Mr. Chairman: **—** Call the meeting to order. If I remember correctly we left off prior to our bringing back some witnesses for the previous year. We left off with a discussion of the auditor's comments in chapter 1, and in particular, the auditor's comments revolving around the significant disagreement that he has with the government in terms of loans to the Saskatchewan Property Management Corporation. Members had expressed an interest to that point in getting a further clarification from the auditor or having the opportunity to ask the auditor about that, and also Mr. Kraus, and to see where that discussion might lead.

Having said that, it's up to the committee, but perhaps we might ask Mr. Strelioff at this point then to give a further explanation of what it is that he has. The auditor has also distributed some information, I think a week or so ago, and now there's some further . . . And all this is incorporated in the package that the Clerk is distributing now. But if we want to take a minute just to go through that and then perhaps let the auditor go through the information with us, open it up for questions.

Mr. Strelioff: **—** At our first meeting we were asked about our concerns on the main financial statements of the province, as we express in our annual report, and we have four main concerns that we've identified. One relates to the SPMC (Saskatchewan Property Management Corporation) loan; the second one relates to the pension accounting of the province; the third relates to the way the equity in Crown corporations is valued, and the fourth is the lack of information about the government's huge investment in physical assets. Now that's set out in page . . . Yes?

Mr. Hopfner: **—** What was the question that we were asking for information before we get into this?

Mr. Chairman: **—** As I recall it, we had been discussing . . .

Mr. Hopfner: **—** I'd asked a question and Herman Rolfes had asked a question for information to be given to us so that we could have some sort of an idea. I can't remember what that question was.

Mr. Chairman: **—** It was concerning the auditor's reservation of opinion with respect to $555 million in loans to the Saskatchewan Property Management Corporation. And there was a discussion at the meeting at that point and I believe both Mr. Strelioff made some comments and Mr. Kraus . . .

Mr. Hopfner: **—** Yes, I know. I was asking those questions. I was just wanting to know if we could have . . . what information we're really seeking. You're giving us very vague, general . . . a general idea of what you . . .

Mr. Chairman: **—** Well that's what we're getting into today, is for the auditor and for the comptroller again to express comments concerning his reservation of opinion so that the committee might discuss that and make up its own mind as to what it feels about that.

Mr. Hopfner: **—** No, but I understand that. The thing is, is I was on a line of questioning when the end of the day came, and it's been so long ago . . .

Mr. Chairman: **—** Well please . . .

Mr. Hopfner: **—** And I'd just like to know what specifically was asked for again from Herman and myself.

Mr. Chairman: **—** As I understand it and recollect it, it was . . .

Mr. Hopfner: **—** I didn't want to get off my line of questioning. That's what . . . And I don't want us to start . . .

Mr. Anguish: **—** Well if you forgot . . . (inaudible) . . . waited that long.

Mr. Chairman: **—** As I recollect it, your questions were about . . . if I can understand it now. You were expressing a concern about the reporting of this information publicly and how the auditor's reservation of opinion was being received.

Subsequent to that, Mr. Swan, I believe, asked Mr. Kraus for his explanation of this reservation of opinion. And I think we left it that we would ask both parties to come back to meet with us to discuss this whole issue further, to find out what this reservation of opinion really entailed and what conclusions the committee might come to from the auditor's comments.

Mr. Hopfner: **—** Was it not . . . Excuse me, Mr. Chairman. Was it not more on the perception of different accountability?

A Member: **—** That's right.

Mr. Chairman: **—** I'm not sure what you . . .

Mr. Hopfner: **—** Well I mean we're getting into specific situations here. Weren't we talking in generalities on the different types of accountability?

A Member: **—** I think we were trying to mark the difference between the two opinions.

Mr. Chairman: **—** Well no, I think . . .

Mr. Hopfner: **—** Yes, like there were . . . When we were into that line of questioning, the Provincial Auditor had a different interpretation of accountability as did Mr. Kraus have a difference.

And I thought we were going to try and get . . . well to see where there was . . . I guess trying to get an explanation of these opinions and whether the public could be satisfied with either one or the other or an amalgamation of both or whatever. But we're getting into actual . . . Well I guess you could use them as maybe an example, but then, by gosh, we're . . . Well I just think that we're getting into some real choice specifics here.

Mr. Chairman: **—** If I might point back to April 23, the verbatim, Mr. Rolfes states:

And I wonder if the Provincial Auditor could answer for next day, two questions. One, what would happen if tomorrow the government decided there would be no more loans from the Consolidated Fund to SPMC? What would happen to that 554 million that is referred to in .07? Would it be an asset? Would it be a liability? Or would it just disappear? That's the first question I'd like to have answered for the next day.

Number two, could you provide for us just one example as to how this works. I mean the 554 million. I don't want the whole 554 million. Just give us a hypothetical case . . .

Mr. Hopfner: **—** Okay, so we're dealing hypothetically. Is that what . . . (inaudible) . . . That's what I'd been . . . Like, I know. And Mr. Rolfes had cut in on me there. He was asking for this before we . . . But okay, let's go. We'll see where it takes us.

Mr. Chairman: **—** Thank you. Okay, go ahead.

Mr. Strelioff: **—** Mr. Chairman, what I handed out is . . . there's two segments to what I've handed out. The first part is just to provide an overview of some of the accounting problems that we have identified in our annual report. The second one then deals with the specific SPMC transaction that Mr. Rolfes asked us about.

We thought that it was important to put it in context. That's why we provided the first few pages. And what we've done is prepared a varied summary of the statement of financial position of the province for March 31, 1990 and a statement of revenue and expenditure for the same period.

We've used it as a way of explaining what our problems are with the way the main financial statements now report the financial activities of the province. And the first page . . . or the second page which has the statement of financial position is page 2 of volume 1 of the *Public Accounts* but only just done in a brief summary, the total liabilities of 11.9, the assets of 8.6, and the net debt of 3.3.

And then explaining some of the problems that we've identified in our annual report, that: one, all liabilities are not reported, for example the teachers' and the employees' pensions. So that would add to the liabilities stated in the outline.

We've also said that the assets are not properly valued, and that's where we get into the loan to SPMC where we say that that loan really should have been treated as an expenditure in years gone by. And also, we flag the investment and Crown corporations as an item that is not properly valued. And so that would impact the $8.6 billion assets above, so the net debt would change accordingly.

And the third item that we've flagged in our annual report, is that there’s no information in the financial statements of the province about our significant investment in physical assets, for example, the equipment, buildings and roadways and land. Then the next page, what we did was try to show the link between the statement of revenue and expenditure and the statement of financial position. As you know, the excess of expenditure over revenue of $.3 billion for the March 31, 1990 year, that translates into an increase in net debt, which is the prior page, just the integration between the two statements.

And then the problems that we see in the statement of revenue expenditure are related to the problems that we see on the statement of financial position, that we think that the expenditures are not properly reported. For example, because the pension liabilities aren't fully reported, the annual cost of employee and teachers' pensions are not stated properly. They'd be . . . they're understated significantly.

Mr. Kraus: **—** Could I interrupt, Mr. Chairman, or would you sooner I not at this point? I just want to make one point if I could, and that is that you should be aware as you're listening to this, is that the accounting methods that we've used in Saskatchewan have been used in some cases for 60 years and some cases for 30 years.

Other than the capitalization of some of these assets, the university and hospitals and so on, the accounting for pensions and the way we account for dividends from SPC (Saskatchewan Power Corporation) for example, it's been that way for a good long time. And it's not as though this is just something that's happened in the last year or two, and I'd just like to raise that to the committee's attention.

Mr. Strelioff: **—** Yes, Mr. Chairman, that certainly is correct. Some of these problems have existed for many years and they're . . .

