

SESSION 1947
HOUSE OF COMMONS

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 17

TUESDAY, JULY 1, 1947

WITNESS:

Mr. Watson Sellar, C.M.G., Auditor General

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY

1947

MINUTES OF PROCEEDINGS

TUESDAY, July 1, 1947.

The Standing Committee on Public Accounts met at 11 o'clock a.m., the Chairman, Mr. L. P. Picard, presiding.

Members present: Messrs. Cloutier, Fleming, Fraser, Gladstone, Golding, Isnor, Jackman, Jaenicke, Macdonnell, Picard, Raymond (*Wright*), Rinfret, Winkler.

In attendance: Mr. Watson Sellar, C.M.G., Auditor General.

The Committee proceeded to consideration of the report of the Auditor General for the fiscal year ended March 31, 1946.

Mr. Sellar was called, heard and questioned.

It was agreed that Mr. William Cleave of Sarnia, Ontario, and Mr. Gordon Murchison, Director, Soldier Settlement and Veterans Land Act, be called for Friday, July 4.

At 12.55 p.m. the Committee adjourned until Wednesday, July 2, at 11 o'clock a.m.

A. L. BURGESS,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

July 1, 1947.

The standing Committee on Public Accounts met this day at 11.00 a.m. The Chairman, Mr. L. Philippe Picard, presided.

The CHAIRMAN: Gentlemen, shall we call the meeting to order.

We have with us this morning Mr. Watson Sellar, Auditor General, and we would ask him to make a statement if he has one to make?

Mr. Sellar will afterwards be at the disposal of the members to ask questions. It has been agreed that this discussion would be on general terms. Mr. Sellar has the floor and is at your disposal.

Mr. Watson Sellar, C.M.G., Auditor General, called:

The CHAIRMAN: I suppose it would be in order to ask Mr. Sellar if he has a few words to say.

Mr. ISNOR: Yes, I think it would be nice to have a statement.

The WITNESS: Mr. Chairman, you have before you the report for the fiscal year 1945-46. The items can be divided into various headings but I imagine you are particularly interested in those concerning you as representing the House of Commons in this committee. There are, in that regard, certain transactions to which I think you should give a little thought. There are several of them noted on page 2 of my report. One is: "Payments totalling \$7,735,000 (Canadian) were made to the United States government to the end that Canadian service forces may, up to March 31, 1947, select items from surplus stores and equipment of the United States service forces. No deliveries were made in the fiscal year. The effect is to relieve 1946-47 appropriations of the cost of such stores and equipment as may be selected."

Gentlemen, the effect of that transaction, a good business transaction which I am not criticizing as such, is that we took \$7,000,000 U.S. funds, lodged it with the secretary of the treasury in Washington, and authorized the army, navy, and the air force, to select from the surplus stores of the United States army and navy, for delivery in Canada and use in Canada, various surplus stores. Had that been done, had the selection and deliveries been made in the fiscal year, I would have said nothing, but no deliveries were made in that fiscal year and therefore, in effect, the government, instead of letting the appropriation lapse, is using \$7,000,000 for future years. Actually, relatively little of that money was spent in the fiscal year last ended and the period has been extended to December next. That from the viewpoint of parliament, is of interest to you because the general law is that all appropriations lapse on March 31st.

Mr. FRASER: On that point, at the present time the Minister of National Defence has announced that his department has bought just lately \$50,000,000 odd worth of equipment. How is that covered?

The WITNESS: You are quite right, sir. My objection to this is a technical one. I say that it should be a charge to the appropriation for 1947-48 and not to 1945-46. It is merely from the viewpoint of control of the fund. I think we are getting big value for the money and my objection is just from your point of view in having control of public trusts.

Mr. ISNOR: It is a matter of judgment and business.

The WITNESS: It is just one transaction.

The next one is contained in the following paragraph which deals with the settlement with the Netherlands. Under that settlement we owed the Netherlands government in round figures, \$33,000,000 for services rendered to our army in the Netherlands. I think again the government made a very sensible and practical settlement. They sold \$29,000,000 worth of surplus army stores, vehicles, equipment and so on in the Netherlands, to the Netherlands government. There is a debt there that is not reflected in the appropriations and that is the only explanation I have on the matter. We settled up by delivering stores instead of reflecting it in a cash transaction in our accounts.

Furthermore there was a sum of approximately \$4,000,000 which was to settle any future claims. That was set up in an account, a sundry account, and that is held by the Department of Reconstruction for settlement. Belgium has the same sort of transaction.

Mr. ISNOR: Before you leave that if that was set up in Public Accounts it would have shown a credit of \$4,000,000.

The WITNESS: We would show first a sale of \$29,000,000 worth of articles.

Mr. ISNOR: Yes.

The WITNESS: The issue of payment to the Netherlands is charged to the appropriation in that amount. As it is we show merely a sale and we do not show any charge to the appropriation.

Mr. ISNOR: But you have mentioned it was not reflected in the books, the one item was \$33,000,000. In other words the expenditure of \$29,000,000 therefore leaves a credit of \$4,000,00.

The WITNESS: Yes, and the \$4,000,000 has been set up as a credit for settlements covering the period in the year 1946 after the 1st of April. It is not a serious matter but in principle you might take a little exception. The other item which I do not like at all, gentlemen, is to be found in paragraph 72.

Mr. FRASER: What page is that?

The WITNESS: Page 27. In connection with that transaction what happened was this. By an arrangement between the governments, the Netherlands government issued "X" quantity of guilders for the purpose of financing our army in the Netherlands. As we all know the soldiers went into black market operations and as a result the government is obliged to redeem \$16,000,000 more of Dutch guilders than we had officially issued for army purposes. The Netherlands government is disputing their liability to redeem funds converted by the army into sterling through auxiliary services canteens and paymasters. The Department of Finance is actively seeking to get a settlement of this matter, but it does seem to me that should not have been covered up in a general army expenditures charge. In England they had a very large item of the same nature and a few months ago they went to parliament and asked for a special vote to cover the particular item.

Mr. WINKLER: How large was the item in England?

The WITNESS: I am speaking from memory but I think \$100,000,000.

By Mr. Macdonnell:

Q. Was it disputed?—A. I did not read the *Hansard*.

Q. But there they did ask for a special vote whereas here—A. We merely charge it to the account.

Q. We show it two years later.—A. It is set out in Public Accounts and the controller of the treasury draws attention to it. There was no effort of concealment by anyone. No one is happy of course. I am not criticizing it from the viewpoint of the department report, but I do feel the transaction should

be made the subject of a special item so that you gentlemen have control over the consolidated revenue fund.

Q. When the Canadian paymasters acquired that, as set out in paragraph 72, were they acting without any authority at all? Did they just go ahead and convert it?—A. In my opinion they were, but on the other hand we have got to be fair to the man. He would not know the total number of guilders being redeemed, he would just have the number which he received. I think the control at the top should have known when the total was reached. The individual field cashier, and I am not criticizing him, would just know that he had "X" numbers of guilders on hand.

Mr. FLEMING: There was nothing in the guilders to distinguish between those within the quota and those not within?

The WITNESS: As I understand it they were just the standard currency of the Netherlands and they were not specially marked.

By Mr. Macdonnell:

Q. Am I right in this, the guilders which came into the possession of the paymasters were converted into sterling by the army. In other words what happened is that Canadian troops were doing big business and came along and asked the paymasters to have their money converted?—A. Yes.

Q. Was that the ordinary arrangement?—A. Yes, that was the ordinary arrangement.

Q. So, as Mr. Fleming has implied, it was difficult to know what they should convert and what they should not?—A. Yes.

Q. They had no total check against it?—A. That was the situation as far as the individual was concerned. My view is that the control at the top of this thing should have put on the pressure at the right moment.

The CHAIRMAN: If there had been a stop at a certain amount what would have been the result in dealing with guilders that had been acquired legally or legitimately by the troops, and what would have happened to the canteen funds? How would they have been converted?

