provided strictly on the kind of matters of public policy, and whether or not the financial and business dealings of these Crown-controlled corporations meets public policy objectives, would it be the opinion of the auditor's office that there is some merit in calling these committees before the Public Accounts Committee? Given your statements earlier, given the auditor's statements earlier on, on the need for a comprehensive auditing as to effectiveness, efficiency, and I believe there's another E-word there . . .

A Member: — Economy.

Mr. Lyons: — And economy. So in that context, I'm posing the question.

Mr. Wendel: — Maybe if I explain the context in which I'm making the report. The first part of the chapter is dealing with the recommendation of this committee that stated that they wanted these statements . . . they wanted the statements to come before the Legislative Assembly unless competitive position was going to be prejudiced — that's 100 per cent owned corporations.

Now I'm reporting here that there's been no activity yet on that recommendation. So as a matter of course this office has always reported where a recommendation of the committee has not yet been acted upon, and that will continue to come forward until such time as there has been some action on this.

Now the action could be legislation calling for these statements to be tabled, or the action could be an official appearing at this committee from the government to answer and to determine . . . or if they can't table them because of competitive position, to give you his reasons for each corporation as to why competitive position would be prejudiced. And you can then consider those and debate them again and decide whether or not you wish to change that recommendation or continue with it.

Now the next item that's reported there is . . . That only dealt with the 100 per cent corporations. The committee has not addressed its mind to corporations that are less than 100 per cent owned. And Mr. Lutz reported to the committee last year on these corporations that are called mixed corporations in his annual report. And some of these, he suggested there that you might consider, would be information such as the nature and extent of the investment, the financial statements which show the results of operations and financial position of the mixed corporation, and the objective of making and keeping the investment.

Now as to whether that's considered . . . that information was received as considered in this committee or in another committee of Legislative Assembly, I mean that is again for the Assembly or this committee to make recommendations on that.

Mr. Lyons: — Okay. No further questions.

Mr. Chairman: — Can you take the chair, Mr. Hopfner?

A Member: — Was I on the list?

Mr. Chairman: — Oh, I'm sorry. Yes, you were.

Mr. Hopfner: — In regards to some of the statements that were made by Mr. Lyons and previous to his last part of the questioning, in leaving the impression that this side of the committee was not willing to deal with the auditor's report, in dealing with WESTBRIDGE here before this committee, I think it was well-marked over the previous days in debate that this committee is willing to deal with the auditor's report and was that he had nothing to report to this committee regarding WESTBRIDGE other than the fact is that the audit had not been completed.

I think that this committee's not necessarily made up of members that are supposed to, or supposedly supposed to be general accountants or that we are the people that deal with the accounting of these departments. That's the Provincial Auditor's department, and he would be asking a lot of the questions that we heard the member asking.

He would be asking a lot of those questions of the department and then if he wasn't satisfactorily answered then that concern would be brought to this committee.

I think probably when we had asked the auditor in a proper fashion whether there had been an agreement reached, he answered this committee, and he said yes. I think there were a lot of accusations thrown at members on this side in regards to the fact that there was information withheld. That information was never withheld from members of this side of the committee or from anyone else because that information is still not available. I just wanted to kind of clear the record on that.

And I also wanted to bring to the attention of the committee and to the public that this practice that has been . . . this is a practice that has been going on for years. And the member from Saskatoon has openly admitted it in this committee that this has been a practice. And since then, I have been doing some research in regards to whether he was accurate or not. And I want to indicate and bring some of this to the committee's attention here where it definitely has been a practice of the committee and committees in past administrations.

In fact, when the members on the opposite side of this committee were, when they were in power and the NDP were a government and it was . . . I have a lot of various instances here where there had been questions of information being sought by when our party was in opposition, and I wanted to read into the record just examples of those kinds of questions. And there are a lot more that I could bring forward, but I just want to read into the record some of those questions and then give you some of the comparable answers. And it's basically . . . the answers are basically because of the concern for these companies, for these particular companies.

And when SEDCO got involved, for instance, with companies when Mr. Vickar was the minister at that time, he would have then asked, in regards to SEDCO loans on various companies, and if you will bear with me, I'll just try and put it in the context so that I don't have to read through the whole thing to give you the . . . I'll give you a short version of the intent of the conversation. I'll try and short-form it for you so that we don't have to read through it.

Mr. Chairman: — You don't have to worry on my account. I think nothing would give me greater pleasure than having unedited sort of accounts from previous meetings read out here, but go ahead.