Mr. Hopfner: **—** Just a minute. Is it a problem before you can carry on, or was it a practice? It's a problem today maybe but wasn't a problem yesterday.

Mr. Strelioff: **—** Well the practices that were followed have been followed for many years. We, as our office, we feel that the practices should be changed to reflect . . .

Mr. Hopfner: **—** That's what I'm after. All right, all right. But it wasn't a problem.

Mr. Britton: **—** Mr. Chairman, that's the kind of answer that I was going to ask. What we're asking for here probably is a major change in our auditing procedure, rather than problems that you have found in the auditing. It's a procedural thing that you're concerned with.

Mr. Strelioff: **—** Well, Mr. Chairman, for example, the pensions practices **—** the accounting practice that is being followed, we think, leads to a problem in terms of the financial information reported by the province. For example, the pension liabilities are understated very significantly. Therefore, the cost of employees' annual pensions are understated significantly. Now that's a . . .

Mr. Britton: **—** Cost to the taxpayer.

Mr. Strelioff: **—** The cost to the taxpayer is understated significantly. And we think that's a significant issue that needs to be addressed, that needs to be corrected.

Mr. Lyons: — Well I wonder, Mr. Chairman, Mr. Strelioff, if you would finish. Because I'm sort of interested to hear the final comments before I ask the question. I wonder if you . . . do you have anything else to comment on?

Mr. Swan: — What I wanted to ask you is: when you fill out your report and you list this as a problem area, do you not think it would have been fairer to the public to list that there's been ongoing type of accounting that we don't agree is performing to the best of its ability? Like we've had a provincial auditor auditing these books for years and years and years, and some of you are the same people. Now all of a sudden, because we have a new auditor, this shows up as an issue in your annual report.

I think that you're not doing a service to the province if you don't explain in your annual report the reason that it's identified this year when it wasn't for 30 or 40 or 50 years. I think you tend to leave the wrong impression with the world. You think something new has happened, but nothing new has happened.

Mr. Strelioff: — Mr. Chairman, the first chapter of our annual report for me is a reflection of my priorities coming in to the office. That coming in to the office here are . . . I think I've identified three or four priorities that I think as a new provincial auditor I will be emphasizing.

And they aren't new problems. In previous reports the provincial auditor has expressed concern about the financial reporting of the province. He hasn't . . . as far as I can remember, he was not as specific, but while he was the provincial auditor, standards for government financial statements were still evolving — standards in terms of how transactions should be recorded — they were evolving. Now it's been about nine years that that evolution has taken place. There's been a lot of change across the country and there's a degree of consensus on what should happen.

Now us coming in, I think that it's time to address more directly some of those concerns. So in the first chapter . . . I used the first chapter to identify what I thought would be my key areas of priority in the next few years. The first one is the main financial statements of the province. I felt and I still believe that they need significant improvement; and that given that belief, I thought that it was very important for me to be more specific. Well what needs to be improved? So I identified four concerns that I thought were very important in terms of improving the financial reporting of the province in the future.

The timeliness of the financial statements, I thought that was a key issue. And I've recognized that lots of work and proposals are ongoing by the government. There's some significant proposals that are being made and at work to increase the timeliness of the financial statements.

I've also mentioned the value-for-money examinations as another main thrust that I think is an important issue that we need to move on. And I've also mentioned that the government itself is making some movements on that as well. They're working with us to make sure that this happens. I've also mentioned that our relationship with appointed public accounting firms for me coming in needs to be improved. I need to work through that issue and that's one of my priorities for the next few years.

And then I also mentioned the independence of our office which relates to the Board of Internal Economy and again that . . . there is some action being proposed on that issue. So then I moved back to the main financial statements.

Mr. Swan: — Maybe we should have titled this differently. Rather than saying this is an auditor's report, we should have said that this was the auditor's throne speech. That's basically what it . . . (inaudible interjection) . . . We'll go through it all.

But you know, that basically what I'm saying is that you should, I think, rather than write it as a whole bunch of complaints in your report, you should say these are objectives that I intend to achieve as the new Provincial Auditor. I think it would look proper in its own context, and it wouldn't start off with an auditor's report that seemed like the government has made a change and wasn't doing things right.

Mr. Strelioff: — Mr. Chairman, I tried to do that but I guess I didn't do it successfully. My first paragraph says during the next year our office will focus on issues pertaining to much-needed improvements and public accountability. That first paragraph I was trying to say, now here's what we are going to be doing in the future. But maybe I didn't . . .

Mr. Anguish: — . . . but the auditor says you attacked the auditor instead of trying to do something about it. All the government . . .

Mr. Swan: — No, I'm not attacking the auditor. I'm suggesting that he could make a change in the way he reports, and I think he could.

Mr. Chairman: — Let me ask you to put your comments to the chair. We're again, like we've . . . as we left off the last time we were focusing on one particular issue and that was the question of the $550 million in loans to the Property Management Corporation, and I wonder if we might get back into that discussion now and let the auditor complete his remarks and ask Mr. Kraus to make any remarks that he might want to make and then get into a discussion.

Mr. Lyons: — Thank you, Mr. Chairman. I want to talk just a minute . . . or ask the auditor and Mr. Kraus some questions about the changes that were made in accounting procedures because it appears to me that, in fact, in terms of capitalization and methods of reporting capitalization in the amortization period, that that has been changed recently with the development of the convoluted process through SPMC. And I'm wondering — because I see in the few pages in when we talk about the government decides to build a hospital, the present process in accounting versus the previous process in accounting . . . or recommended process in accounting — I'm wondering, Mr. Strelioff, that the recommended process . . . was that the process that used to be in place?

Mr. Chairman: — Is this something that you might be dealing with in your remarks, anyway?

Mr. Strelioff: — Well I would be going through the hand-out which deals with present process and the recommended process.

Mr. Chairman: — As his question is more of . . . in one of the questions that came up is questions of history and how is it that you're offering this opinion now in the last couple of years but not prior to that, and is that something that you might sort of address in your remarks?

Mr. Strelioff: — Well I can't. That's a separate issue but . . .

Mr. Lyons: — Basically I want to say, Mr. Chairman, I'm very interested in what Mr. Strelioff has to say. I don't know if I necessarily agree with everything he has to say on it, but I'm very interested in the arguments he's putting forward. I don't think it serves the committee or the Assembly or the people of the province any good to sort of attack Mr. Strelioff for the forum in which he's put the comments. I think it's more useful if we deal with the substantive issues that are raised.

So perhaps if you would . . . again if you'd continue on, put forward his comments, and maybe then we can ask him questions and Mr. Kraus questions.

Mr. Chairman: — Wonderful.

Mr. Strelioff: — Okay, Mr. Chairman, I ended at the statement of revenue and expenditure where we showed the impact of our concerns on the annual revenues and expenditures, which is the third page in our hand-out, saying . . . and the concerns that are on the statement of financial position flow through to the statement of revenue and expenditures.

And I mentioned that the annual cost of employee and teachers' pensions are understated. And then it moves to the SPMC building program. The cost of the SPMC building program, for us, in our opinion, is not reflected properly. We think that when the consolidated revenue fund . . . when there's an amount from the consolidated revenue fund appropriated to SPMC to build something, that that appropriation should be recognized as an expenditure in that period rather than as a loan to SPMC.

And then the grants to SPMC for loan repayments relate to the $555 million loan problem that we've identified in our short-form auditor's report. The grants to SPMC for loan repayments don't need to take place if the loan's not recorded.

And the second area of problems that relate to the statement of revenues and expenditures are that the revenues are not properly reported, in our view. The annual earnings or losses of Crown corporations, we think, should be recorded when they are incurred by the province rather than when dividend payments are made from the Crown corporations to the consolidated revenue fund.