The WITNESS: I know you have got to take a loss on such matters. Having been a soldier in the first war I know that human nature is human nature, but I do think this control that I am speaking about might have been put on earlier than at \$16,000,000. That was my thought.

Mr. FLEMING: It was a question of control.

The WITNESS: Yes.

Mr. FLEMING: Then there is the matter of reporting to parliament and the authorization, Mr. Sellar?

The WITNESS: It was just charged as a war expenditure charge to national defence under the heading of army services and you will find it at page N-12 of the book.

The CHAIRMAN: In England when they asked for the special vote, you gave us the figure of \$100,000,000, how did it arise?

The WITNESS: I would not like to say until I looked up the English *Hansard* and got the text. I actually read it in the *Times* and having read the article, I sent it down to the controller of the treasury, who was dealing with the thing. I am going from memory.

By Mr. Macdonnell:

Q. When you said there was a full disclosure at all points and therefore there was nothing to criticize from that point of view, when the payment was originally passed by the authorities and when I say by the authorities, I am not quite sure what authority I mean and perhaps you could tell me, but was

it not, at the time, within the knowledge of the people at the top who were approving expenditures that it was approval of which there was no authority?—A. I would think so but I have never been able to establish that.

Q. Must it not have been so?—A. I would feel it was. Here is what the controller of the treasury reports in his report. I had not seen it when I wrote mine. It is found at page N-17 down near the bottom of the page opposite the letter I. "Surplus Currency Dutch Guilders—This amount represents the Canadian dollar equivalent of the 40,155,455.50 Dutch guilders acquired by the Canadian army authorities in excess of the amount made available by the Netherlands government for payment of Canadian troops in Holland. This surplus was developed through acceptance by Canadian army paymasters and field cashiers of guilder receipts accumulated by auxiliary services and regimental canteens and from the Canadian troops. Satisfactory arrangement for reduction of this currency by the Netherlands government had not been completed at the fiscal year end."

Q. Those amounts began to pile up and assume very formidable proportions?—A. Yes.

Q. From time to time those amounts must have been uncovered or was it possible because during wartime there was one over-all appropriation and they just dipped into a common pot and took money?—A. Yes.

Q. Where was the usual authority, the treasury board at this time? Did those amounts have to go before them?—A. No, those amounts would be made out of issues from London.

Q. Was London just given a pot of money which they used as they liked?—A. London was given "X" dollars for the cost of the field forces in Holland.

Q. Then as far as you are concerned this had all been done when it came back to your notice, of course?—A. Yes.

Q. Done many months before?—A. Yes.

Q. Mr. Chairman, I think perhaps it may not be out of order to ask rather broad questions here. What bothers me is that we come onto these things when they are about two years old and I would ask Mr. Sellar whether there is any way in which this ancient history feature can be changed, so that we can be brought nearer to the present, or whether there could be some closer running supervision? I suggest that the question could be answered, not at length now, but if there are others on this committee who think the same as I do we might ask the Auditor General to consider that question.

The CHAIRMAN: May I say we had the War Expenditures Committee running during the war and if anyone had any question on matters of that nature they could have brought it to the attention of the committee.

Mr. MACDONNELL: But did they know then?

Mr. FLEMING: You would not have the knowledge of it other than receiving a report from an official.

The CHAIRMAN: The Public Accounts Committee and the War Expenditures Committee were running and these matters could have been brought up.

Mr. FLEMING: That is just one aspect but there has still got to be some method of expediting the reports.

The CHAIRMAN: I am in agreement with you if you are trying to prevent these things happening.

Mr. ISNOR: I think Mr. Macdonnell's comment is, as I see it, to bring us closer to the actual picture at a reasonable date.

Mr. MACDONNELL: Yes.

Mr. ISNOR: I think we are all in accord.

The WITNESS: As the law is today I am required to produce a report to the House of Commons by the 1st of November.

Mr. ISNOR: November 1st.

The WITNESS: This year I am giving you a report covering the period up to March 31st and that can be done as far as I am concerned very easily. The big problem is the printing of this big volume. The actual audit work of the old year's accounts, as far as I am concerned, will be done in another thirty days. We are carrying our audit currently in the office and we are just cleaning up the accounts. The books are not closed yet officially by the Department of Finance and therefore we have not got a balance sheet or anything of that kind, but as far as I am concerned there would be no difficulty in giving you my actual report on any date in October in any year.

Mr. MACDONNELL: The chairman has raised a very interesting point. During the war there was a committee which met currently.

The CHAIRMAN: The War Expenditures Committee, to which any matter could be referred.

Mr. MACDONNELL: Well it does not seem as if the War Expenditures Committee could have been given this information in time. It does not seem as if they were given it currently and that is something which we may properly pursue. My question is this: why should there not be some kind of duplicate in peacetime to the War Expenditure Committee? Why should there not be some running current check in peacetime, not on every trivial detail but on anything which is unusual? Now is there any reason why it should not be done in peacetime as well as in wartime?

The WITNESS: Well this is a subject which has been up in England in the last six months and they received a very extended report. The clerk of the House of Commons has recommended that the Public Accounts Committee and their Estimates Committee be combined into a single committee so they can deal with things currently.

Mr. MACDONNELL: Is that report available now?

The WITNESS: Yes sir, it is printed.

The CHAIRMAN: We do not have an Estimates Committee.

The WITNESS: No. The report, however, did not receive very favourable comment in certain quarters in England, but it is an effort to speed things up.

Mr. ISNOR: Did you say their estimates come under Public Accounts?

The WITNESS: They have in England an Estimates Committee that acts every year. It checks the estimates of the year for the purpose of surveying certain departments and it takes three or four departments each year. It does not act from the point of view of passing on particular items or recommending expenditures but it makes recommendations to the government with respect to matters where expenditures can be avoided.

Mr. ISNOR: We have something like that in our committee of the whole. Mr. Fleming had in mind the fact that your estimate for this year is such and such an amount, but what we want to know is the actual expenditure for the past year so as to be able to make a comparison of the expense last year and the actual expense this year. The comparison would enable us to say whether it is a reasonable amount. Is not that what you had in mind, Mr. Fleming?

Mr. FLEMING: Yes, and I think it has been shown by experience that the committee of the whole is an unworkable body. It is too big for that purpose. I think, even at the expense of doing away with some of the committees we have, one or two of them might be replaced by an Estimates Committee that would review the estimates, and it may be the function of that committee could be combined with the function of this Public Accounts Committee.

Mr. ISNOR: In connection with the War Expenditures Committee, they investigated as best they could, all matters that were brought to their attention but there were many items of which they had no knowledge.

The CHAIRMAN: And as I say this could have been brought up if someone had had the information.

Mr. ISNOR: I recall in the report that was made by the chairman on behalf of the committee, the recommendation was made that the work of the War Expenditures Committee be combined with the Public Accounts Committee, so as to have a review of the current expenditures for that particular year. As it is now we can only review expenses which are covered in the report, and, because of the fact that the report is at least twelve months old when it is passed to us, we are always twelve to fifteen months behind the current work. Is that a fair statement?

The WITNESS: Yes, but I would say, of course, that it does not necessarily need to be twelve months behind you. It is because of the fact that the House does not meet in November.

Mr. ISNOR: Yes, but that is the situation as it exists to-day.

The WITNESS: If I might be permitted to interrupt there, when you are discussing estimates it is outside my field, but I do think your details on estimates are practically worthless. The details on estimates should be such that any member of the House of Commons can sit in his office quietly and read through the details, and, when he goes into the House, he knows the details that he would ordinarily have to get through questions to the minister. He should be able to have a full running story printed in the details so that he goes in very fully briefed, and I do not think that is possible at all under the present system.

Mr. ISNOR: No. Some of the provinces at the present time, in presenting their estimates, include in brackets the actual amount expended the previous year.

The WITNESS: I go way beyond that, I would give a running story of what is involved in the estimate.

Mr. FLEMING: That sort of thing now is only drawn out by questions taking considerable time and that makes some people in the big committee very impatient if they are not interested.

