



Legislative Assembly of Alberta

The 27th Legislature
Second Session

Standing Committee
on
Community Services

Bill 202, Municipal Government (Municipal Auditor General)
Amendment Act, 2009

Tuesday, October 27, 2009
8:30 a.m.

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**Legislative Assembly of Alberta
The 27th Legislature
Second Session**

Standing Committee on Community Services

Doerksen, Arno, Strathmore-Brooks (PC), Chair
Hehr, Kent, Calgary-Buffalo (AL), Deputy Chair

Benito, Carl, Edmonton-Mill Woods (PC)
Bhardwaj, Naresh, Edmonton-Ellerslie (PC)
Chase, Harry B., Calgary-Varsity (AL)
Johnson, Jeff, Athabasca-Redwater (PC)
Johnston, Art, Calgary-Hays (PC)
Lukaszuk, Thomas A., Edmonton-Castle Downs (PC)
Notley, Rachel, Edmonton-Strathcona (ND)
Rodney, Dave, Calgary-Lougheed (PC)
Sarich, Janice, Edmonton-Decore (PC)

Bill 202 Sponsor

Johnston, Art, Calgary-Hays (PC)

Support Staff

| | |
|------------------------|--|
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| Louise J. Kamuchik | Clerk Assistant/Director of House Services |
| Micheline S. Gravel | Clerk of <i>Journals</i> /Table Research |
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| Stephanie LeBlanc | Legal Research Officer |
| Diana Staley | Research Officer |
| Rachel Stein | Research Officer |
| Liz Sim | Managing Editor of <i>Alberta Hansard</i> |

Standing Committee on Community Services

Participants

| | |
|--|--------|
| Office of the Auditor General. | CS-211 |
| Fred Dunn | |
| Doug Wylie | |
| Department of Education. | CS-213 |
| Keray Henke | |
| Canadian Taxpayers Federation | CS-215 |
| Scott Hennig | |
| Municipal District of Greenview No. 16 | CS-217 |
| Jim Squire | |
| Tony Yelenik | |
| City of Calgary | CS-220 |
| Tracy McTaggart | |
| Owen Tobert | |
| Institute of Chartered Accountants of Alberta | CS-222 |
| Ken Hoffman | |
| Wayne Kauffman | |
| Roger Simpson | |

8:30 a.m.

Tuesday, October 27, 2009

[Mr. Doerksen in the chair]

The Chair: Good morning, ladies and gentlemen. I'm pleased to welcome you this morning to the Standing Committee on Community Services meeting. To begin with this morning, I'm going to ask that members at the table and guests please introduce themselves and their staff.

I'm Arno Doerksen, chair of the committee.

Mr. Hehr: Kent Hehr, MLA, Calgary-Buffalo, and vice-chair of the committee.

Mr. Johnston: Good morning. Art Johnston, Calgary-Hays.

Mr. Rodney: Good morning. Dave Rodney, Calgary-Lougheed.

Mr. Bhardwaj: Good morning. Naresh Bhardwaj, Edmonton-Ellerslie.

Dr. Massolin: Good morning. Philip Massolin, committee research co-ordinator, Legislative Assembly Office.

Mrs. Kamuchik: Good morning. Louise Kamuchik, Clerk Assistant, director of House services.

Mr. Wylie: Good morning. Doug Wylie with the office of the Auditor General.

Mr. Dunn: Fred Dunn, Auditor General.

Mrs. Sarich: Good morning. Janice Sarich, MLA for Edmonton-Decore and parliamentary assistant to the Minister of Education.

Ms Rempel: Jody Rempel, committee clerk, Legislative Assembly Office.

The Chair: Thank you for that. I'll just remind people sitting at the table that *Hansard* will operate the mikes, so you don't have to turn them on manually. They'll take care of that. Also, if you have a BlackBerry or electronic device with you, please don't set it on the table. It tends to wreak havoc with the microphone system. That's just by way of reminder.

