

Audit Reveals Real State Of Provincial Finances

Report of Price, Waterhouse & Company Shows That Former Government, While Claiming Surpluses, Was Plunging Province Into Debt

That the Murray-Baxter government, while claiming surpluses, was steadily plunging the province into debt and attempting to conceal the fact from the people of New Brunswick is established strikingly by the report of Price, Waterhouse & Co. to Premier Foster, tabled in the legislature on Thursday evening.

While the late government claimed a surplus at October 31, 1916, the fact is that there was an accumulated deficit at that time of \$706,833.

The various devices and practices to which the old government resorted are exposed in the report, which also makes valuable suggestions as to alterations in the method of accounting and bookkeeping, which changes would enable the public to know the real revenue and expenditure of the province when the provincial accounts appear annually.

The report refers to many expenditures which will doubtless be the subject of investigation through royal commissions or by departmental inquiry.

The principal portions of the report of Price, Waterhouse & Co. are as follows:

COPY. PRICE, WATERHOUSE & CO., Chartered Accountants, 140 St. James Street, Montreal, June 11, 1917. The Hon. W. E. Foster, Premier of the Province of New Brunswick, Fredericton (N. B.). Dear Sir,—In accordance with your instructions we have made an examination of the books and accounts of the province of New Brunswick for the purpose of preparing statements of its financial position at October 31, 1916, and March 31, 1917, and making such suggestions as appear necessary for the improvement of the present accounting system and methods.

We have prepared and submit herewith the following accounts, viz: Exhibit "A"—Balance sheet of the province at October 31, 1916, prepared in the form which we would recommend you to adopt.

Exhibit "B"—Statement showing in comparative form (a) Balance sheet at October 31, 1916, prepared in the published accounts before making any adjustments in respect of assets and liabilities omitted at that date; (b) Balance sheet at October 31, 1916, adjusted in respect of assets and liabilities which were not taken into consideration in the published accounts at October 31, 1916, but which, however, does not include all revenue applicable to the amount of the current year's revenue has not yet been determined.

Exhibit "C"—Statement showing under the head of each department the liabilities not taken up in the published accounts at October 31, 1916.

Exhibit "D"—Statement showing under the head of each department the liabilities not taken up in the published accounts at October 31, 1916.

Exhibit "E"—Summary of capital and special expenditures at October 31, 1916.

Exhibit "F"—Statement of deficit on current revenue account at October 31, 1916.

Until within a comparatively recent period it has been the practice of provinces and municipalities in Canada to keep their accounts on a basis of "revenue" basis, and this practice has been followed by the government of your province. The published accounts of the province show the monies actually received and expended in any fiscal year, but they do not show the liabilities for work done or services performed, interest accrued, etc., which are unpaid at the end of the year.

The principle of stating accounts on a "revenue" basis is universally followed by financial and industrial companies and railroads, and it is now generally conceded that it is the proper basis for provinces and municipalities to adopt. This change of viewpoint has been brought about mainly from a realization of the fact that any statement of surplus or deficit for a fiscal year cannot reflect actual conditions where receipts and expenditures are taken into consideration, since it is obvious that, if payment is not made of bills due at the close of the financial year, and if the amount thereof is not set up as a liability in the accounts, an apparent surplus for the year may be shown where an actual deficit has resulted.

Strong Recommendations. We would strongly recommend you in future to prepare the accounts on a "revenue" basis, so that at the end of each financial year you will be able to determine exactly whether the revenue has been sufficient to meet the various outlays and expenses of the year. The annual published accounts are not drawn up in a manner readily affording information as to the province's financial position, and we would recommend that the form in which they are

deficit which (after making certain other necessary adjustments in the accounts) would amount to \$706,833. This amount would represent a deficit of receipts over expenditures, but not a revenue deficit. The latter would be greater or less than the amount mentioned according to whether the amount of unpaid liabilities at October 31, 1916, showed an increase or decrease over the amount unpaid at October 31, 1915. We have not made any calculations as to the amount of the unpaid liabilities at October 31, 1915.

Not Clear Enough. As another illustration of our point that the published accounts do not reflect the financial position of the province in a sufficiently clear and intelligible manner, we would refer you to the balance sheet at October 31, 1916, which shows that there were outstanding provincial debentures to the amount of \$8,100,000.