The WITNESS: And further than that I think the members are not sure on what items they would like to speak. I think the members would be in a stronger position to criticize estimates, and frankly, criticism of the estimates is useful to all of us.

Mr. FLEMING: It is the very essence of the function of the House of Commons.

The WITNESS: I am speaking from my own viewpoint.

By Mr. Jaenicke:

Q. I would like to go back on the \$16,000,000 as I do not understand it. Does that \$16,000,000 represent the profits which our soldiers made on black market operations in Holland?—A. The presumption is that it was acquired that way but to say yes, I could not do it. No one could prove it.

Q. As I understand it we were assigned a certain number of guilders?—A. Yes.

Q. Which Holland was to redeem later on?—A. Yes.

Q. And there are 40,000,000 more guilders than were issued. That amount is the profit that our soldiers made on black market operations?—A. Whether they made it on black market operations is something you could not prove but the presumption is that it arose through the black market.

Mr. FLEMING: It would not necessarily be all profit?

The WITNESS: Some Dutch family may have given one of our service men 1,000 guilders for some service rendered by him and that is not a black-market operation.

Mr. JAENICKE: But some of our boys might have sold a lot of cigarettes?

The WITNESS: Well, here we have 40,000,000 guilders in our vaults which the issuing government refused to redeem. Now I feel that the holding of that sum, 40,000,000 guilders, should be something of which parliament approved.

By Mr. Jaenicke:

Q. When did we find out we had 40,000,000 guilders more than we should have had?—A. I found out at the tail end of my audit last year, which would have been the month of May.

Q. Could it have been reported sooner?—A. I am speaking from memory and I am going back quite a period of time so do not tie me down too closely, but my memory is the treasury and the army sent people over to the continent to size up the general operations of this nature about December of 1945. They were there through December, January and February, and then withdrew. It would be in that period this whole thing would come to light. I would not swear I am right on my months but it was just about that time.

Q. In the previous discussion the complaint seems to be this came a little late. Now, it would seem to me, this is about the first time that it could have been brought up. After all, we were acting under war conditions. I would presume it would not be possible to delay a matter of this sort for such a long time in peacetime?—A. No, it would come out of my next report as far as I am concerned.

Mr. FRASER: Mr. Sellar, now that this has been brought to light, is there any provision the government can make, if we are to have another war, which we will likely have sometime, or is there any chance of having something written in our provisions regarding defence forces, so that this could not happen again?

The WITNESS: Well you can put anything you like on paper but human nature is human nature. I think the boys would do that sort of thing again.

Mr. FRASER: Well, it is not that, it is changing Canadian money into Dutch guilders. Is there any way our troops could have had Dutch guilders that were marked definitely so that there would not have been that difference?

The WITNESS: In some areas they did get specially marked currency.

Mr. FRASER: Yes, I understand they did.

The WITNESS: It runs in my mind that in Italy there was special currency.

Mr. FLEMING: There was special invasion currency issued when they went into Normandy.

The WITNESS: I do know this, and please do not think I am trying to be critical of the government and what it is trying to do, and I do know the Department of Finance is getting to work and trying to get a solution for this with the Netherlands government.

Mr. ISNOR: Is it not reasonable to suppose that they set up an over-all control in regard to this amount placed to their credit, but, because of the activities being so widely spread, it simply went on and on, and they found themselves with this depreciation on their transactions and they were saddled in the end with a debt over which they had no control?

The WITNESS: I agree with every word of that only I have a feeling that we should have discovered it a little faster, before it got up to \$16,000,000, because after all, \$16,000,000 is a lot of money.

Mr. JAENICKE: What could you have done to prevent this accumulating?

The WITNESS: I was not there and therefore I am guessing, but the only thing you could have done was to put a limit on what a man could buy in the canteen and what he could convert.

Mr. FLEMING: Could not the command have issued warnings to the troops that they were running grave risks in acquiring Dutch guilders because conversion might have been refused?

The WITNESS: They may have issued those warnings.

Mr. WINKLER: I doubt if Mr. Sellar has the answer to the question but I think we should find out when the British first dealt with the matter.

The WITNESS: I would say in the month of February or March of this year.

Mr. ISNOR: In other words they are in exactly the same position as we are.

The WITNESS: If you read the *News Week* magazine of last week you will find an item there referring to \$250,000,000 that the U.S. army has got of like character, and they are wondering how they are going to dispose of it.

Mr. ISNOR: If they had stopped the traffic in all their canteens and so on, would that have done it?

The WITNESS: My opinion is that it should have been put in as a special estimate before the House.

Mr. FLEMING: There are two distinct points raised here out of the discussion and one is whether this practice should not have been exposed and reported sooner, and the other is what steps should now be taken. I understand on the second point Mr. Sellar is saying this should have come before parliament as a special item, appropriated for the purpose, instead of permitting the Department of National Defence to dip into general funds for the purpose.

The WITNESS: That is my feeling.

Mr. GLADSTONE: Just in passing there, Italy and Normandy were planned invasion operations, whereas the operations which extended up into the Netherlands were continuing operations. With respect to Italy and Normandy there was advanced planning for everything, but perhaps in the midst of a terrific campaign there would not be the same thought given to these operations in the Netherlands.

Mr. FRASER: What are Dutch guilders worth to-day?

The WITNESS: I do not think they have fluctuated greatly over that value. I am under the impression there have been recent negotiations between the Department of Finance and the government of the Netherlands and I am hoping that they will make a settlement.

Mr. FRASER: Perhaps they will take less value?

The WITNESS: I think the settlement may be that we will not demand from them pounds or dollars but we will get the goods or something like that.

Mr. FRASER: That is fair enough.

By Mr. Fleming:

Q. There are several things arising out of the things Mr. Sellar has said. You have spoken about the delay between the time you complete your audit, we will say about the end of July or August, and the time it comes before parliament. Is there anything that you can suggest that could be done to expedite the report? Do you oversee the printing of this volume?—A. No.

Q. That does not come within your scope at all?—A. No, I could oversee it but generally, as the comptroller of the treasury has the larger part, he looks after the printing.

Q. From that point on you have no control over the audit being tabled in the House of Commons?—A. No, but I make sure that I have a printed

copy or a carbon copy ready to hand to the minister on the opening of parliament so that my report can be tabled within the allotted number of days.

Q. Having regard to the fact that parliament does not normally sit in the fall, is there any concrete suggestion you can make for expediting the submission of the printed report to the members?—A. Well, of course that is a matter, I might say, of pride of the members, and we are instructed to give the reports to parliament before we give them to anybody else. If we give it to the members we have got to hand it to the newspapers. You see, as it stands now, anyone who writes in and asks me for information is told that I have got the information but I am to provide it first of all to the House of Commons. Until I have tabled my report I cannot give them anything. Now I believe years ago, I am not sure but I think it was 1933 or 1934, Mr. Cahan was secretary of state and he gave the order that all departmental and other reports, as soon as they were printed, were to be mailed to the members.

Mr. FRASER: That is a good idea, a splendid idea.

The WITNESS: I would say that was twelve or thirteen years ago.

By Mr. Fleming:

Q. Was that just for one year?—A. No, it continued for a couple of years.

Q. Then it was stopped?—A. Well we never went back to as strong adherence to the old statute until the war came along and printing delays were such that we never had our reports ready.

Q. Is it a fair question to ask you if you have any views as to the suitability of the period from April 1st to March 31st as the fiscal year in relation to the customary dates of the sittings of parliament?—A. The logical year, of course, would be the calendar year but that would mean the House of Commons would have to meet in the month of December to vote the interim supply, to pass the interim supply votes for the period after the 1st of January, and you do not meet until a month later, usually late in January or early in February. The adoption of the calendar year would mean that you would have to come here before Christmas.

Mr. MACDONNELL: That was the practice many years ago.

The WITNESS: I could not say that. I can only recall one year, 1926, when parliament met before Christmas that year, after an election.

By Mr. Isnor:

Q. Certain branches of the government still continue to use the calendar year. Is that a confusion to you Mr. Sellar in making up your accounts?—A. No. You see the National Harbours Board is using the calendar year and it is very handy to me because I have not got the pressure on then and I can audit their books and get them out of the way before we come to the normal year end. Just now I am under terrific pressure.