I think the committee members have had an agenda circulated. Could I have a motion to approve the agenda as circulated? Mr. Rodney. All in favour? That's carried. Thank you.

Secondly, a review of the minutes of our September 10, 2009, meeting. I think those minutes have been circulated, and I'd ask for a motion to approve those. Mr. Bhardwaj. All in favour, please indicate. That's carried as well. Thank you.

The purpose for our meeting this morning is to hear scheduled presentations on Bill 202, and I would like at the outset to thank the groups that will attend this morning to present to us, beginning with the office of the Auditor General.

I'd just like to remind committee members that the Auditor General is available to provide information that will assist the committee during its deliberations on Bill 202 but not to support or oppose the bill or otherwise in any way influence policy direction. I think, also, that it's probably good to note that questions regarding auditing practices may be better directed toward organizations that represent professional accountants and auditors, whom we will also be hearing from over the course of the next two days.

With that, I'd like to welcome our Auditor General, Fred Dunn, and ask you to make a presentation. As the committee knows, our time is quite compacted this morning. We've suggested to groups presenting that we have about a five-minute presentation and then allow about 10 minutes for questions, so I'll ask everyone to try to adhere to those general guidelines.

Please, Mr. Dunn.

Office of the Auditor General

Mr. Dunn: Thank you, Mr. Chairman, and I will try to be very brief at the beginning. Thank you for the opportunity to be with you here today. As you are aware, we did provide a written submission to the committee on July 29.

We believe that being clear in what is to be achieved is the key message. What's the desired output? What are the audit deliverables? As you listen to the presentations, you should frame your thinking around the objectives to be achieved and the framework that will support achieving them. You may hear presentations that focus on the various types of audits and the necessary qualifications of those performing them. Each type of audit service serves a particular purpose. You may hear presentations indicating that the existing processes are effective and that no change is necessary. Conversely, you may hear that existing processes are flawed or that certain processes are effective but others require improvement. You should think about each of these in the context of what objective is to be achieved through Bill 202.

From an auditor's perspective, having clearly articulated objectives is important, therefore establishing an effective framework within which an auditor will operate. An effective framework should set out the key authority and accountability responsibilities for the auditor. These include the appointment of the auditor – and that can be either statutory, similar to my appointment, or discretionary – and the types and scopes of audits; for example, internal audits versus external audits, value-for-money audits versus financial statement audits. The framework should clearly describe the reporting responsibilities for the auditor: what's to be examined, what's to be reported, to whom, and by when.

The existing framework provides for both internal and external auditors at municipalities; thus, the role of the proposed municipal auditor general vis-à-vis the other auditors must be considered. For example, we believe that there are four potential alternatives. One, a direct auditor role, which is to establish a separate audit office to conduct audit work in municipalities. This alternative would require substantial staff and resources and thus be much like my office. Two, a contracting role, which is to contract in appropriate skills/resources on a response-to-municipal-request basis. This has been done by the department in the past, and they use individuals like George Cuff. Three, a co-ordinating role, which is to work with current appointed external and/or internal auditors to expand the scope of their audits into value-for-money audits for identified issues. Or merely an advisory role, a teach/train expanded external comprehensive audit responsibility to existing municipal external auditors. Selecting the most appropriate alternative will depend on how best to achieve your objectives.

I will conclude by highlighting a few other considerations that are important from an auditor's perspective. First and foremost, independence. The framework must have a structure that supports the auditor's independence and objectivity. Secondly, capabilities: the ability to have auditors with the right skill sets to conduct the audit work, recognizing the differences between the various types of audits. What we refer to as scoping considerations: what will be done, clarity in role as to who's responsible for determining what

systems/processes should be audited and when. Finally, reporting: clarity in the form and manner of reporting results of audits. To whom? Should there be public reporting, or is it just internal reporting?

