

ficials stated that the Audit Service Bureau, who do the cost audit on all these contracts, has instigated procedures where they visit the company and ensures that the company has proper recording, reporting and cost accounting capability, to provide for an effective audit.

PARAGRAPH 83—Taxation of recaptured capital cost allowance with respect to vessels sold.

(See *Minutes of Proceedings and Evidence, Issue No. 5, November 7, 1974*)

This program dates back to 1949 and under the provisions of the Income Tax Act, R.S. 1952, C. 148, (Section 13 of 1970-71-72, C. 63) a company which ordinarily becomes liable for income tax on the excess of the amount realized on the sale of a vessel over its book value (for taxation purposes) may, in lieu of payment of the tax, deposit an equivalent amount with the Department of Industry, Trade and Commerce. All or part of the deposit may be paid out to or on behalf of any person, who under conditions satisfactory to the Minister acquires a replacement vessel or incurs conversion costs before 1974. It also appears to be the intention of the Minister of Finance to amend the legislation to permit acquisition of replacement vessels in 1974.

This program was aimed to stimulate shipbuilding and provide employment in Canadian shipyards and the customary procedure of a person or company wishing to use the program, is to send in plans, state the shipyard where they plan to have the work done and how much work is to be done in Canada and, if satisfactory, the Department gives the necessary approval. In the seven years during which the Department of Industry administered the program there were 600 cases involving a total amount of \$65,082,000.

In view of the Auditor General's Report questioning whether arrangements of this nature have the full effect desired, your Committee recommends that the Minister of Industry, Trade and Commerce make a report as soon as possible on the operations under this legislation and its effectiveness.

PARAGRAPH 84—STOL Aircraft Development.

(See *Minutes of Proceedings and Evidence, Issues Nos. 5 and 8, November 12, 1974 and November 21, 1974*)

In December 1968, the Department of Supply and Services on behalf of the Department of Industry, Trade and Commerce entered into an agreement with a contractor to share equally the \$930,000 estimated cost of a program definition study for the design, development, certification and production of a four-engine short take-off and landing (STOL) aircraft. By successive amendments approved by Treasury Board, the authority had grown by October 1972 to \$58 million and the cost-sharing ratio had been changed to a ratio of \$52 million to \$6 million with the government paying the greater share.

In his Report, the Auditor General states that, with the total overall program, the readily identifiable cost is about \$80 million, but this is not apparent in the Public Accounts because the several major elements are not brought together.

The witnesses revealed that the development of this plane, the DHC-7 by the Crown-owned de Havilland Corporation is practically on schedule and the Department officials report that three prototype models are underway, two of which will be flying models. The two flying models should be serviceable and in the air by January (1975). The company has sold almost 500 of the forerunner of the DHC-7, the Twin Otter, 80% of the sales outside Canada.

Your Committee agrees with the concern of the Auditor General that the costs of this development are not readily identifiable.

Your Committee recommends that an attempt be made to focus programs of this type and that moneys granted be grouped in the estimates of one department making an overall view of the estimates and expenditures more readily identifiable.

FROM THE DEPARTMENT OF MANPOWER AND IMMIGRATION

PARAGRAPH 86—Local Initiatives Program.

(See *Minutes of Proceedings and Evidence, Issues Nos. 7 and 8, November 19, 1974 and November 21, 1974*)

The objectives of this program were to provide jobs in the months of high unemployment for unemployed members of the labour force and to contribute to the betterment of communities. Municipalities, community organizations, private persons or groups were invited to participate in development and management of the projects. Manpower and Immigration Vote 10 provided \$259 million for payments under the Local Initiatives Program for which \$195,047,000 was disbursed during the year.

The 1972-73 projects were to meet certain criteria and fulfil certain requirements but the Auditor General's examination revealed serious weaknesses in the administration of this Program, including the approval of many projects which did not comply with the established objectives and criteria, and twenty cases of fraudulent or irregular practices that required investigation by the Royal Canadian Mounted Police.

If the criteria had been adhered to by the participants in the projects, much of the adverse criticism engendered by this program would have been avoided.

Your Committee recommends that if programs of this nature are to continue, the Department of Manpower and Immigration must maintain a closer and more thorough check on them.