Q. If that is so would it be worth considering a review of the whole set-up so as to provide certain departments closing their year at different times?—A. I do not think you could do that, sir.

Q. Staggering the accounting?—A. I do not think you could do that as far as the departments are concerned.

Q. You are doing it in two cases, and you say it works to advantage?—A. Yes, but you and I are talking about different things. Under the Crown Companies Operations Act which you passed a year ago you make March 31st the end of the fiscal year, but under the Act, you direct that we must produce the report by the 1st of July. I do not mind telling you for the last six weeks I have sweat blood to get those out, and as a matter of fact I have not got War Assets out yet. We are waiting for one item and then we are going to be ready. Instead of saying the fiscal year should be March 31st if you set December 31st

for the C.B.C. and others, we should have all those ready for you by the 31st of April with the greatest of ease.

Q. That is the idea I had in mind. Suppose we did that with Crown companies, close them at the end of December, would it not make it easier?—A. Yes it would.

Mr. FLEMING: And boards?

Mr. ISNOR: Yes.

Mr. FLEMING: There is a very practical application on that point. The C.B.C. affairs are studied by a committee of the House of Commons. That committee has not yet got the audited statement for the fiscal year ending March 31st, 1947, and it has been sitting all this spring and it will not get the report before it rises. If the C.B.C. were on a calendar basis, then the committee sitting in the spring would have the audited report for the fiscal year last closed.

The WITNESS: It would make it a lot easier for us.

Mr. FRASER: Mr. Chairman, can you, when your steering committee makes the report, make that suggestion to the government?

The CHAIRMAN: Yes. Do I understand Mr. Sellar recommends it for all boards and Crown companies.

Mr. ISNOR: I was suggesting it to him.

The CHAIRMAN: I know you are proposing it, but I am just asking Mr. Sellar if he is willing to recommend it.

The WITNESS: I am not the auditor for all, but those for which parliament has named me the auditor, I certainly would prefer December 31st. Take the custodian of enemy property, that is a new account and I think it is December 31.

Mr. FLEMING: You are just starting on that.

The WITNESS: Yes, Price and Waterhouse are finishing last year's audit and we will then start. It make it much easier for me to spread my work.

By Mr. Fraser:

Q. Mr. Sellar, when you are making up your reports on Crown companies, etc., would it not be possible to make the balance sheets conform more to the balance sheets of ordinary business institutions as they are put out at the present time?—A. Of course our difficulty is that it is ridiculous to look at share capital on Crown company balance sheets and see \$50 worth of share capital. That is ridiculous. You have not got capital stock to start off with and therefore your balance sheets start on a rather absurd position but we are trying to improve that. We hope these we are putting out this year will be better than previous ones.

Q. They have been hard to get anything out of in the past?—A. I quite agree.

Q. You cannot get the picture at all.—A. No.

Q. And you cannot come to a true balance on them.—A. Yes, but you have got to bear this in mind. Throughout the war the profits of those companies were never certain because Munitions and Supply had not yet settled the prices for them and they just had to build prices. Then again we have this big problem, we face it particularly in Polymer. We have got \$50,000,000 invested in Polymer in round figures. It is owned by the government of Canada and it is not owned by Polymer. We cannot set up a depreciation account because Polymer does not own the property. If we had all those companies set up, just as I think they should be, it would take into consideration everything, their assets and all other things. There should be set up a proper depreciation account, and a proper reserve account so that you could see at a glance what the true situation is, and I would be much happier.

Q. I think it would be better for members of parliament and others if it was done that way?—A. To me it is ridiculous to carry Polymer at \$50,000,000 without taking into consideration such things.

Mr. MACDONNELL: Do the receipts and disbursements from Polymer just go into the public funds?

The WITNESS: Not now, they retain their surpluses.

Mr. ISNOR: During the war you could not have shown the regular balance sheet or a profit and loss statement. It was never intended to show a surplus in the accounts because they simply dumped the money into the public treasury to carry on the job at the time.

The WITNESS: Yes, and I am a great believer in Crown companies. I believe they serve a definite purpose and I do think we should set up all their accounts in such a way that they set out the picture. What is of concern to parliament is a proper reflection in the Public Accounts.

Mr. MACDONNELL: Was I wrong in getting the impression that you were singling out Polymer because it was so difficult, or does what you say apply to all?

The WITNESS: You find the same thing in others, take Eldorado for instance.

Mr. JAENICKE: Do I gather from what you say Polymer does not own the buildings?

The WITNESS: No.

Mr. JAENICKE: Who owns them?

The WITNESS: The government of Canada.

Mr. JACKMAN: It leases them.

The WITNESS: It gets them without rental, it uses the buildings, and we have the confusing situation of making appropriations and additions to capital assets of the government of Canada.

Mr. FRASER: It would be very hard then to say what is costs to produce rubber?

The WITNESS: That is my feeling.

Mr. FRASER: That is what I have felt all the time.

The WITNESS: I know the Department of Reconstruction are hoping in due course, not this session, but to have legislation straightening out these companies.

Mr. JAENICKE: You have made representations to the government to that effect?

The WITNESS: I have, to the Department of Reconstruction. We agree too much, however, so we cannot have a fight.

By Mr. Fraser:

Q. Polymer will certainly have to get down to real costs soon, because there is going to be a lot of competition.—A. My view is that there is not an asset of \$50,000,000. For the purpose of production we should write off "X" millions and then compute so much into our costs for the sale of rubber.

Q. Have you got the exact figures of what the Dominion of Canada has put into Polymer?—A. Yes, sir.

Q. Including the buildings and all that?—A. Yes.

Q. You have got that?—A. Yes.

Q. That is what should really be shown on the balance sheet or the financial statement should it not?—A. Yes, and against that there are, let us say a \$1,500,000 of extraordinary costs incurred in the construction of the buildings,

by reason of the emergency at the time they were built, which should have been written off as accelerated depreciation or whatever you like to call it. What I think is this, sir. We should take Polymer and value it at its residual use to the country at the end of the war and recapitalize it on that basis. In effect we should put it through an enforced liquidation and set it up again.

Mr. MACDONNELL: How can you find the value if you do not know what the cost of manufacture of rubber was?

The WITNESS: We do know.

Mr. JACKMAN: Is the amount of money spent on Polymer carried as an asset?

The WITNESS: No, it is written off as an expenditure, but we have put into the balance sheet of Canada the advance made in connection with Polymer as an active asset at around \$50,000,000.

Mr. JACKMAN: The actual cost is in excess of that?

The WITNESS: The actual cost is, but as I say Polymer has spent \$2,000,000 or \$3,000,000 of its own money which is not reflected in the account.

By Mr. Fraser:

Q. Do Polymer's buildings belong to the government?—A. Yes.

Q. Do they come under the Public Works Department?—A. No, sir.

Q. It is entirely separate?—A. Polymer is under the control of the Minister of Reconstruction.

Mr. JACKMAN: When Polymer takes off its own operating statement to see whether it is operating at a profit or a loss, does it deduct from the cost of operations the amount of its capital expenditure, this \$2,000,000 or \$3,000,000 that you have mentioned? Is that part of the operating cost?

The WITNESS: No, that is separate. I do not know whether their report has been tabled in the House but last week I saw a press statement and we have signed the balance sheet for Polymer this year. The annual meeting has been held and that item is shown separately.