And then we also, on the third page, we have just a general comment that we think that . . . and our office has been saying this for quite a few years now, that there is . . . a full accounting is needed. And we thought visually that it would be a little bit clearer for people to just get a handle on the impact.

The centre box shows in a general sense what is now reported in the main financial statements of the province, called the combined fund statements. And then the total boxes around is the total government activity. So we're saying that the main financial statements of the province should be changed to reflect more fully the activities of Crown corporations, the other Crown agencies and funds. The physical assets . . . we think that there should be some information on physical assets reported in the financial statements, and also the unrecorded liabilities.

And by the way, we're also saying that our bench-mark, our standards for what we think should be recorded is set out by the Canadian Institute of Chartered Accountants. That's our standard for deciding whether something should be recorded or not and how to reflect it in the financial statements of the province.

We then move to looking at the specific SPMC transaction and provided to . . . the first two pages are the more detailed explanations. The first page shows here's what's happening now to the SPMC transactions and then here's the second page shows now, here's what we think should happen. And then we just went through a hypothetical decision to build a hospital and linked it to the budget proposals set out in this year's budget; and we've have had some excerpts from that budget in the following pages just so that you can see the link from our narrative to the actual budget proposals of this year.

So the hypothetical example is where the government decides to build a hospital and the Assembly votes money to SPMC from the Consolidated Fund in the first year and the Consolidated Fund records a loan receivable for the money given to SPMC. SPMC then gives the money to the hospital and records a payable to the consolidated revenue fund and a receivable from the hospital. So they flow the money through to the hospital. Then the hospital spends the money to build a hospital and records the money received from SPMC as revenue and the cost of the hospital. Note that it does not record a loan payable to SPMC, yet SPMC records a loan receivable.

In the second year, the Assembly votes money to SPMC to repay the loan. So we've provided SPMC with the money to build the hospital and they've given it to the hospital. Now we vote some money to SPMC for the loan repayment, maybe one-tenth of the original loan, and we record that amount as an expenditure. SPMC then gives that money back to the consolidated revenue fund to repay the loan.

So we give them the money to pay back the loan and they give us back the money, so SPMC reduces their loan receivable from the hospital and the loan payable to the Consolidated Fund. The Consolidated Fund receives money from SPMC and reduces their loan receivable from SPMC. So that's what happens now, taking a hypothetical example of a hospital and the two years . . .

the first two years.

Now we're proposing, and of course the Canadian Institute of Chartered Accountants also supports our recommendation, that the process be a little bit simpler. And most of our recommendations that we've got here result in a more simpler approach to what's going on. In year one we say, okay, the Assembly has voted the money to SPMC to build a hospital. Well that should be recorded as an expenditure in that year, the total amount.

And then when SPMC gives money to the hospital, SPMC records the revenue they receive from the Consolidated Fund and they record the expenditure to the hospital. It just flows right through SPMC. The hospital spends the money to build the hospital and records what they've received and the cost of the hospital.

On what we've proposed as a recommended process, nothing changes in terms of what the hospital does or records in their financial statements. What does change is the accounting in the Consolidated Fund. And it mainly relates to the timing of when you recognize the grant to SPMC for building the hospital. We're saying that since . . . that that cost should be reflected in the year that you give the money to SPMC, the total amount rather than in subsequent periods when you give them grants to repay the loan. Because it's not really a loan, it's just strictly a cost of building a building.

And the impact on SPMC is that they would no longer record a loan payable to the consolidated revenue fund or a receivable because they . . . from the hospital because the money is recognized as an expenditure in the first year that it takes place.

So when you build a hospital the net impact on the statement of financial position as shown in the second page of this hand-out is that you've . . . well you first start off with a statement of revenue and expenditure in the third page. You've made an expenditure of X dollars and that expenditure should get fully reflected. And the net impact on the statement of financial position is that the assets of the province don't reflect the loan amount because there's no real loan there. The only way that the loan can be repaid is if the government provides SPMC with money to repay the loan. So why record it in the first place, particularly since the objective of the statement of financial position is to show the net debt of the province.

Mr. Kraus: — Just some clarification for the committee — and this isn't intended as any criticism of what the auditor's put together here because the process isn't always as straightforward as it might appear. I think in all fairness what the auditor has presented here under the present process in accounting in general portrays what happens.

But there are a couple of points I wanted to make here is that in year one, for example, SPMC may not always give the money to the hospital. SPMC manages the construction quite frequently so in fact they may actually pass the money directly to some of the suppliers or the contractors or whatever. I guess I'm just trying to point a few of these things out, so they may not always give it directly to the hospital, they may be spending money on behalf of the hospital. But of course the long and the short of it is there's still a liability from the hospital back to SPMC.

So on the third point there where it says: "Hospital spends the money to build the hospital." That may not be the case, it may be SPMC. In year two it says: "Assembly votes money to SPMC . . ." I think the wording is really: the Assembly votes grants to the hospitals. I should just get the wording here so I can read it: "Grants to Hospitals — Repayment of principal and interest on capital loans from the Saskatchewan Property Management Corporation." So in fact we show the expenditure being made or the grant being made to the hospital notwithstanding though that the money does flow to SPMC. I just wanted to make that point as well.

And perhaps I should say something about the recommended process. This is something the auditor is recommending for the future. That isn't the way it was done prior to '86. Obviously the Consolidated Fund would have paid the moneys directly to the hospitals or the contractors or whatever.

Mr. Lyons: — Just on that, it would be recorded as an expenditure from the Consolidated Fund, and no amortization. It was out of it in that year, and that's it.

Mr. Kraus: — That's right. And if you take the example that you'd say, well we'll spread the cost over 10 years, in the prior situation as you said, if you had a $10 million hospital, bang, the year you built the hospital you had the $10 million budgetary expenditure.

Now it would be repaid $1 million for the next years 2 through 11. And so it takes you 10 years in essence to come up with the same budgetary expenditure.

Mr. Lyons: — Okay. Just while we're on this, if I may, Mr. Chairman, I would like to hear the advantages and disadvantages of the amortization of capital costs versus the sort of one-time recording of it as a cost, because I'm not sure whether one system is any better than the other. What's . . . Mr. Strelioff and Mr. Kraus.

Mr. Kraus: — Well I have a booklet that I brought with me. I hunted it up. I remember reading it in '86 or '87. And it was put out by the C.D. Howe Institute. It's called "Budget Reform — Should There Be a Capital Budget for the Public Sector?" And it goes through the pros and cons, both sides. And they're obviously an advocate for capital budgeting and the spreading out of the cost.

And if I could just read a couple of lines here because it supports what I said the other day that:

> The *idea* of treating public capital expenditures in a manner different from current expenditures goes back more than a century, and the concept of the capital budget has been explored in a series of articles, books, and reports in the United States since the 1930s. Various forms of capital budget analysis have been introduced in several countries, and the notion of a separate "capital" budget is prevalent in local government in many countries.

I think it even is in some of our cities and so on, at least some aspect of it.

Now they studied the case in Canada and they believe there's some advantage to having a capital budget and spreading the cost of the capital over time. And I think in the end they sort of come down to two main pros and cons — one advantage, one disadvantage. On one hand they say what their concern is is that there'll be such . . . the focus will be on no deficit. And so if you focus on no deficit too much, then the governments may not incur the capital expenditure that's needed to maintain the infrastructure.

On the other hand they say, but would a capital budget merely be an apology for sustaining large deficits and even expanding them. So those are sort of both sides of the equation.

If you want this booklet, I'd certainly leave it for anybody that's interested in reviewing it. But I think that's sort of the plus and the minus of the case.