Mr. Hopfner: — Well I'll take it, I'll take it as read.

Mr. Lyons: — Can we take it as read, Mike, but . . . Is this before the Crown corporations or before public accounts?

Mr. Hopfner: — Well when we're asked on various different companies in regards to information by Mr. Rousseau, and it goes back into 1980. And although some information may be released, you see, it's not a fact that they would release all information. Then it would be a fact of releasing some information that they would feel that wasn't going to prejudice a company. And that's the kinds of answers that I was going to try and read into the record.

And I hope members will . . . The member opposite, for instance, from Rosemont was asking about Ipsco. Well, Mr. Lane, back in 1981, he was asking about Ipsco. For instance, a question such as, you're not prepared to give me the price of acquiring the Ipsco shares; and Mr. Cowley would answer no. Some of this information is available elsewhere, and we don't want to disclose information regarding private companies in effect I am told, and that's the practice he would follow.

Mr. Lyons: — This is a Crown corporations, right? This is at Crown corporations, isn't it? That was precisely the point we made before, Mike, and that's the way it should be here.

Mr. Hopfner: — I'm dealing with remarks that were made from all committees, in all committees, in all committees — in the Assembly, in Crown corporations, and in public accounts.

I n regards to the PCS (Potash Corporation of Saskatchewan), when it was . . . in trying to determine allowances for various employees, management employees, top officials. What would their allowances be? Well an answer . . . and that was a question that was asked by Mr. Rousseau and Mr. Messer would read into the record, well documented, well we haven't disclosed that before but we think it's a reasonable sum and it's audited, accounted for. And that's the only person that we've had allowances established for. The rest is on an account basis.

And that's the kinds of answers that were given. Like they did not establish those and put them out for the public. And then Mr. Rousseau would go on and ask, that's a legitimate expense, I'm trying to figure out why you would hesitate to give it to me. Mr. Messer would answer, we just are of that mind. We don't disclose what his salary is. We don't disclose what his allowance is. I think that that's all part of the remuneration which goes with the job. He's a highly valuable employee and we don't want our competitors to know what his working remunerations are. He is a very highly sought after employee. I think we are lucky to get him. And then we were . . . and then it was cut off.

But those are various . . . are some of the types of questions. And I'll tell you when it comes to the information that we've been getting, we've come a long ways in these committees. Over the years we've opened the committees up to the press. We've opened the meetings up to the public. That was never done before. We've got cameras in the Legislative Assembly for the public to be able to monitor the questions and answers. That's never been done before.

I will say that, Mr. Chairman, when we're talking about the effects of accountability, I take exception to members when they say that we've been trying to stymie the committees. I can't for a moment accept those kinds of words without bringing some of these things to the attention of members opposite.

And I go on in here to some more documentation of *Hansard*, April 17, 1980, where PCS and Mr. Rousseau's wanting the information, and Mr. Messer would answer, it would be inconsistent for me to provide the information here and not provide it in the Legislative Assembly or some other corporations or departments of government. I think the question is quite informative. Answer the question as it is amended, gives you the number of firms, the total value of these contracts, the number of consultants who are in the province, and the number who are out of the province. Just does not identify them by name.

See, there's a lot of reading to do previous to this, but it's that kinds of answers that we're saying here in committee that we do not allow an unfair advantage to some other competitors when there would be some companies that would have that disadvantage of having to come before a committee and before some members that would just as soon not see them in business in this province and would ask any questions of them that may . . .

And if they would not want to answer them, then they would be raked through the coals I guess, if you will, for not answering those kinds of questions. They'd be accused of covering up. They'd be accused of this, that, and the next thing.

And those are the types of reasons why we've been, on this side of the committee, have been trying to keep some order here, and to allow companies to operate in this province and operate without being jeopardized by some members that really don't care for their existence.

And when those kinds of answers would be read, as you can read from various records, and there would be an ongoing debate on as to whether they should get answers to those particular questions, there was a repetitive answer given by the various ministers or committee members that you've got as much as you're going to get for information and the rest is confidential.

And where do we draw the line if we keep debating that and throwing those kinds of accusations out at the . . .

Mr. Muller: — It's 10:30, Mike.

Mr. Hopfner: — Oh, okay. I guess I'm . . .

Mr. Chairman: — Well we'll meet again next Tuesday at 8:30 a.m.

The committee adjourned at 10:30 a.m.