By Mr. Fleming:

Q. To revert from questions on Polymer, I would like to turn to a subject that has arisen out of an answer of Mr. Sellar's, when he spoke about the relationship between the review of Public Accounts and budgeting both being a proper function of the parliamentary committee. On pages 16 and 17 of Mr. Sellar's report he deals with the question of lapses and he catalogues lapses of votes of the various departments that total roughly, last year, something like \$66,000,000, then at the conclusion of paragraph 41 there is a significant sentence, on page 17 "Parliament's control over public money is, to a degree, dependent on the efficiency employed in calculating estimates. Attention is therefore drawn to the fact that with respect to comparable votes, \$26,258,295.96 lapsed in 1944-45 and \$43,572,665.97 in 1945-46." The amount lapsed shown this past year apparently was larger. Now I would like to ask you, Mr. Sellar, to be as concrete as you can in making proposals as to how the control of parliament can be further extended in this matter. Mr. Isnor referred to one subject a while ago which has troubled me, and that is the review of estimates in the committee of the whole. We are never given anything in the printed book of estimates except the estimates of the previous fiscal year. We are never given the expenditures. We depend to a large extent on the efficiency of the task performed by the treasury board and we may or may not individually think they are doing sufficient work in checking the estimates. Now, looking at it from the point of view of a parliamentary committee, for instance, are there means by which control, control by parliament can be made really effective? Could Mr. Sellar make some proposals that we might usefully consider?

The WITNESS: Well I will take the post office estimates to illustrate my answer. In the post office expenditures for the fiscal year that you now have before you, in round figures \$3,000,000 lapsed out of a total expenditure of about \$60,000,000. It so happened that in the month of March of that year you appropriated \$1,000,000 for the post office as a supplementary estimate. Now I think, had the post office estimates, instead of being shown in seven estimates, been bulked in one, you certainly would not have had to have a supplementary estimate of \$1,000,000 and you would not have had to have as large a cash vote. I would think the post office estimates might be amalgamated into a few estimates to reduce that risk. Looking at the estimates generally, sir, you have got a lot of services that were rendered for the benefit of private individuals. Now in England they have had a practice since 1892 or 1893 which I think is a very sensible one, that is where you have a service that is supposed to be for the benefit of private individuals and they pay fees for it, parliament only votes the difference between the expected amount of the fees and the actual cost of the service. In other words in a great many instances parliament merely votes £1 so that it has the service before it for the purposes of debate if it wants it. The service is self-supporting and I think the great advantage of that is when you have a service that is self-supporting, you have got definite needs of people who are willing to use the service, and who are ready to pay for it and therefore it is a useful service. However, when you have a service that is not self-supporting or people do not want to pay for it then you are put on your guard. You may have a luxury service or an extravagantly operated service. I think the time is coming in this country when instead of having over 400 or 500 estimate items a year—

Mr. FLEMING: It is more than that. It is 700.

The WITNESS: I am talking of the main estimates—that we should reduce the number of estimates to a lesser number and that the details should set out the actual expenditures up to December 31st. It should state that as well as the previous year's expenditures. You should have your known expenditures for at least nine months of the fiscal year. You should have a full explanation of everything that a vote is intended to provide for; what Acts of parliament regulate it; what its revenues are going to be. Take the fisheries vote, for example. I know the maritime provinces members and the B.C. members are always interested in what it costs to run this ship and that ship in a service. That sort of thing should all be set out in the detail. You are not really interested in how many clerks they have in their establishment because the Civil Service Commission can change that situation over night. You do not care whether we have ten grade IV clerks or so many grade III clerks.

Mr. MACDONNELL: Will the nine months' expenditures really be good enough? Will they not be defective first of all because I think it is very natural that expenditures may accumulate toward the end of the year and certain items may be held over; and will not the minister inevitably say, "We have three months still to come"? In other words, is anything short of a full year going to be of much help?

And does not that bring us back to this: is it really essential to have our financial year end three or four months after the calendar year? It seems to me that these questions are going to be vastly more important in the years facing us because of the tremendous ideas of expenditures, as I see them, which are abroad?

The WITNESS: I will grant you that there is strength in your argument with regard to the three months still to come; but on the other hand every department has to register commitments for its future expenditures for which it has contracted and those are all registered; therefore, the amount of new stuff that will originate in the last three months of the year would not be large.

By Mr. Fleming:

Q. It would not be disproportionate?—A. No, it should not be disproportionate. There are times; but I am assuming you continue on your present fiscal year. If the members have known actual expenditures up to December 31st and registered commitments for the balance of the fiscal year, you have something, and you can go on examining the next year's estimates.

Mr. MACDONNELL: That is better than at present.

The WITNESS: Yes.

By Mr. Isnor:

Q. I agree, except that instead of having nine months I say that the twelve months should be included. There is no real advantage in showing nine months' expenditures where you are dealing with twelve months because of the extraordinary expenditures which might take place in the following quarter which would throw the thing completely out of place. I may say further that in the example you have quoted, the Post Office Department, you have taken the one department where you possibly could make a change along the lines you have suggested, but the same thing would not apply, I do not think, as far as the Department of Public Works is concerned, where there are extraordinary requirements from time to time in an emergency and very large amounts require attention.—A. I do not say that that could be applied to all; but take the Department of Public Works. I claim that it should be applied with respect to the telephone services in the Department of Public Works. That should be a revenue service

By Mr. Fleming:

Q. We had an example of revenue service with regard to the Department of National Health and Welfare a fortnight ago. I think it was called Marine—A. Sick Mariners' Hospital.

Q. Yes. Actually, if I remember rightly, the amount appropriated by parliament for expenditure is about \$450,000 a year and against that there is a revenue of approximately \$300,000.

Mr. ISNOR: There is a cross-entry from one department to another, and it works out.

Mr. FLEMING: No, not from one department to another; it is for the same department.

The WITNESS: It is all connected.

Mr. FLEMING: And unless you go and ask the minister about the revenue you do not hear about that. I take it that what Mr. Sellar is saying is that in the estimates that come before the House there should be substantially enlarged information accompanying the bare bones of the figures submitted.

The WITNESS: Yes.

The CHAIRMAN: In the present estimates in all departments they give us the amount that has not been spent for Public Works and then they mention in brackets a revote of so much. You may have a case where last year they voted \$25,000 and this year they bring in a vote of \$305,000, but they mention in brackets the \$25,000, which means that the \$25,000 voted last year has not been spent. I wonder if that could be applied to all the departments. However, under Public Works you see Westview harbour improvements with a vote here in 1945-46 of \$231,000; voted in 1946-47, \$95,000, but there is a revote of \$20,000 which means that out of the \$231,000 voted last year \$20,000 has not been spent. Your idea, Mr. Fleming, is that we should have the full item together with the amount that was not spent the year before?

Mr. FLEMING: Yes, we should know the actual expenditure because it is a very poor basis of comparison to compare with last year's estimates because last year's estimates might have been very inaccurate.

The CHAIRMAN: We have that in some items in Public Works. When the sum is not all spent it is shown as a revote.

Mr. FLEMING: There was one item in National Health and Welfare estimates which we had a fortnight ago where last year the appropriation was \$300,000 and the actual expenditure was \$21,000 and yet so far as the estimates were concerned we are being asked to vote \$150,000. The only comparison was the \$300,000 last year. It looked like a saving of \$150,000, but when you actually came to compare the figures you saw how utterly inaccurate last year's estimate was. I think if parliament has to bear the responsibility for voting these tremendous sums of money on the estimates there has got to be a drastic change in the set-up of the estimates in the way they are handled.

The CHAIRMAN: I think we are all in agreement as to the point about getting the details as to what has been spent out of the previous year's estimate. That would be most important in order to arrive at a conclusion in the present year.

Mr. FLEMING: Unless we can get that information we have to just sit down and keep the questions going indefinitely by asking the minister questions on every item. This year I asked the Minister of National Health and Welfare to give us this set-up of the expenditures of the department and he would not do it, so I had to ask him questions on every single item. Now, if you apply that procedure to 600 or 700 items you are taking a long time. It takes a long time in a big committee like a committee of the whole or a committee of supply, and everybody becomes impatient because only a certain number of members are interested in a particular department.

The CHAIRMAN: That brings us back to one of the recommendations made by Mr. Sellar, that there should be more detail in the estimates so that we would not have to ask for all the details in the committee of the whole.