One of the essential points in the balance sheet should in addition show as liabilities the \$1,700,000 debentures of the province issued to provide funds for the St. John & Quebec Railway, and the \$4,250,000 bonds of that railway which are guaranteed by the province both as to principal and interest, and which should be considered a direct liability in view of the fact that the railway has been taken over by the province.

One of the essential points in any system of accounting is that a clear distinction be made between the expenditures of a permanent nature and those which are of a temporary nature, and which are charged against the revenue of the year. The published accounts should reflect this principle, and for this reason we have suggested a form of balance sheet divided under two main captions (a) capital assets and liabilities, and (b) revenue (or current) assets and liabilities.

As already mentioned the annual published balance sheets do not show expenditures of a capital nature (except in the case of railway investments) although they take up as liabilities the debentures and bonds issued for the purpose of providing funds for the expenditures. There is, however, published in the annual accounts a statement of the bonds issued and the amounts of the debentures issued therefrom. In the accounts submitted we have shown as capital assets all the expenditures made out of monies raised by the issue of debentures and government stock, although in some cases the term "capital expenditure" cannot clearly be applied to the expenditures. Since these expenditures made towards the imperial government and Belgian relief, and subsidies granted to railways.

As a result of our examination of the accounts receivable at October 31, 1916, we found it necessary to make certain adjustments on the balances shown by the published accounts at that date, the principal being to reduce the balances of the accounts by an amount of \$6,460.97 which was written off the books as uncollectible subsequent to October 31, 1916.

We think that the accounts receivable of the school board department should be more closely followed up and instructions given to the superintendent and the press for collection from vendors whose accounts are long overdue. A number of balances now carried on the books appear, only so doubtful, and the attached balance sheet we have set up a reserve of \$2,000 to provide for possible loss in this connection. Details of all adjustments made on the accounts receivable are shown on exhibit "C" attached hereto.

Copies of orders dated February 16, 1917, for the supply of auto road trucks (10 to cost \$77,795 and 10 to cost \$87,440) were produced for our inspection. On February 2, 1917, a cheque for \$3,000 was issued to the Smith Foundry Company, Fredericton, the local agents of the White Company of Cleveland, Ohio, as a deposit on the orders subsequently given, which amount we have carried as

an account receivable on the balance sheet at March 31, 1917. The various bank balances were reconciled with certificates received direct from the bankers of the province.

The balances included under this heading are as follows: October 31, 1916. March 31, 1917. Contractors deposits \$42,116.40 \$30,256.42 Chancery division deposits 9,489.66 16,078.49 Probate court deposits 5,921.11 5,546.88 Sales of property for taxes deposits 881.37 381.87 Temporary deposits (crown lands) 1,627.86 3,228.66 St. John & Quebec Railway hall deposit 820.00 320.00 Official committee of property of lunatics 6,735.57 6,879.57 Guarantee deposits (cash) 85,000.00 85,000.00 Municipal sinking fund 11,985.02 14,981.81 \$163,626.99 \$162,967.20

The vouchers covering expenditures during the period from November 1, 1916 to April 30, 1917 were carefully scrutinized with a view to determining the amount of liabilities outstanding at October 31, 1916 and March 31, 1917 respectively. Invoices received by the public works department and held back pending disposal by the minister of that department were introduced to us, and we have received letters from the acting secretary of the department certifying that the accounts so submitted included all such accounts still to be dealt with which he had knowledge.

During our examination we noted certain bills received for ordinary and special road expenditures aggregating \$15,271.06 on which the proportion applicable to the period prior to October 31, 1916 and that of the subsequent period was not shown, and the amount referred to was therefore allocated between the two periods in accordance with the basis suggested by the minister of public works.

In connection with the expenditure on permanent bridges, it came to our notice that the amount of \$70,081.88 had been rendered by the contractors of the Moncton bridge. This bill was admitted by the province on January 20, 1917, and \$47,477.27 was paid in 1917, and the difference between the contractors and the province referred to arbitration. Only the amount of \$22,604.61 had been included among the liabilities at October 31, 1916, but it is possible that a further liability attaches to the province in respect of the claim made by the contractors. On the other hand we understand that a sum of approximately \$14,000 will be received by the province from the sale of scrap cast iron wheels provided by the province for ballasting the bridge, the cost of which was charged to construction during 1916. This amount of \$14,000 will therefore be available to meet any allowance which may have to be made in the arbitration proceeding, and for the costs of the arbitration.