Thank you for the opportunity to be with you here today. Doug Wylie and I will both try to answer any questions you may have. The bottom line, I believe, that you're dealing with is not if but how. It's not if there should be comprehensive auditing but how best to carry out the comprehensive auditing in a most efficient and effective manner.

Thank you, Mr. Chairman.

The Chair: Thank you, Mr. Dunn.

At this point I'd invite committee members to engage in questions or an exchange with regard to any questions you may have of the office of the Auditor General.

Mr. Dunn: I'm open to any sorts of questions on the profession. I've been involved in this for 43 years. I do sit on our professional auditing standards board with the Canadian institute, so I'm involved in where the standards are, et cetera. So any questions you may have around what, how, when, where.

The Chair: Mr. Johnson, please.

Mr. Johnson: Thanks, Chair, and thank you, Mr. Dunn. Just a quick question on capabilities. Knowing what you know about municipal audits and the auditors that are contracted to do those today, do they have the skill sets that are required or that would compare to what we do out of your office, sir?

Mr. Dunn: Not necessarily all would have it, but certainly all of them would have had training in their past around what is known foremost as financial statement audits. Certainly, as you know, when I came from the private sector, I was essentially trained in financial statement auditing. We also then look at opportunities to understand the operational aspects of a business: its business risks, its processes, et cetera. So they would have an introduction to operational matters. In other matters which might be compliance-type auditing in accordance with legislative authorities, rules, and regulation, they would have a need for some improvement and some training. When I came into my role, it's something which I had to learn also. But it's a learned skill, and I think that the profession, whether it be the Institute of Chartered Accountants or the CMA profession, are capable of training those external auditors in the expanded scope, being the full, comprehensive auditing.

8:40

The Chair: One follow-up. Go ahead.

Mr. Johnson: No. Go ahead. That's fine.

Mr. Hehr: Well, thank you, Mr. Dunn, for your presentation. I just wanted to follow up a little bit on the independence. You said that was key to an auditor's role. Would you say that it's just all in the way you set this up in terms of this bill? I see it as, well, the auditor could then report to either the public or to the Legislature. Does it matter which one it is as long as it's an independent role?

Mr. Dunn: Yeah. Independence has a couple of aspects. First and foremost is the independence to ensure that the auditors can carry out their work in an unrestricted, open, transparent manner, full access to all information, et cetera, without the threat that should you

strive to report a matter which is controversial, you can be removed. That's the danger that always happened in the private sector, that you had narrowed your work in such a way and manner that the client would re-engage you.

What you've got to make sure is that the auditors have the ability to be able to do their work in an unrestricted manner and then report it, whether it be to council, whether it be to the Ministry of Municipal Affairs. It could be to council alone, it could be to Municipal Affairs – much like what school boards do, to the department – or it could be to the Legislative Assembly of the province. That may be one that you would want to discuss thoroughly, as to whether or not it needed to come before the Legislature versus could it remain at council and the ministry, much like school boards are today; it remains at the school board. The independent auditor reports to the school board trustees, with copies of those reports going to the Department of Education.

Mr. Hehr: Thank you.

Mr. Johnson: I just wanted to touch on your comments on independence, Mr. Dunn. With the municipalities today, if they're contracting an auditor or if they have the capacity internally to have an auditor, would you say that the independence isn't there?

Mr. Dunn: No. Certainly, both the city of Edmonton and the city of Calgary have what I would consider to be municipal auditor general type positions where they do report independently up through to the council, to the council via an audit committee that's there. In other smaller municipalities where they have only an external auditor that is to report on the financial statements, that external auditor is subject to the marketplace and reappointment. Should that external auditor uncover something which is very controversial and wish to make it public, their appointment could be threatened, and therefore their independence could be threatened. Thus, that auditor would want to make sure that both their legal liability as well as their appointment was not a vulnerable situation should they carry out this expanded role to make a comment on a process or a system that the municipality has undertaken which may be seen to be adversarial, that the auditor is not therefore vulnerable on reappointment or from a legal liability.