Mr. Lyons: — The reason I asked that question, because I noticed in the Ontario budget that they in fact have done precisely that. They split the funds into a capital fund and into an operating fund, and that their capital fund they intend to amortize much the same way that the present operation in Saskatchewan is . . . is that they're going to amortize in terms of accounting and reporting over the life of the project — whether it's 10 or 15 or 20 years, whatever the project — the amortization cost of borrowing.

I wonder, Mr. Strelioff, do you have any opinions as to the preferable method of doing it?

Mr. Strelioff: — Mr. Chairman, Mr. Lyons, my views start off with page 2 of our hand-out where we have the statement of financial position. And we put a lot of emphasis on the net debt of the province. That seems to be an important measure that many people look to to determine the state of the province's finances. And that measure kind of reflects what the lien on the tax base is in the future. We have the total liabilities and those assets on hand that somehow can be used to pay off those liabilities, called financial assets.

And people over the years have thought that that debt measure is just a good indicator to monitor trends in. And all provinces and the federal government in Canada report this net debt measure. They sometimes call it accumulated deficit, net debt, net direct debt. But the emphasis is what's the lien on the tax base, and in this case the net debt is 3.3 billion.

Now that emphasizes — if that net debt measure is an important sort of indicator of what's going on — it emphasizes the importance of reporting all your liabilities and all your assets that are around that can be used to pay off those liabilities. And that produces the net debt measure. And that's the conclusions of the Canadian Institute of Chartered Accountants when they addressed this issue. They said that this net debt measure is an important indicator of what's going on around the country and we should make sure that it's measured in the most rigorous manner as possible.

So given that recommendation and that thinking, our office is very keen on making sure that all the liabilities are reported and all the financial-type assets are reported so that we have a very rigorous net debt measure.

Then we've also noted on our second page that there's no information about physical assets. So this gets to your original question of: well shouldn't there be a better display of what's going on in terms of the build-up or the wearing down of all the physical assets that we have out there. And as an institute, the Canadian Institute of Chartered Accountants came to the view that yes, there needs to be some sort of reflection of the investment in physical assets, still holding constant that net debt measure. They felt that the net debt measure, we should make sure that that's always reported but it reported in the most rigorous manner possible. And then let's start talking about our investment in physical assets.

Now when you get to the investment in physical assets, you get two very strongly-held views on what's the nature of that investment. One is that it's kind of a private-sector view. And people that hold that view say, now that's a really important investment in our infrastructure that really we should reflect the fact that we have it and that we don't have to build something new right away to replace it. So let's amortize it — amortize the cost of it over lots of years, its useful life.

The other side says, and it's a very equally strongly held view, and that is that this investment really is an onerous responsibility of governments. That we're going to have to repair it, replace it, maintain it, and that the key kinds of information that we should be reporting to people in our financial statements is, is what are the cash flow implications of that investment in the future? How much is it going to cost to maintain it? How much is it going to cost to replace it, given some sort of agreed-upon standard of service? So across the country though, those views are very strongly held and they're kind of at different poles.

Now the Canadian Institute of Chartered Accountants came to the issue and said, well there's got to be information in the financial statements to reflect what's going on with our infrastructure.

And they've talked about both sides. We need to reflect that ongoing replacement and maintenance costs because we need to know whether it's being worn down or whether it's being built up. That's an important piece of information for people to find out about.

And on the other side, the institute also said, well it also represents an important asset of the province. And we need to get governments to start reflecting both sides of that story.

Right now there's very little information about our infrastructure. Usually it's just when we build something, just during the year that we build it. Okay, we spent X million dollars and there's no kind of follow-up of what's going on there. Are we maintaining our road systems or are we wearing them down or are we building them up? And what's the cash flow implications in the future?

So on the physical asset question, there are very strongly held views as to what information is important. From my perspective I think both pieces of information are important. The fact that we have a huge investment in infrastructure is an important piece of information that people should be more aware of. The fact that it's going to cost a heck of a lot to maintain and replace is also an important piece of information that we have to keep track of.

Right now we're not getting that information. And it's not that simple to provide that information. But we need to start working on making sure that decision makers have a better picture of what's happening out there. And the physical assets is one important component of that. But it also still holds constant the importance of the net debt measure.

Now the people at the table that I've talked to over the last about 10 years on this issue really, over and over again, have stressed the importance of making sure that that net debt measure is a very rigorous measure, because you need to know the lien on the tax base prior to making decisions. So that goes back to the importance of reporting the total liabilities and the financial assets in a more rigorous manner.

Mr. Kraus: **—** The one comment I might make, I believe the auditor would support me on this, is that the concept of that net debt and the notion of not being able to capitalize your assets and spread the cost out in some fashion is one that is debated rather hotly, and there are people on both sides of the coin even in the accounting community. And although the public sector accounting and auditing . . . the public sector accounting committee finally made a recommendation that supported the net debt idea and that meant you shouldn't capitalize these capital assets and write them off.

It didn't mean it was achieved very easily. And that's why in part you see the recommendation that the auditor is making in point 13 of chapter 1, that you should be somehow reporting your infrastructure, because they recognize that government accounting is very good at recording debt and liabilities but it doesn't do a very good job of reporting the assets, the infrastructure **—** the universities, the schools, the roads, etc. And that's the dilemma.

If you're a business, you don't have that problem. You incur a ten million or a hundred million dollars for capital; it's a liability and an asset, no deficit. But if you're a government, you incur the liability of $100 million, the expense is $100 million, your deficit is $100 million. It doesn't look like you're doing half the job that the private sector is doing and yet it could be . . . it's in fact the same situation. That's sort of the unfairness of the accounting and that's the dilemma.

Mr. Strelioff: **—** Well, Mr. Chairman, there's nothing stopping a government anywhere to report straight up what their investment and physical assets is. On page 2 you could have as the fourth item an investment in physical assets and saying X billions of dollars, whatever it is. I mean that's . . . We think that more information like that needs to be reported.

Mr. Britton: **—** More like a net worth of the province.

Mr. Strelioff: **—** Something like that. Net worth is a hard . . . When you think of it in a conceptual sense, net worth, how does the province determine its net worth? But it's that kind of idea, though.

Mr. Britton: **—** This is what I think you're getting to, because if you're saying that you have to put a value on the road from X to X and what depreciates a year, if you evaluate the hospitals you have and if they're being upgraded, you know, the net worth of Saskatchewan would be XXX.

If that's what you're saying, and if it is, then I think, you know, it's a good idea. That's probably where we should be going. However, when I'm thinking about how to do that, given the fact that we haven't done it before, that's going to be a major, major turnaround, isn't it, in terms of getting a handle on all the assets of the province?

Mr. Strelioff: **—** Yes, Mr. Chairman. Yes, it is. One of the benefits of the SPMC corporation is that it has moved to begin to inventory all the kinds of buildings that have been created by the province. So we've moved a significant step forward on that. Now we just have to somehow take advantage of that step.

Mr. Chairman: **—** Mr. Hopfner next.

A Member: **—** I guess I butted in. I'm sorry.

Mr. Chairman: **—** You really should be more assertive here, Mike, and get your face in line. Then Mr. Baker.

Mr. Hopfner: **—** Oh, I didn't mind that. Anyway, on this, would you interpret it as a consensus for change? I guess probably . . . is you had indicated was a consensus within the Canadian Institute of Chartered Accountants. Is that where you're determining there is this consensus? Or where are you determining where this consensus came from?

Mr. Strelioff: **—** Mr. Chairman, Mr. Hopfner, the Canadian Institute of Chartered Accountants is a group that recommends accounting standards and auditing standards for the private sector and the public sector.

On the private sector, governments require the private sector corporations to follow the recommendations of the Canadian Institute of Chartered Accountants.