Mr. FLEMING: I will ask Mr. Sellar for some further consideration of his views with regard to the method by which parliament, through a committee or otherwise, should handle this matter of the review of estimates. Again I come back to that statement that "parliament's control over public money is to a degree dependent on the efficiency in calculating estimates. Let us assume that there is a great deal more information about actual expenditures given about a particular vote. Now, with that in the hands of parliament and with the experience Mr. Sellar has had with public accounts, I would like to ask his opinion, if he will express it, as to the desirability or practicability of combining the function of reviewing the public accounts and a detailed review of the estimates in one committee?

Mr. GLADSTONE: In relation to that question may I ask this one? Does it come within the purview of the Auditor General or the Civil Service Commission to say whether a department may be overstaffed? In parliament a minister may be questioned on the estimates of his department. I presume that he relies on the heads of branches in his department and sometimes the departmental head may not be zealous as to economy in connection with the number of persons employed in his branch. Is there any check for parliament, other than the questioning that comes up on the consideration of the estimates?

The WITNESS: Well, I have no authority or statutory power in that regard, Mr. Gladstone. The Civil Service Commission, of course, have a statutory duty to review the establishments from time to time and to recommend adjustments in them; but I think in actual experience the departments must originate any action that is taken to cut down staff.

Mr. GLADSTONE: I also think that there is not in government the willingness to fire incompetent persons such as we find in ordinary business; that when a person secures a government position, unless there is some serious misdemeanour committed, other than inefficiency, there is a tendency just to have that person continued on?

The WITNESS: Of course, sir, you have to bear this in mind: in business you are dictated to by the amount of money that comes into your cash box, and if you are not making sufficient money you are going to cut down your overhead. In the government offices our cash box is the estimates that parliament pass. If you give us the money we will spend it. We are only human. Therefore, the real control in regard to economy in the public service is dictated by the amount of money appropriated annually. Now, the government goes over the estimates with great care and whittles them down. You were talking about staff. When the estimates came down for this year there were drastic cuts here and there; staff went down in the month of April. There was a sharp cut in staff in the month of April, amongst other reasons, because estimates were cut. If we have the money to spend, sir, I am afraid we spend it, no matter how good our intentions may be.

Mr. FLEMING: Mr. Gladstone is getting away from my question entirely.

Mr. GLADSTONE: I really wish to relate my question to what Mr. Fleming has stated, that there does not seem to be any real opportunity in parliament for consideration of the estimates so as to get down to the real efficiency of the operation of the departments.

Mr. MACDONNELL: May I interject, just along the line Mr. Fleming has apoted? I have often wondered whether you can get a realistic scrutiny of the size of the departments unless somebody from the outside can look in. I heard of a man who carried out a little plan. He was a manufacturer and his theory was that the only people who really mattered were the producers, and by producers he meant the people who produced things that pay. He went into a new company, and the first thing he did was sack the clerical staff, and he took back those who were considered necessary. I am not suggesting anything as extreme as that, but I was shocked when I found out about the office of economies. I said, "Now, that is what I am looking for"; and I discovered that the office of economies which I had hoped was an outside or separate critical body—discovered that it dealt with the purchase of furniture and stationery and that sort of thing—what I call chicken feed. However, I do not want to get away from Mr. Fleming's question; I am really pursuing the same line.

The WITNESS: In that regard, sir, you have to bear this in mind, that practically all our administrative statutes are predicated on the rule that the Governor in Council shall authorize this or that; therefore, we place the onus and the weight on the cabinet ministers to as great an extent as on council. If they authorize something, naturally we, down below, do not criticize that. Those above have too big a picture to cover.

Coming back to Mr. Fleming's point, I did not know that this matter was coming up to-day, but I was living in hopes that something of the kind might be brought up—

Mr. FLEMING: It is a bit of telepathy, perhaps.

The WITNESS: —and I had taken the liberty of drafting a little memo that I would like to place before this committee if I have an opportunity to do so. I had it mimeographed, and its purpose is to suggest to you what you might prudently consider recommending to the House when the government revises the Consolidated Revenue and Audit Act to bring it up to date; because in my opinion it was a good Act covering the period of 1931 when it was made, but

it is not a good Act in 1947 in view of the volume of business we have to-day and the time the House has to devote to other things. I have this memorandum here and I could circulate it or read it into the record if that is your desire.

Mr. FLEMING: You can do both.

Mr. JACKMAN: In view of the fact that the government in some respects is now somewhat analogous to a business corporation, do you think it would be better if each department was on its own feet rather than drawing on the Department of Public Works and other departments for special services? For instance, Mr. Macdonnell asked the other day in connection with the Public Works estimates about a large item for telephones. Apparently, the department merely requests an additional line or two and the Department of Public Works arranges with the Bell Telephone Company to supply that service and the department pays for that service, which means that we do not get a break-down of the telephone services, and perhaps many other services in connection with each individual department. Now, would it be better if each department looked after its own affairs and paid for its own services out of its own appropriation rather than drawing upon the Department of Public Works?

The Post Office Department is a good example. The Post Office Department is supplied with all its buildings, some of which are ornamental. Would it be better for the Post Office Department to pay out of its own appropriation for its own buildings or space rather than have the Department of Public Works give those buildings to them gratuitously?

The WITNESS: Your example with regard to telephones, sir, is not exactly right. Unfortunately, we have a most involved system for getting a telephone. If a department wants a telephone the deputy head is supposed to make a preliminary inquiry and to recommend to his minister who must sign the form in triplicate. That form is then sent to the Treasury Board and an official of the Treasury Board goes over and makes an actual inquiry as to whether or not they need a telephone and then, so help me, the recommendation is approved by the Treasury Board formally and they are authorized to get a telephone. Then it is charged to Public Works. But generally speaking, I think you are on very sound ground with respect to the post offices. The Post Office Department, to my way of thinking to-day, is keeping superior quarters to what it needs in most places. That is to say, the ordinary post office building is a high-class building which represents a large expenditure of money, and so far as the service to be rendered is concerned they could use a much humbler building. Local pride demands that sort of post office building. I do not think the Post Office Department should be saddled with that part of our local pride.

The CHAIRMAN: If I may interject, I do not think most members from rural constituencies would agree that the post offices are well housed, because I think there is a lack of accommodation and poor quarters in most places.

Mr. FRASER: I can bear you out on that.

The WITNESS: Well, then we come to the burden placed on the post office in carrying the mails for the departments, the free mails. I honestly think that if the departments had to pay for their postage they would not frank nearly as much stuff and the mail boxes would not be nearly so full of literature from the departments if they had to actually put a three-cent stamp on an envelope in which they put a circular.

Mr. JACKMAN: You are not suggesting doing away with the franking privilege, are you?

The WITNESS: I think within the government services they should be called upon to pay postage for carrying their own mail.

By Mr. Fleming:

Q. Would you say that government property should pay municipal taxes where buildings are occupied, to give a fair reflection of the cost?—A. If the provincial governments would do that as well I would agree; but the municipalities are creatures of the provincial governments, and until the provincial governments pay taxes I say that the government would be foolish to pay taxes. In England, where there is no intervening provincial government, the British government has a scheme and it has worked for years. They refuse to recommend any law for municipal taxes or local rates, as they are called, but they appropriate each year a large sum of money in lieu of taxes for the local authorities. They have a department whose sole function is to go out and assess the government buildings in every municipality and to compare that assessment with local valuations used for local assessment purposes. They then come to an agreement with the municipalities as to how much the government will contribute in lieu of taxes for that particular property in that particular locality, and that is worked out very efficiently.

Let us take, for example, the city of Halifax and the town of Esquimalt. They take a terrific punishment by reason of the extent of our Crown property. Those are two outstanding examples.

Mr. FLEMING: I think in 1938 there was a figure of \$112,000,000 for Halifax.

Mr. ISNOR: Over 51 per cent is exempt in Halifax.

The WITNESS: I think that is a matter where the provinces have to agree to come into before the dominion. I think the dominion would be suckers—to use a common phrase—to do so if the provinces did not.