Teacher's grants are paid by the province monthly in June and December each year. For the purpose of the accounts prepared by us we have included as a liability at October 31, 1916, the amount of the grants for the half-year to December 31, 1916, and we have estimated the liability at March 31, 1917 at approximately half of the amount paid at December 31, 1916.

Interest Accrued. Interest has been accrued at October 31, 1916, and March 31, 1917, and included in the liability in the balance sheets at these dates.

We have not examined the accounts of the St. John & Quebec Railway Company, and it may be that a proportion of the interest accrued on the bonds issued by the province for the purposes of that railway represents interest on construction expenditures which might properly be treated as an addition to the province's investment. On the other hand a large section of the railroad has been operating for some time, and it is more than probable that the cost of construction has already been charged with more interest than should properly have been added to the investment. We think that the province should now face the fact that the interest on the bonds amounting to \$5,950,000, will in the future have to be provided out of current revenue.

Deferred Credits. The subsidy receivable from the Dominion government in terms of the British North America Act 1867, amounts to \$611,511.20 per annum, payable half-yearly in advance on January 1 and July 1. One-third of the subsidy received on July 1, 1916, was therefore applicable to the period subsequent to October 31, 1916, and similarly only half of the amount received on January 1, 1917, was issued to the Smith Foundry Company, Fredericton, the local agents of the White Company of Cleveland, Ohio, as a deposit on the orders subsequently given, which amount we have carried as

in the accounts as deferred credits to revenue. The liquor license fee due on May 1, 1916, in respect of the twelve months ending April 30, 1917. We have accordingly shown the unexpired portion of the province's share of the taxes paid at October 31, 1916, as a deferred credit at that date. As a result of the prohibition act recently passed by the province, this item will disappear from the accounts in future years.

Securities Deposited with the Province. Bonds of a par value of \$165,500, and certain mortgages, have been assigned to the province in connection with guarantees for the fulfillment of obligations. These securities, together with those purchased by the province for sinking fund purposes, were examined by us and found in order.

At present the securities are kept loose in a safe in the vault of the treasury office to which various officials have access. We think that it would be preferable to have the securities deposited in the vaults of a bank or trust company under the joint custody of two officials of the province. No proper records are now kept showing the deposit and movement of securities.

Deficit, October 31, 1916. We would refer you to the attached statement (Exhibit F) which shows how the deficit on revenue account of \$706,833.37 at October 31, 1916 is made up. You will note therefore that in past years interest on the amount of bonds received from lumber operations and deposited in bank was treated as a revenue receipt, although under Act 4, George V., Cap. 10 (1914) such interest is required to be treated as an accretion of the sinking fund. In order to adjust this it has been necessary to charge revenue account with an amount of \$88,199.76.

Accounting System and Methods. At present a considerable part of the accounting work of the province is done in the offices of the various departments, in place of being consolidated in the office of the treasurer. As a result it is impossible to ascertain without unnecessary waste of time, the amount of the province's current revenue receipts, and the liabilities outstanding at any specific date. Furthermore, such a condition results in duplication of work.

From a business standpoint we consider that the treasury department should receive direct all monies payable to the province. If the amount received from the Dominion government in respect of subsidies and interest on the debt due to the province is excluded, it will be found that the treasury received direct only about 10 per cent of the revenue received during the fiscal year ending October 31, 1916.

Exhibit "F". PROVINCE OF NEW BRUNSWICK. Statement of Deficit on Current Revenue Account at October 31, 1916.

October 31, 1915.— Excess of current receipts over current disbursements at that date \$1,666.12

October 31, 1916.— Excess of current receipts over current disbursements at that date as shown by the published accounts \$12,077.29

Deduct: Expenditures on road construction, not included in the ordinary expenditure for the year ending that date 70,648.60

Deduct: Sundry other adjustments 58,471.81 2,679.92 56,891.89

Current liabilities not taken up in the accounts as published October 31, 1916 (Exhibit "D") 526,847.66

Less: Current assets omitted October 31, 1916 (Exhibit "C") 4,688.70 522,208.96

Proportion of Dominion subsidy paid in advance to December 31, 1916 101,918.58

Proportion of liquor licenses paid in advance to April 30, 1916 18,626.25

Interest on bonuses received from lumber operators included as ordinary revenue in the published accounts now transferred to crown lands sinking fund in accordance with Act 4, George V., Cap. 10 (1914) 38,199.76