About 10, 11 years ago the Canadian Institute of Chartered Accountants, at the urging of many people in the public sector, decided to begin recommending how to account and audit in the public sector, and now have a body of recommendations that have the consensus of people working in legislative audit offices and finance departments and public accounting firms or private accounting firms that deal with public sector; that their consensus is, here's how governments should report.

Now there's nothing in law that requires any particular government to follow the recommendations of the CICA (Canadian Institute of Chartered Accountants). It's just the recommendations of the profession that say, here's what we think should happen. Now the governments have chosen to make it mandatory for private sector corporations to follow the recommendations of the CICA. It hasn't evolved to the point where governments themselves have said, okay we're going to follow those recommendations. We're getting close, I think, in some jurisdictions but . . .

Mr. Hopfner: — Well, okay, I want to kind of back up here a little bit because like my understanding was some years ago that the provincial auditor really had a twofold role, I guess, probably actually as a comptroller as well as a provincial auditor. And then it was kind of split off, because at one particular time it was noted that the Provincial Auditor's office really didn't think it necessary to be doing the comptroller's job.

Now what it seems to be telling me in one essence is that now they want to grab that portion of it back and do the reporting from over there as well as the reporting from here. Now if that was the case, then I look at it and I say, well, my gosh, now I've got one only reporting . . . or one group that I'm really basically asking a question of. So you get to control all of the accounting through the Provincial Auditor. And really when I'd like a second opinion, that's not going to be there for me any longer.

Like what you said earlier was — or Mr. Kraus alluded to it earlier — was that there is a difference of opinion within the chartered accountants. And you agreed that there's two pulls — there's one pulling here from more the private sector and one pulling here more towards the public sector.

Where do we find where we can make a real, genuine decision on this if we've got the professionals pulling?

Mr. Strelioff: — Mr. Chairman, Mr. Hopfner, I think a real contribution could be made if this committee recommended that the government, when preparing its financial statements, follow the recommendations of the Canadian Institute of Chartered Accountants. That would mean that discussions of what's right or what's wrong would rarely surface in this type of forum; that there would be a standard bench-mark for our office to audit to, for the comptroller's office to prepare financial statements to, and the standard bench-mark would be developed by the professionals across Canada that work on these issues on a day-by-day basis. And certainly when they get to the table — and it's a table similar like this — discussing how to handle a specific type of issue or transaction or liability or asset, there's differences of opinion.

But in the final instance or final case they say, okay, here's what we're going to recommend. There's arguments for this case, arguments for that case, and there's probably three or four middle-grounds. Okay. Here's, at the end of it all, what we think is a good practice to follow and then it becomes the recommendations of my profession and away we go from there.

Mr. Hopfner: — But you see, like, Mr. Kraus . . . well, okay, Mr. Kraus, with the way the practice has been for, some cases, 60 years, some cases, 30 years or 20 years, as you indicated earlier by just jumping in with the Canadian Institute of Chartered Accountants and their suggestions, would that create any real hassle for you people?

Mr. Kraus: — Well again, it's the government that has to decide what policies it's going follow. In all fairness, and I don't want to muddy the issue, but you know what is considered to be good practice today wasn't 30 years ago, and again, what's considered to be good practice today may not be 25 or 30 years ago.

The more you study these things, the more you find out that there really isn't a definitive answer that's the perfect answer, that's one that will hold for all time. So I guess you have to be careful when you adopt these things because I think it's a fair statement that Canada has adopted some of them, Manitoba some, Alberta and B.C., and yet I bet you not one of them is reporting on the same basis.

Everybody picks and chooses — I'm sorry, every government picks and chooses — and I would believe . . . I can't give you any specifics, but I'm pretty sure we have adopted a few things in Saskatchewan, tried to comply with some of the presentations, anyway, that they recommended. The government may decide to adopt some of these things over time.

But if you jump out and embrace it wholly and say, yes, we're going that way, you don't know that you won't be way out and going . . . They could turn the corner on you and you'll have to come back.

To make these changes — they are significant when you're talking about unfunded pension liabilities. They used to put that up on the balance sheet to — what is it, a couple billion dollars now — and then say, well maybe it's shouldn't be there, whatever. Those are significant impacts on the financial statements.

On that one, the first time you'll find it — and I suspect they didn't take actuarial, they didn't do actuarial evaluations until, perhaps, the late '60s or '70s — but I looked back through the *Public Accounts* and the first time I can find it is '75-76 and they're reporting actuarial . . . rather, unfunded liabilities that were established or determined in 1973. That's the first time you'll see them.

I'm just not certain anyway that . . . and by the way, I guess since I'm back on pensions, because I find it quite a fascinating subject, if you were to adopt, in all fairness, what the Canadian Institute of Chartered Accountants is recommending, you would have to amend the surplus or deficits of the fiscal years for the last, probably the last 60 fiscal years. This thing has accumulated over time. It may be accumulating faster through the '70s and into the '80s because of inflation and so on, but it's that kind of thing you're talking about.

Mr. Chairman: — I wonder at this point whether we might take a break and come back in five minutes, and give us time to also reflect on the various words and the importance of pensions and things of that nature.

The committee recessed for a short period of time.

Mr. Hopfner: — Mr. Kraus, in regards to the value for money or economic value or I guess probably what I'm trying to say is, if I as a shareholder, okay, for instance, of a company . . . Well no, I got to use a different example. Okay this is a government, okay, say it's SPMC. Let's use that as an example — SPMC, they're loaning money off to another identity of government, okay. And if it is . . . I want to get into that loan aspect of it, and here it says, we believe the loan should be written off as it has no economic value. Does a loan not have economic value?

Mr. Kraus: — Well there's several ways to look at this. One is, is that if you believe that a government should not capitalize its assets and write them off over time but should only show assets which it knows it can realize that they will eventually be liquidated and that they will be received from outside parties, parties that can generate new and fresh moneys for the Consolidated Fund or our combined fund, then you could make the case that this doesn't have . . . this loan to SPMC doesn't have any economic value because we have to appropriate moneys in order to pay that loan off. And although I'm not sure I agree with that term exactly, but I suppose you could make that case. On the other hand . . .

Mr. Hopfner: — Can I use an example there?

Mr. Kraus: — Well I just want to say one more thing if I could, Mr. Chairman, and that is that . . . but to say that these assets have no economic value for the provinces is not right because . . . and I'm not criticizing the auditor because I know where he's coming from; he's talking in terms of that net debt concept. But clearly, investments in hospitals and universities have some economic value. If you don't have that infrastructure, you probably wouldn't have much of an economy in Saskatchewan. So in the broader sense, they do have economic value. But now we're getting down to this accounting argument.

Mr. Hopfner: — But if I was in the accounting field, if I was a shareholder, — which SPMC is a shareholder of . . . I guess in a sense, if you want to draw some parallels — and I borrowed to a department of my company X dollars, that loan would have a value. Would that not be under the same concept, because that would have a value as a shareholder's loan regardless of whether I had to borrow it . . . appropriate those funds from another source to put it down to that source. That has some value. Not only to where I appropriated the funds from, but it has a value to myself and it should have a value right down into the other department. Wouldn't that not be the same concept in a parallel to what SPMC would be appropriating funds from the Consolidated Fund down to themselves and down to the different departments. Would that not be a fair, similar . . .

Mr. Kraus: — Well I guess the reason that we're at odds here is simply over whether or not you should capitalize or not capitalize in this case.

Mr. Hopfner: — I'm not saying we should be at odds or shouldn't be at odds, but I mean shouldn't it not be . . . should the concept not be relatively the same? Like, should I not be able to, if I'm say on the private sector side, be able to claim it as a value? Would you not be able to claim that as a value on the public side? That's where I guess I'm trying to come from.