By Mr. Jackman:

Q. With regard to the question I asked and the proposition I broached, is it practicable to put the post office on its own feet? If you want ornamental buildings in some places it might be that the Post Office Department would be given a grant in aid from the consolidated revenue fund in order to cover the difference between utility and beauty. Do you think that it is practicable to put these government departments on their own feet financially—including telephones? With regard to the matter of putting postage on departmental mail, I am afraid you would have to add a lot of clerks to find out how much the cost of departmental mailing services would be. Do you see the feasibility of the question I asked?—A. I think it could be done, sir. In some places it would not be relative as regards price; you would have to calculate too fine; but in general I see no reason against it. Let us take my own little office—because I do not want to criticize another department—I have a staff of roughly 200 people. We are located in various buildings in Ottawa. In some cases those buildings are government owned and in other cases they are rented properties. Now, I think the Public Works Department should handle the rental situation, but I think I should have to contribute out of my appropriation sufficient to cover the maintenance charges in connection with buildings the department owns in which I am located or, in the case of rental, where I am in a rented building. The reason I say that is this: it would bring out the true cost of my office. Secondly, it would cause me to be a little more careful in allotting space if I had to pay the shot. I would be a little more careful in my estimates. As it is now I can ask the Department of Public Works to get me a thousand feet of space where perhaps I would get along with five hundred if I had to pay the shot.

Mr. MACDONNELL: If a thrifty fellow like you does that, just think what other people must do.

Mr. GLADSTONE: Would the procedure in a city outside of Ottawa, in the case of a public building, be that the ownership of the building would be vested in Public Works, and that Public Works would build the post office, pay rent, pay taxes, and pay for the light, heat and water?—A. I would not say it should have a breakdown of the items to arrive at the over-all cost of running that building according to the value of the space occupied. I would not think of going into a breakdown to the last cent.

Mr. ISNOR: Would you be in agreement with the thought of this committee of recommending as a start that the Post Office Department be placed on its own feet and operated along the lines of a Crown company?

The WITNESS: Yes, I have heard that in the memo.

The CHAIRMAN: I think the time has come to get the general picture.

Mr. JAENICKE: It is now almost half-past twelve. Do you not think we had better study this document?

The CHAIRMAN: I think it would be a good thing to permit the Auditor General to read that memorandum and we can ask him questions on it at the next meeting.

Mr. JACKMAN: What is the advantage of having it read if we do not ask questions about it?

The CHAIRMAN: We are doing this for the record. Our practice has been to permit the witness to read his statement.

Mr. FLEMING: This memorandum goes back to the question I asked.

The CHAIRMAN: I think it will be following the course which the committee has adopted to permit the witness to go ahead and read his memorandum and we will question him to-morrow.

The WITNESS:

1. The Consolidated Revenue and Audit Act dates from 1878. Its purpose is to regulate consolidated revenue fund transactions to the end that parliament preserves control over the public purse. In my opinion the time has come when, in its own interests, parliament should consider again the provisions of the Act.

2. There may have been a time when the Committee of Supply minutely examined estimate items, but demands now made on the time of the House of Commons are such that complete examination of estimates is impracticable. Estimates should now be presented in such a form that members do not have to guess purposes to which votes will be applied.

3. It is suggested that, instead of members of parliament having to seek explanations from ministers, "details" printed with the estimates should be in narrative form, setting out:—

- (a) the objects and purposes of the items,
- (b) explanations of increases,
- (c) the Acts, if any, which will regulate application,
- (d) the anticipated revenues,
- (e) comparisons with previous years, and
- (f) such other information as is necessary to permit members to familiarize themselves with the purposes and implications before items are called by the chairman of the Committee of Supply.

Existing legislation merely directs that the estimates "shall be for the services coming in course of payment during the fiscal year".

4. In the past ten years the number of items had increased. Using main estimates items, the number was 295 in 1937 and 484 in 1947. This increased

use of items dates from the session of 1938 when the number jumped from 295 to 440—although the total sum voted in 1938 was only \$10,000,000 greater than in 1937. The purpose was to confine departments more strictly to objects of expenditure. While results were thereby attained, I feel consequences were:—

- (a) inflations in sums sought, by reason of departments including contingent reserves in every item, as protection against unforeseen demands arising in the year; and
- (b) some difficulty to members in identifying the items on which they wish to put questions or make observations.

5. May I illustrate my thoughts on the subject by making reference to post office accounts. Parliament appropriated approximately \$61,500,000 for the postal service in 1946. The application of the votes was:—

Vote No.	Purpose	Voted	Spent	Lapsed
231	Departmental Administration	811,425	743,756	67,669
232	Post Offices	22,126,090	22,126,090	
670	Supplementary to 232	1,234,720	1,039,400	195,320
233	Inspection and Investigation	953,750	912,938	40,812
234	Railway Mail Service	14,651,279	13,498,441	1,152,838
235	Air and Land Mail Services	19,862,725	17,724,216	2,138,509
236	Money order, savings bank and other activities including printing	1,876,181	1,649,718	226,463
237	Compassionate allowances for injuries	5,000		5,000
		<u>\$61,521,170</u>	<u>\$57,694,559</u>	<u>\$ 3,826,611</u>

A glance at the foregoing shows that:—

- (a) if votes had been consolidated, the year-end supplementary of \$1,234,720 to vote 232 would not have been necessary; and
- (b) after all unanticipated expenses had been discharged, the Post Office Department had unused balances of \$3,826,611—an excessive amount in my opinion.

6. Adding various small expenditures, authorized by various statutes, total appropriation expenditures of Post Office were about \$58,000,000. But the Post Office Act provides that certain classes of postmasters be paid directly from revenue. In the year the amount was about \$15,000,000. Thus, direct Post Office disbursements were about \$73,000,000. Should study go further, it would be noted that the cost of certain steel equipment, etc., and the provision of all office accommodation is borne by appropriations for the Department of Public Works. That cost is not segregated in the accounts but, on a costing basis, may total \$3,000,000. Thus the real cost may have been \$76,000,000.

7. Gross revenues approximated \$83,800,000. If the value of postage stamps used for cheque tax purposes amounted to \$3,500,000—it is impracticable to establish an exact figure—the real revenue of Post Office was about \$80,000,000. A subtraction of estimated operating costs of \$76,000,000 leaves a profit of \$4,000,000. But section 20 of the Post Office Act fixes 2 cents as the first-class letter rate between places. The other 2 cents is a tax imposed for revenue purposes by the Special War Revenue Act. First-class mail produces approximately 50 per cent of the total revenue. Therefore, if one were to distinguish between the “service” charge and the “tax” charge, Post Office had an operating deficit. In turn, part of this deficit is due to the fact that about 28 million pieces of first-class mail matter and 100 tons of third-class matter for departments of government are franked. Were postage paid, the revenue would be about \$1,500,000.

8. It is submitted that it would be in the interests of the House of Commons were the financial requirements of the Post Office presented in all-inclusive form. That is to say, instead of estimates details consisting of accounting breakdowns, there would be a distribution of estimated income and disbursements to the various services in a manner which is self-explanatory and does not necessitate accounting calculations to disclose the true position.

9. The Board of Grain Commissioners' transactions afford another illustration. Its revenues were approximately \$2,000,000 and expenditures a little over \$1,900,000. In addition, government elevators had an operating income of about \$650,000 and operating expenses of \$380,000. The volume of business is dependent on the grain crop; yet the board must prepare its estimates long before seed is in the ground. As practice now is, the board presumably calculates its estimates on the possibility of a crop a little above the average. Two consequences may result:

- (a) in the event of a big crop, it must seek supplementary votes to meet extra operating costs; or
- (b) in the event of a small crop, it has larger appropriations than are needed.

My thought is that in cases of this type, parliament could have a safeguard against over-staffing, etc., were appropriations so devised that the sum available is determined by the effort which administrative officers put forth to make their activities self-supporting. If he who benefits is prepared to pay the cost, a service is no burden on the taxpayer. On the other hand, when experience demonstrates that those who benefit are not prepared to pay the cost, then the House has notice either that there is no real need for the service or that it is extravagantly organized.