The Chair: Thank you.

Mr. Hehr.

Mr. Hehr: Thank you. I'm also going to follow up on a question, and it might be my mistake here. The auditors at the city level: can they not be fired as a matter of course if a business case emerges? So the independence is threatened a little bit in that way.

Mr. Dunn: I do appreciate that we have the city of Edmonton auditors sitting behind me here, and I believe that you will want to ask that question of them. However, when I said that it was closer to being a municipal auditor general, as I understand it, there is a need to have that dismissal approved by council, which would therefore make it quite public. One of the advantages that an auditor has – I'm trying to avoid the word "weapon" – or a capability that an auditor has is public disclosure. Indeed, in my case, when we issue these public reports, that causes the media to be attentive and MLAs and ministers to be attentive. It's because of that public disclosure; thus, I am not somehow restricted from making that public disclosure.

In the city case I believe both Calgary and Edmonton make their reports public as they go through their audit committees and through council, but there is the danger there, I believe – and I'll ask the city

of Edmonton auditor to confirm that when they make their presentation – that they are not as protected as I am within the statutory appointment that I have. They have it by way of a bylaw, and thus that bylaw could cause them – should it come to be a situation where the council does not wish the auditor to continue on, the council could remove the auditor.

Mr. Hehr: Thank you.

The Chair: Mr. Lukaszuk, did you have a question?

Mr. Lukaszuk: Thank you. Yes. Well, I'm glad you used the word "weapon" because that now allows me to ask my question. I'm sensing that there's a little bit of us versus them. I'm wondering: aren't auditors who are retained and, as you say, are subject to market forces also subject to professional guidelines and codes of conduct from within their own profession? I wouldn't be very comfortable being a chartered accountant in this room right now because we're painting a picture that the only thing that keeps chartered accountants honest out there is the fact that they can be fired, but my experience not only with chartered accountants but professionals of all self-governing professions is that 99.9 per cent of professionals out there conduct themselves in an appropriate, professional manner not because they can be fired but because they are professionals.

Mr. Dunn: You're very correct on that, and certainly our rules of professional conduct are well laid out as to how we are to conduct our work. However, when you get into a controversial matter – and I walked this path for 36 years – it gets down to that range of tolerance in what you'll accept, and it's not a bright line. It's a massive grey line. If your client is willing to listen and make some corrective actions that satisfies a substantive portion of your concern, you can say: I've done my job.

However, the full story may be that we should be publicly describing this to the citizens of the jurisdiction, describing what it is that we saw, what were the consequences of the failure within the system or the conduct of individuals, and we should make it public. As Auditors General, whether it be provincial or federal, we have that ability to make this public: what we found, what we saw, what has to be fixed and corrected. Private-sector auditors: we issued management letters, and I lived this, Thomas, for 36 years. We issued it to management. We had a responsibility to summarize with the oversight committee, but we did not necessarily make it public to shareholders or others out there. It stayed within the entity.

So it is quite a different role, and it is quite a responsibility as well as a privilege to be able to have that public reporting. Thus, when you do your debate around how a municipal auditor general could conduct their work, that's one of the aspects you'll want to look at, the form of reporting. To whom? How? Public? When? Once a year? After a situation has been looked at? How is it going to be reported?

The Chair: Okay. Thank you, Mr. Dunn. I think that in the interest of the rest of our agenda this morning, that will conclude our questions. Thank you very much for your presentation this morning. I'm sure that if there's further information required, we'll be in contact for sure.

Mr. Dunn: Thank you.

The Chair: At this point we'll ask representatives of Alberta Education to take their place at the end of the table.

We have had a number of members join us since the introductions, so if members that have not been introduced for the record would do so at this point, I'd appreciate that.

Mr. Lukaszuk: Thomas Lukaszuk, Edmonton-Castle Downs.