Mr. Kraus: — The problem with comparing it to the private sector is that in the first place if you were to expend dollars on capital like we have here, you could treat it as an asset. So right away you've got a different situation. The auditor would not be challenging at all as to whether or not it should be capitalized. So in that sense, in that sense it would be an asset. The private sector accounting principles would support that.

I think though the answer is that if you were to make a loan from one related company to another related company, while those two related companies may have their sets of books showing that one has a loan due and payable from the other, if you would roll them all up and say, but what's your net worth as an individual, those two would cancel out.

I'm not sure whether I'm answering the question or not.

Mr. Hopfner: — Yes, they would cancel out all right. But then you have value for value there, right?

Mr. Kraus: — Yes.

Mr. Hopfner: — If they are cancelling out, you have value for value.

Mr. Kraus: — Yes.

Mr. Hopfner: — That's what I'm saying, is no matter which way you look at it, you still have value for value for the actual worth that is there, the way you've explained it back again. Because if it cancelled each other out, fine.

Mr. Kraus: — It's of equal value.

Mr. Hopfner: — It's of equal value.

Mr. Kraus: — Yes.

Mr. Hopfner: — That's where I have a rough time, I guess, in your interpretation now. You were saying that we really can't find the value there.

Mr. Strelioff: — Mr. Chairman, Mr. Hopfner. Our concern about the way the loan is recorded is that it's called a loan, which means, at least from my perspective, when you look at the financial statement and see that, okay, loan, $555 million. Well that means that I've got some money coming back to me for $555 million. It's the case in the public sector and the private sector. Well that's not the case here. That loan, the only way I can get that money back is by giving that person or SPMC or whatever, the money to pay me back. If that was the case in the private sector, that loan would not be recorded. It would be just no loan; there's no money there to pay off our debts.

Mr. Kraus: — But, Mr. Chairman, what would happen is that if it was the private sector those would have been considered to be legit capital expenditures which you could have capitalized. And that's . . .

Mr. Strelioff: **—** That brings me back to page 2 of our hand-out where we stress the importance of a rigorous measure of the net debt. But also say, well what about all those capital assets? I've described them as physical assets here, but what about all those capital assets? Shouldn't we be telling people about them? And maybe we should be recording them, but making sure that they're described as capital assets or physical assets, not as loans. They're not loans.

Mr. Hopfner: **—** But in the blue book, Mr. Kraus, won't you show it as a capital asset?

Mr. Kraus: **—** No, we would show it . . . it is called a loan to SPMC but it still achieves one of the objectives that was stated from the very beginning that it achieves the objective of being able to spread capital costs over time. So while it isn't . . .

Mr. Hopfner: **—** But you're actually showing it as capital being spread over a period of time from year to year to year, are you not?

Mr. Kraus: **—** Well it's achieving that effect but we do call it a loan receivable from SPMC. I guess an alternative would have been to say capital assets, $555 million, and indicate that we depreciate them. We achieve the same thing through this arrangement we have.

Mr. Hopfner: **—** All right. Well then with the . . . If I was to, as SPMC though, regard that capital loan as an asset, would SPMC not be able to claim that as a particular asset according to that capital loan?

A Member: **—** I'm not just sure . . .

Mr. Hopfner: **—** Okay, SPMC borrowing 555 million, okay?

Mr. Strelioff: **—** Okay, they borrowed $555 million?

Mr. Hopfner: **—** Yes. To whomever, all right? Say it was a bunch of hospitals for instance, or whatever. Now that 555 million was poured into a bunch of facilities and whatever **—** renovations.

Mr. Strelioff: **—** So they gave the hospitals some money to build hospitals.

Mr. Hopfner: **—** Yes. Would those facilities not in turn be an asset to SPMC? It's their dollars in those facilities, and as soon as they called those notes, say they wanted to call a note . . .

Mr. Strelioff: **—** The hospitals that are being built . . .

Mr. Hopfner: — Okay, if I'm in business and I have a loan from a bank for a particular facility in a business, all right, and as I am working that business and everything else, that actually, that value goes through me right back to the bank until that loan is either paid off or whatever, right?

Mr. Strelioff: **—** Yes, you owe the bank money and the bank has a receivable from you.

Mr. Hopfner: **—** Is there anything ever saying . . . I guess then that would be the question to either one of you is ever to say that this money is not owed through SPMC back to the Consolidated Fund to the people of Saskatchewan. Like, the people of Saskatchewan are actually the Consolidated Fund, right?

Mr. Strelioff: **—** In a general sense, yes.

Mr. Hopfner: **—** So people of Saskatchewan give SPMC 555 million to put through to the assets. Now that's just one big circle, right? I mean, we're getting value no matter which way, only we've put in charge SPMC to handle the dollars to divide it up to whoever want it, right?

Mr. Strelioff: **—** If they are a management of the building process.

Mr. Hopfner: **—** Yes, they're a management part of it. So as long as they can tell you where that $555 million went and it can be accounted for, should that not satisfy you? And then like because my understanding is as long as you're happy that the dollars have not gone adrift, you know, by somebody ripping off the system or something like that, but it actually has gone back to the people through some way, shape, or form, should we not be able to be satisfied?

Mr. Strelioff: **—** Well, Mr. Chairman, Mr. Hopfner, my main concern here is when you look at the financial statement of the province and you see liabilities, total liabilities and total assets, that doesn't provide you . . . that information's incomplete and in some cases we don't think it's reflected properly. That's our concern, the value of the loan, the $555 million.

If you want to know what the financial assets of the province are, that shouldn't be in it. If you want to know what our investment and physical assets are or investment in capital assets or infrastructure or whatever you want to call them, well that's a different story and that's an important story. But let's provide some information on that. But don't mix it up with loans. It's not a loan.

Mr. Hopfner: **—** But you see, like, for me to put a business profile together . . . okay, let's put a provincial profile together. On one side of the coin we'd like to make the picture look great if we have to go out into the money-markets and everything else, right? I mean, it's what I do as a business man and I'm sure the government should do the same thing if they want to paint a nice picture of their province, right? If it was the other way around, we wouldn't be going anywhere in the province.

So you are there . . . they're there to paint the picture; you're there to make sure that although they did paint a picture that every dollar's been accounted for that's been spent, right?

Mr. Strelioff: **—** Everything that's accounted for plus when they present the picture that it's a fair picture of what's out there.

Mr. Hopfner: — Exactly. I'm not arguing that point at all. I'd be the last one to argue that point. What I'm saying is I want to know that we get value for dollar, right? I mean, the $555 million was spent on construction or whatever or whatever. When they put their accounting together and put it through, I'm saying is I'm going to try as a business man or as a government try to paint the best picture for the money-markets as I possibly can, okay, whether it's I go into the bank personally or Bob or whoever is going. I just want to paint a real good picture.

I also want you to tell me whether Bob — or I'm sure Bob would want you to tell him as well — whether, whatever it is, whether we had gone and spent those dollars that were acquired properly. So that's a different kind of accounting, and I can accept both types of accounting.

We've got projections built in; we've got all sorts of different things built in. But you really don't want to look at those, you want to look at the actual dollars spent, at least I would perceive that as being your duty.

Mr. Strelioff: — Well, Mr. Chairman, Mr. Hopfner, yes you're right, I do. Our office does look at the actual dollars spent but we also have a responsibility to you people to make sure that when you get financial reports from the government, as a Legislative Assembly, that those financial reports provide the information you need to carry out your responsibilities. And when I put that in context and look at the financial reports that are now prepared, they're not good enough for you. You need a better accounting of what's going on.