THE REGULATION OF REVENUES

10. The Consolidated Revenue and Audit Act's directions with respect to the management of revenues are few: (a) collecting officers are to make deposits daily, and (b) the Auditor General is to satisfy himself that revenue collected is “fully accounted for”. The Act makes the comptroller of the treasury answerable for the regularity of departmental expenditures; but no officer has a like responsibility for revenue transactions. There is no audit obligation to establish that all moneys, which should have been collected, were gathered in. In most departments the revenue audit does go beyond the statutory obligations, but until recently the Income Tax Division insisted on observance of the text. It is for this reason that the audit certificate of revenues, so far as Income Tax Division accounts are concerned, is qualified by paragraph 25. (Some months ago the audit office was informed that all taxation records are now to be regarded as open to inspection.)

11. It is my opinion that more specific legislative directions with respect to revenues are desirable. A reason is provided by paragraph 19, which refers to the situation with respect to fines collected by the courts. Another is to be found in paragraph 16, where it is noted that departments regard \$5,000,000 of accounts receivable as uncollectible (exclusive of income tax), yet they cannot be written off because there is no authority so to do. The mayors of various places would probably be surprised were they to learn that the government accounts list their municipalities as owing money because of the use of the militia in times of local unrest. Using a geographic selection, with dates in brackets, to illustrate: Nanaimo, B.C., \$255,313 (1913-14); Sault Ste. Marie, Ont., \$8,308 (1903); Buckingham, Que., \$2,350 (1906), and Glace Bay, N.S., \$36,644 (1909-10).

VALUATION OF ASSETS

12. In paragraph 11 of the audit report for 1946 attention is drawn to a reserve of \$150,000,000 set up in the balance sheet "for possible losses on ultimate realization of active assets". While it is a bookkeeping reserve, it is suggested that there should be legislation regulating the valuation of assets for balance sheet purposes. A convenient illustration is provided by paragraph 101, which relates to the accounts of the National Harbours Board. The loans and advances from the government of Canada, as of December 31, 1945, were, in round figures:

Halifax	\$12,500,000
Saint John	17,000,000
Chicoutimi	3,800,000
Quebec	27,800,000
Three Rivers	4,000,000
Montreal	60,000,000
Vancouver	25,000,000

If you are interested, that totals \$150,100,000. The balance sheet of Canada incorporates, as active assets, only the investment in the ports of Montreal and Vancouver. This inconsistency takes its origin in the fact that prior to 1936 the harbour commissions of Montreal and Vancouver alone paid interest regularly. In 1936 all harbour properties were declared Crown property; consequently, it may be argued that:

- (a) the value of the Montreal and Vancouver properties for balance sheet purposes should be that established by physical valuations made by appraisals engineers;
- (b) the same treatment should be applied to the public property in the other ports;
- (c) if some commercial properties of the Crown are treated as assets for balance sheet purposes, then all commercial properties of the Crown should be treated likewise.

STORES AND EQUIPMENT

13. In paragraph 10 of the audit report it is noticed that balance sheet assets do not include the value of departmental stores and equipment other than stores inventories of the departments of Public Printing and Stationery and Transport. The reason why the inventories of these two departments are set up as assets is because legislation fixes a maximum sum which may be invested in the year-end inventories and thus an annual monetary valuation is made. Stores are not infrequently the equivalent of money. In other words, if other departments have balances in appropriations which will not be required in the year, there is no legal impediment against stores being acquired to offset a possible cut in the next year's estimates. A special instance is noted in paragraph 3, where reference is made to a payment of \$7,735,000 to the United States to permit service forces to make selections in the fiscal year 1947 from the surplus stores and equipment of the United States government. In my opinion it would be in the interests of parliament were there general legislation with respect to all stores, etc., of departments.

14. Summarizing the foregoing, my view is that there should be legislation to regulate:—

- (a) the form of estimates and the printed explanations associated therewith;

- (b) the use of revenue arising out of services performed for the direct benefit of individuals;
- (c) the management of revenues;
- (d) the valuation of assets;
- (e) the management of stores and equipment inventories.

Mr. JACKMAN: I would like to ask a question regarding the Dutch guilders.

By Mr. Isnor:

Q. Before you come to that I would like to ask one question arising out of paragraph 11 of the statement which has just been read. What is represented in the amount of \$36,664 at Glace Bay?—A. What is it made up of?

Q. Yes?—A. It is the cost of sending troops down for a strike. All these are in connection with strikes.

Q. I thought that was cleaned up in 1929?—A. No, that dealt with the more recent case and the power the attorney general to send for troops. There are others. This is not an exhaustive list and I just pointed that one out.

By Mr. Jackman:

Q. In connection with the case of the Dutch guilders presented by our troops in Holland, may I ask Mr. Sellar exactly how our government went about financing our troop expenditures in Holland? Did we present the Dutch government with so many Canadian dollars or so much sterling, as the case may have been, and did we get in exchange for that Dutch guilders?—A. Pardon me, sir, do you need that answer this morning? I would like to be sure of the facts and I am going by memory. I would like to verify my facts and bring them in to you.

Q. What I want to get at is how the figures compare, the Dutch guilders presented for rejection in comparison with the total expenditures by our government in Holland?—A. I have not got that figure in my head.

Q. And I want to know, if I can, what the final result of this excess of Dutch guilders was? We have so many more guilders than we should have had apparently and did the Dutch government not allow us the use of those guilders to purchase materials in Holland as an offset, or were they worthless to us at the end?—A. That is what I understand. They are just being held, but I know there have been discussions within the last six weeks in the East block with a representative of the Netherlands government, and I would like to bring myself up to date on the subject.

Q. We have to assume the currency our troops and our government used was not Canadian currency, and what I had in mind was a news item which appeared recently in connection with the American army finances. The Americans had apparently lent the Russians their plates for printing American money in the occupied territories, and they now find far more American dollars were printed than was originally permitted under their licence. We had nothing of that nature? We did not use Canadian dollars?—A. No.

The CHAIRMAN: Are there any other questions on this morning's report?

Mr. FLEMING: May I ask Mr. Sellar not a question but something for to-morrow's meeting. Mr. Sellar has given us a very useful memorandum with some concrete recommendations which I think helps the committee very much. Could he put forward his views on another matter we have discussed this morning. The matter I refer to is this question of the fiscal year and how far it is practical to extend the rule that the financial year shall be the calendar year for crown companies, government boards, and government departments. Also I would mention this matter which Mr. Fraser raised about making the balance sheets of those crown corporations conform more closely to the normal corporate practices outside the government.

Mr. MACDONNELL: May I add to that, so that Mr. Sellar will not run out of work, a request that he make comments upon the necessity and the possibility of having something corresponding in peacetime to the War Expenditures Committee? His answer may be that he does not think it is useful.

Mr. ISNOR: I think that has already been covered.

Mr. FLEMING: It is a matter of getting any concrete recommendations that Mr. Sellar has.

Mr. ISNOR: It was the recommendation by the War Expenditures Committee that the two committees should be combined.

Mr. FLEMING: That would include Mr. Sellar's recommendation on my question about combining the functions of the two in one, Estimates and Public Accounts.

The CHAIRMAN: Well, I think we will adjourn until to-morrow morning at 10.30 a.m. if you do not mind. We have only one more meeting with Mr. Sellar.

Mr. MACDONNELL: Could I just say Banking and Commerce is meeting to-morrow at 10.30 a.m. and I know there are going to be other members of the committee there.

Some Hon. MEMBERS: 11.00 a.m.

Mr. FLEMING: There was some mention yesterday, Mr. Chairman, about meeting on Thursday regarding U.L.A.

The CHAIRMAN: From what we can see now I think it will have to be on Friday.

Mr. FLEMING: I would suggest that we arrange the meeting respecting the Veterans' Land Act for Friday and then Mr. Murchison and Mr. Cleve can be notified now to be here on Friday.

The CHAIRMAN: We will assume the committee concurs and the meeting stands adjourned until tomorrow morning 11.00 a.m.

The meeting adjourned at 12.55 p.m. to meet again to-morrow, Wednesday, July 2, 1947, at 11.00 a.m.