

(distilled exclusively from juices of native fruits without the addition of sweetening materials) is subject to an excise duty. Excise duties are imposed on tobacco, cigars and cigarettes in addition to the special excise taxes.

Customs duties. Many goods imported into Canada are subject to customs duties at various rates. Customs duties once were the chief source of revenue for the country but have declined in importance now providing less than 10% of the total. Apart from its revenue aspects, however, the tariff occupies a place as an instrument of economic policy.

The customs tariff provides for five sets of rates — general preferential, British preferential, most-favoured-nation, general, and United Kingdom and Ireland. The general preferential rates apply to certain goods imported from designated developing countries. For descriptions of the other rates see Chapter 21, External relations, trade and defence.

Other sources of gross general revenue for 1978-82 are indicated in Table 22.2.

In all cases where customs duties are applied there are provisions for drawback of duty on imports of materials used in the manufacture of products later exported. These drawbacks assist Canadian manufacturers to compete with foreign manufacturers of similar goods.

22.2.3 The auditor general

The government's accounts are subject to an independent examination by the auditor general who is an officer of Parliament. One of his objectives is to make independent examinations of the accounts of federal departments and agencies and of other entities for which he is the appointed auditor, and to express his opinion on their integrity.

Another objective is to make independent examinations and inquiries and report on whether or not there were significant deficiencies in the management control systems and practices, providing reasonable assurance, where possible, that public assets are safeguarded and controlled, that transactions are lawful and proper, and that financial, human and physical resources are managed with economy and efficiency and that procedures are in place to measure and report on the effectiveness of programs.

The auditor general calls attention to anything that he considers should be brought to the attention of the House of Commons, communicates his findings and observations to management of the audited entity and makes any constructive recommendations he may have.

22.3 Federal-provincial fiscal relations

Fiscal relations between the federal, provincial and territorial governments are governed either by an act of Parliament or by formal agreements. The Consti-

tution Act, 1867, the Public Utilities Income Tax Transfer Act, and the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977 were the most important legislative measures under which fiscal transfers have been paid by the federal government to the provinces. All of the federal-provincial financial arrangements are now included in an Act to amend the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977, popularly known as the Federal-Provincial Fiscal Arrangements and Federal Health and Education Contributions Act, 1977, passed on June 7, 1984. The current agreement ends March 31, 1987.

22.3.1 Fiscal arrangements

This is a term that covers a variety of federal-provincial financial arrangements. Many have existed since Confederation in 1867. Included are various federal-provincial transfers and tax collection agreements.

Federal-provincial transfers include two basic types: general purpose transfers and specific purpose transfers.

General purpose transfers. Early general purpose transfers were basically subsidies paid to the provinces under the Constitution Act, 1867 (formerly called the BNA Act). These were per capita payments to ensure that the provinces had sufficient resources to meet their general responsibilities and remain solvent.

Contemporary general purpose transfers are basically equalization payments. The equalization program was begun in 1957 and has been based on a formula negotiated every five years and designed to reduce disparity of fiscal capacity between "have" and "have-not" provinces. From its general revenue, the federal government compensates any province whose per capita revenue is below the national average because of a relative deficiency in the province's tax base. Thus, equalization payments are intended to ensure that all citizens are provided with comparable standards of public services throughout the country.

General purpose transfers now amount to more than \$6 billion annually, with about 90% composed of equalization grants.

Since the beginning of this program in 1957, seven provinces have received equalization payments: Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick, Quebec, Manitoba and Saskatchewan.

Specific purpose transfers. Early specific purpose transfers for programs cost-shared by the federal and provincial governments began in 1912. Through these transfers, the federal government contributed to spending priorities in provincial constitutional jurisdictions. Usually these were specific in purpose, such as for agricultural training, highway construction