And then I go back to: well how do I know whether you need a better accounting and what constitutes better accounting? One is kind of personal belief; the other is, well there are standards of our profession that deal with these kind of issues just constantly. And they also agree that you need a better accounting and provide recommendations and proposed standards on how that accounting should be prepared. And then when I say a "bench-mark", that's what I mean by a bench-mark for determining what better information should be provided.

Mr. Hopfner: — No, I can see what you're saying there. I can't argue with some of the stuff you said. I guess where I'm having a hard time getting a clarification on then is, you said to me that you don't think that I have enough information. I guess probably I would say I should be the one to make that determination. And if I don't, then I should seek that information.

I can see where you could be handcuffing, I guess, an administration if every time they wanted to buy a load of — we'll get back to that what we were talking about the other day — a load of gravel, and whoever the administration is said . . . say Bob is the minister of Highways. And his guy said, well we got to have a load of gravel over here. And Bob says, just a minute, I'm going to have to check with the auditor, the Provincial Auditor, and see if I got the best value here, you know, otherwise I'm going to end up in his report. But I just say, this is how it could get carried away, you know.

I'm saying is that . . . I was just saying that this could be a situation, and I'm just not sure if that's as far as you really want it to go.

Mr. Strelioff: — Well, Mr. Chairman, Mr. Hopfner, no, that wouldn't be where we would want to go. We wouldn't want phone calls from the ministers or from the government officials, asking us whether they should be carrying out decisions. That's their responsibility. That's not our role at all.

Mr. Hopfner: — Okay, well I'll let some . . . But do you think, Mr. Kraus, that that might be something in the back of everyone's minds in departments whether or not they will end up on . . . from the various departments of government that they may end up in this report because they do not . . . they're not ever sure of whether there's a better value out there or not?

Mr. Kraus: — Well I will answer it this way, I guess. I don't want to open a can of worms here, but this infrastructure project, there has been a study, a research study, I believe — it was a research study, the Provincial Auditor would support me on that. And while I think they have good intentions, they were trying to get . . . what some of their recommendations were is that government should list the roads, the schools, the hospitals, and all their infrastructure, and begin to try and project — because these things are not only assets, they're also liabilities in the sense that you've got to maintain them — and try and show what the maintenance costs are going to be out over the years. And I am an associate to this CIC committee and I have an opportunity to make comments, and I made them personally as well as verbally.

And one of my concerns is that what it fails to recognize is that you can't necessarily say what a government is going to be committed to over 5 or 10 or 15 years in maintaining its infrastructure. Governments have many options. In the first place, they may choose not to maintain some of those schools, hospitals, and roads. You never know what direction a province or a country might take.

And secondly, it tends to make it look like there's all these expenditures out there with no options on the other side. There are many revenue options you might also consider to offset what appears to be some serious expenditure problems in the future.

So I think — this is just my comment on this — is that I think at this point, while there may be some merit in documenting your infrastructure, I think that they're trying to go a little bit too far with forecasting far out into the future what these things might cost. Because they're almost tying . . . they're saying that government's going to have to do this. Well we don't know what governments will do. They have many options.

Mr. Hopfner: — I have one or two more questions and then I'll pass on to the guys here, Mr. Chairman.

If we were to go to a more extensive auditing service from your particular department, what in your mind would the additional costs be to the province for doing that? And because you would be taking on a much larger work-load, how many more personnel would you require, and along with that cost, additional cost. And I guess probably . . . what about the timeliness as well — again I guess we'll get back into that — because you are taking on a much larger work-load. Okay, I'll let it go at that and then I'll let the other people go on.

Mr. Chairman: — Can I just at this point . . . I want to ask Mr. Kraus. You stated that — I'm paraphrasing you and correct me if I'm wrong — but you stated that the accounting practices which the auditor has questioned here and which the CICA has questioned with respect to accounting for loans of the nature that the auditor talks about, that these practices had in fact been occurring for 30, 60 years — I assume that to mean here in Saskatchewan and other jurisdictions.

The question I have, inasmuch as the auditor has not chosen to comment on these practices until recently, I assume that that is a reflection of the evolvement of CICA standards, but I assume mostly that it's a reflection on very considerable substantial figures involving SPMC.

The question I have is: prior to SPMC and the government seemingly getting involved in a quasi-capital program through SPMC, were there other significant transactions within government that might have given any previous auditor, given the CICA standards, cause for concern? In terms of order of magnitude.

Mr. Kraus: — First, I'd want to just point out that the SPMC item has only been around since '87, and I'm sure you're aware of that. It was more the pensions that go back I think at least 60 years, and dividends from, say, Saskatchewan Power Corporation, how we would account for those dividends. I can recall back at least probably into the 60s — I wasn't here, but just looking back through the records — that we've accounted for the dividends from SPC the same way for many, many years, 30 years maybe, as long as it's existed, I suppose.

But you're asking me, are there other issues that the auditor has raised like SPMC that would be of some magnitude?

Mr. Chairman: — Well he hasn't raised them, but I'm wondering, have there been instances of these large transfers of . . . or transfers of large pools of money from one agency to the next that are loans treated as assets?

Mr. Kraus: — No, I can't recall that there's anything like that, Mr. Chairman. I would think that SPMC sort of stands out by itself. Some of these other issues have been talked about informally, like the pension liabilities, but . . .

Mr. Chairman: — Yes. No, I agree.

Mr. Kraus: — But I don't think there's anything like SPMC. There's always a challenge on the evaluation of the some of the loans . . . the Grain Car Corporation comes to mind. We've been writing it down over a period of some years, but that's an old issue. I don't think so.

Mr. Chairman: — Okay. I stated that I thought that the involvement of SPMC in financing capital projects was a quasi-capital works program in Saskatchewan, and that it missed the mark in terms of a capital, as the C.D. Howe Institute talks about to capital budgets, that the government seems to be wanting to spread the cost of projects over a number of years and in my mind, justifiably so. Because an asset today is an asset tomorrow and it's fair that future generations also, you know, bear some responsibility for those assets. Fair enough, but we don't seem to have an effective capital budget for the province.

Mr. Kraus: — The government looked at many options, and I suppose it's fair to say that one would have been a capital budget. They chose, obviously, to go this route. Who knows, perhaps capital budget will be adopted someday, but at this point that was the option they chose to go with.

Mr. Hopfner: — Could I get some answers to those questions, Mr. Chairman?

Mr. Chairman: — To your questions?

Mr. Hopfner: — Yes.

Mr. Chairman: — I'm sorry.

Mr. Hopfner: — Then I'll pass.

Mr. Chairman: — There we go again. Go ahead, I'm sorry.

Mr. Strelioff: — Mr. Chairman, and Mr. Hopfner, the questions were centred on what are the costs going to be to the province of our office doing more intensive examinations. What we're doing right now in our office is looking at what approach we should use when we start carrying out more broader types examinations. And what we're doing is trying to restructure our audit approach so that we don't require any additional resources. That's what we're trying to do.

And over the next year or two we'll see whether we're successful at that. It involves a lot of restructuring on our approaches to what we do now, and then moving those people, training them, and moving them into other kinds of examinations. And as we move from year to year, we'll come back and say, well here's what we've done. If you'd like us to do more of this kind of work, then what we're proposing, we would require additional resources. But the first step is to reorganize, restructure within our office.

The timeliness of the reports. When we touched upon the timeliness of the reports at our last meeting, when we talked about whether it's possible to somehow refer our reports from the Speaker to the Public Accounts Committee directly. If that mechanism was there, then our report structure probably should change as well. So that when we're finished a project, that we issue a report to the Speaker and it comes right to the Public Accounts Committee.

So we're trying to improve the timeliness of our reports as is the government itself in terms of improving the timeliness of the *Public Accounts*. The target now is to be November.