Amount short provided at October 31, 1916, on farm settlement board sinking fund 16,645.80

\$706,833.57

BOARD OF TRADE COUNCIL. The council of the board of trade, at its meeting yesterday, placed itself on record as protesting against the withdrawal of the Diplo steamer from the bay route in future unless ample previous notice had been given the business public and unless suitable provision had

tober 31, 1916. The other departments collecting revenue record in cash books of various styles the monies received by them, and these receipts bearing the illegible signature of the deputy provincial treasurer and counter-signed by the official or clerk issuing the receipt. The monies so collected are in turn deposited in bank by the receiving department to the credit of the treasury, or, as is more generally the case, are handed into the deputy provincial treasurer's office. One objectionable feature to this manner of collecting revenue is that monies are frequently held for several days in the department collecting them before reaching the treasury, and sometimes for several days in the treasury department before being finally deposited in bank. The work of internal audit is also to some extent duplicated, since it is necessary for the auditor-general to check up and verify both the departmental and treasury cash books.

All payments are made by the treasury department on the receipts of bills for supplies and work performed to which various officials have access. We think that it would be preferable to have the securities deposited in the vaults of a bank or trust company under the joint custody of two officials of the province. No proper records are now kept showing the deposit and movement of securities.

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Election As a Referendum

Hon. G. P. Graham's Attitude On Conscription

Would Serve Same Purpose

In Favor of Principle But Falls Short of What is Required and Has Been Badly Handled

Ottawa, June 22.—Hon. George P. Graham, the first lieutenant of Sir Wilfrid Laurier in parliament, speaking in the commons today from his place next to his revered and trusted leader, did as Mr. Foster, chief Liberal whip, did yesterday. With the full permission and respect of Sir Wilfrid, Mr. Graham, expressing his own honest convictions on the great issue before parliament and the people.

While declaring his sincere belief that Sir Wilfrid, the veteran and experienced statesman, was pursuing the course he thought best in helping to secure national unity in Canada and the most far-sighted method of helping to win the war, Mr. Graham said that he must dissent from the traditions of Liberalism, expressed his own honest convictions on the great issue before parliament and the people.

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Two other Liberals today, E. W. Nesbitt, South Oxford, and Mr. Buchanan, of Lethbridge—the latter the first of the Alberta Liberals to be heard from—took the same course as Mr. Graham. Mr. Graham devoted a considerable portion of his speech to consideration of the larger problems of conscription, as outlined in the resolution which he drafted last week. He declared for the compulsory enlistment of wealth by means of an income tax on the rich man for the raising of the money by which the war could be fought.

He declared for government action to compel industries in Canada to contribute to the production of luxuries, to turn their attention to the production of essentials. He asked that the women of Canada be organized as war being done in the States to prevent waste in the home. He urged measures for the distribution of labor to the farms. He pointed out that the public could scarcely be expected to have much confidence in a government that appointed only Conservatives to such positions as fuel controller and food controller.

Sir Thomas White, who followed Mr. Graham, urged the seriousness of the war situation, the final failure of the voluntary system and the immediate necessity of conscription for military service. As to the conscription of wealth, he gave only general promises that "everything that was necessary" to raise funds would be done. But he gave no specific promise to any of the war tax—taxation for this year at any rate.

Active Again On Russian Front

London, June 22.—After many weeks of inactivity on the Russian front, heavy guns have been brought into operation and general activity reported. The first news of this came in today's Austrian official statement which reported heavy engagements in Galicia and was emphasized in the evening statement from Vienna which stated that "the increased firing continues."

Heavy attacks by the Germans north of the Alsace have been repulsed by the French troops with severe casualties, according to the official communication from Paris, issued tonight. In the attack, which was along a front of about one and one-quarter miles, the Germans only at one point succeeded in penetrating the French trenches, although special troops were employed which attacked stubbornly, not wavering before the destructive French fire.

Heavy artillery firing is reported north of Monastir on the Balkan front.

A Seed-waster. "There's a man planting potatoes, said Farmer Comstock, 'when he ought to be playing golf.'"

"You don't approve of gardening."

"Yes, I do. But if he'd go ahead and play golf he wouldn't be spoiling good potatoes that somebody could use."

Mutt and Jeff—Maybe Jeff Had a Touch of the Heat at That

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By "Bud" Fisher