

In cases where customs duties are paid, there are provisions for the drawback of duties on imported goods and materials exported from Canada, either after being used in the manufacture of products in Canada or without having been used or altered in any way in Canada, where certain conditions have been met.

Under the Canada-US Free Trade Agreement drawback programs will continue unchanged until January 1, 1994. At that time the drawback of duties, with certain exceptions, will no longer be allowed on goods exported to the United States. There will be, however, no change with respect to export to other countries.

22.2.3 The Auditor General

The Auditor General of Canada is an official, independent of the Government, who examines the government's accounts and its management of public resources and reports his findings to Parliament or others responsible.

The Auditor General conducts audits and examinations of governments departments, agencies and some of the government-owned corporations: to verify whether government spending has been properly authorized; to assess whether the government's accounting policies are appropriate; to attest to the financial statements of various government or government-owned organizations; to identify barriers to economical, efficient and effective management of public resources, financial, human and physical; to identify cases of spending undertaken without due regard to economy or efficiency; and to report whether the government properly evaluates the effectiveness of its programs.

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 Constitution 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.

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 80% 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 or disease control, and were of fixed duration and fixed total value.

Contemporary specific purpose transfers are mainly for large-scale social programs which lie within provincial constitutional jurisdiction but are deemed to be of national importance, of indefinite duration and with high cost, such as health care, social welfare and education.

Tax collection agreements. Tax collection agreements originated at the end of World War II. The