Mr. Hopfner: — Just a supplementary question then while you're on that. What do you see as an additional cost for having this committee, say, sit outside of session and being able to deal with it. Have you put some value in regards to that on the amount of days that we've been normally sitting with the report?

Mr. Chairman: **—** The work of the politician defies cost benefit analysis.

Mr. Hopfner: **—** That's all within your cost mandate there of what you're trying to do, and I'd like to have that.

Mr. Strelioff: **—** Mr. Chairman, in terms of the cost to the committee, we're still just talking about it in principle, whether this committee thinks it would be useful to meet more frequently. And then if it does, what's the impact on us? Do we need to appear more frequently?

Mr. Hopfner: **—** That information, I wouldn't mind having if you could kind of nail it down to us exactly what . . . to have this committee sit away from the regular sitting sessions. Because if the timeliness of your report was to be there, and the report back to the public as to our findings with your report, it could get fairly expensive, I would tend to think, for this committee to sit out of session. And that is part of your cost.

Mr. Strelioff: **—** Mr. Chairman, one of the costs I suppose that we could refer to was the November meeting.

Mr. Chairman: **—** But that assumes that per diems will continue to be a matter of course in the future.

Mr. Hopfner: **—** Yes. I guess it would almost have to be.

Mr. Chairman: **—** Travel costs always would be but . . . travel and accommodation would be.

Mr. Hopfner: **—** But that's a big factor.

Mr. Lyons: **—** That may or may not be the case.

Mr. Hopfner: **—** No, I know that. Okay, carry on.

Mr. Baker: **—** I don't know how we can sort this out. When I first got elected, I spent considerable time trying to get a handle on the assets of the province of Saskatchewan. And when I went to try and get a current balance sheet, I mean guys looked at me like I was star gazing. And so I tried to break it down then to get a handle on the current assets of the Crowns versus a consolidated side, and I tried seriously for about 18 months and I finally gave up on it. But what I discovered was that if I run my business that way, I wouldn't have been in business.

But I discovered that the consolidated side had no assets. What happens is that we're going to build a new school here and a new hospital there and whatever. You move into a situation where you fund it through the consolidated side and the assets were never . . . had ownership to government. They wound up in a board run by Saskatoon (West) School unit or the University Hospital which is a third-party situation where you couldn't come down and say, well these are hard assets.

So as long as you're going to keep funding capital projects through the Consolidated Fund with no assets *per se* to back it up, I don't know how you can possibly get a handle on proper net worth or values. I suppose everything we do is a value to the society as a whole.

And my guess is that we probably if we're going to make some attempt to try and get a handle on it, we could probably split the Consolidated Fund into two sections and have two clear and distinct budgets. The way it is now, the asset side of it kind of dissipates and the ongoing expenses are still there in the consolidated side and it's kind of a . . . and it's for the good of the population as a whole. But for the accounting side of it, it doesn't conform with anything that happens in the real world.

So if we're going to look at any area of changing the accounting methods, then I think we do have to go back and reorganize the spending habits and how they're spent, to get a solid grasp on whether we're clearly running a deficit in the consolidated side as to the ongoing daily operations or whether in fact the deficit that may or may not be there should be isolated and spent on the consolidated side, where now you can bring it into perspective of amortization, depreciation, and things that go with it. The way it's structured and set up now, there's absolutely no way that you can ever do a proper accounting system when a huge number of those dollars wind up becoming instant assets of a third party or another wing of government maybe *per se*.

But let's take a school that's being built and used, it's run its term. What happens to the assets to that school when it's sold? It becomes the property of the board. The board will then offer it to local government or provincial government or one of the government levels. And when the sale of that asset comes down, it doesn't go back to the provincial government where the majority of the money came from, it goes into the assets and the funding and the dollars of that particular school unit.

So I don't know how you get a handle on real true assets and values that the taxpayers have paid for as far as accountability purposes go. I don't think it matters a great hill of beans in the final analysis because it's all supposedly for the good of the folks. But for accounting purposes it's mind-boggling to try and get a handle on it. And I think you have to go back to that premise to get a handle to solve some of the other things that we see occurring over the years.

Mr. Strelioff: **—** Mr. Chairman, the third or the fourth page of our hand-out where it has the chart, that's the issue, at least in my terms, the issue that you're focusing on, and that is how do you provide that overview of all the things that the government controls and owns?

And that issue is worked out. It took quite a few years before the profession could come to agreement on how to put that picture together, but the profession now has fairly specific rigorous ways of seeing through all the different organizational forms that governments create, and say now here, no matter how you carry out your function, here's in an overview sense what we've got.

Mr. Baker: **—** Fine, and if that can be worked out. But now I'm the minister of Finance, I'm going to draft a budget and in that budget, the global budget, I now do new projects or fund portions of projects that's already been in place. So now my operating budget includes the capital side of it which will completely distort the deficit that . . . or the expenditures of the day-to-day operations of government.

And the capital side of it may account in some periods of time for a lot more than other years. To get a handle on it, as far as where we're at on a day-to-day operations, we must split the capital side from the operating side. And if you start there, now you can get a better handle on whether in fact we are functioning within our means or whether we're not functioning within our means.

Now your capital side can be controlled. You know, if you haven't got enough money to support huge capital projects and budgets, then you can do something about it. But I think you have to get a clear picture where we are at. You must break down the Consolidated Fund into two areas, clearly, before you're ever going to get a clear handle on it. To me it would make eminent sense and I think that a minister of Finance putting a budget together would have a better handle on the global picture, if it was done that way too.

Mr. Strelioff: — And your split is — here's what we're spending on operations, here's what we're spending on capital investment. That's a reasonable, at least from my perspective, is a reasonable thing, that if I was in your shoes, I'd think well, yes, that's the kind of information I'd like to have to monitor this thing on.

Mr. Baker: — Well I'd certainly like to see it addressed, because believe me from where I came from in my private life, I couldn't believe that there was no place that I could find the net worth of the province. I couldn't see a balance sheet either side of the coin — no current values on Crowns, no current values on all the assets that governments built and funded.

And, I mean, once it's gone it's gone. I mean, next year is a new year and this just kind of evaporates like gasoline after you've spilled it out of a can.

Mr. Strelioff: — I think that's what happened about 10 to 15 years ago, to sort of my profession. They began to look at government financial reports because the state of the government's finances were getting a little tighter and tighter.

The same kind of questions that you're asking. Well I can't figure out what's going on. And then one of the steps that they thought was appropriate was to start developing standards for how to report this kind of information. And then that goes back to the recommendations that are now coming out of the CICA saying here's what makes sense to us.

Mr. Baker: — I can certainly see why we have some questions between the private sector auditors and public sector auditors. It's quite clear to me that it's done totally two different ways.

But if we're going to continue on and try and make some recommendations, I would certainly say that we'd roll back to an area and start from a premise that we're going to have to do some dissecting here for accountability purposes and for a better understanding to the folks that eventually pay the bills as to where their money's being spent.

And I think if we're going to continue this on and try and make some recommendations, that we'd better go back to the premise and forget about the asset side of . . . Because the way it's structured now you either have to have the provincial government saying no, this is our asset but you have the use of it, or continue on doing that way it is. And I don't think that matters to me personally, I would have no . . . I couldn't care less which way it went But I certainly think that we could draw a better picture or our own minds and also into the folks that finally pay the bills minds.

Mr. Chairman: — It's 11 o'clock. Let's reconvene on Thursday and perhaps members may want to give some thought between now and then as to how we wind up this discussion, what recommendations or guidance we might want to provide to the Legislative Assembly. Thank you.

The meeting adjourned at 11 a.m.