Mr. Johnson: Jeff Johnson, Athabasca-Redwater.

Ms Notley: Rachel Notley, Edmonton-Strathcona.

Mr. Benito: Good morning. Carl Benito, Edmonton-Mill Woods.

8:50

The Chair: Thank you. Keray, if you'd introduce yourself and your staff, or will you be presenting on your own this morning?

Department of Education

Mr. Henke: I have one member with me. Dick Meanwell is the director of financial reporting and accountability for the Department of Education.

Thank you very much for the opportunity of presenting. We have brought copies of a very brief presentation. I'll try to be as brief as the Auditor General was. We did not provide a written submission for Bill 202 because, as you know, the school jurisdictions are not specifically mentioned in Bill 202, so our presentation is going to describe simply some existing accountability structures in the education sector and identify some important distinctions in the relationship between school jurisdictions and the province.

When you get the handout of the presentation, if you'll go to the second page, titled Governance, it's simply an attempt to depict the governance structure for the Department of Education and school jurisdictions. School boards are governed by elected trustees, as you well know, who direct the delivery of education programs and monitor financial and program results.

The revenue determination for school jurisdictions is determined largely by the province. The school taxation levy is determined and collected by the province and supplemented by significant additional funding from the general revenue fund. Of the \$6.2 billion that is allocated to schools for 2009-10, \$4.7 billion, or 75 per cent, comes from the general revenue fund. Because of the size of the general revenue fund contribution and the control that the province has over school jurisdictions, school financial results are included in the consolidated statements for the ministry and, therefore, of the government. These are all subject, therefore, of course, to audit by the office of the Auditor General.

Municipal financial results are not consolidated in the same way. The School Act and the regulations assign specific responsibility to the Minister of Education, including the approval of the appointment of superintendents, the authority to investigate business and program affairs in certain circumstances, and the power to assign an official trustee in circumstances where it is deemed appropriate. We also specify the percentage of the budget that school jurisdictions can spend on administration. School jurisdictions are therefore responsible for the direct delivery of education programs in jurisdictions within the constraints and confines of the School Act and the appropriate regulations and policies.

When we look at accountability for results on the next page of the presentation, the department requires school jurisdictions to prepare three-year plans that include not only financial projections but also specific outcome measures and program outcomes. Annually they provide the education results reports, which therefore include their audited financial statements and the details of their program

outcomes. Specific outcome measures that must be reported by every jurisdiction are specified by the department and subsequently by the government. Jurisdictions can supplement those to address specific and unique requirements in their jurisdictions and in their regions, but we do specify the outcomes that they must report on, and as was commented on by the office of the Auditor General, these outcomes are therefore publicly reported and available as a means of accountability to the public.

On the next page we presented an example of their accountability pillar summary. It's a mock-up example of reporting on the program outcomes required by school jurisdictions. There are seven categories and a number of different measures. The categories include safe and caring schools, student learning opportunities, student achievement in K to 9 as represented by the results of their provincial achievement tests, student achievement as indicated by diploma exams, the level of satisfaction or level of accomplishment in terms of preparing for lifelong learning, employment and citizenship, the level of parental engagement in children's education in that jurisdiction, and their assessment of continuous improvement. As I said, this reporting is public, and it provides annual information to the department and to the public to provide a snapshot of how school jurisdictions are performing on key attributes.

The final page of the presentation is simply, then, a summary of the verification and follow-up of reported results. School jurisdictions provide annual audited financial statements and accompanying management letters, which they provide to the department, and the annual statements are published in their annual education results reports, which also include measures in terms of their program outcomes. The department works with school jurisdictions based on our review of their annual education results reports to ensure that we have a clear understanding of their accomplishments, of their challenges, and of their financial health, if you will.

The Auditor General, as the Auditor has indicated, has specific responsibility to report results from the audits of school jurisdictions, and they may also contract additional system audit work to the external auditors of the school jurisdictions, or they can conduct their own independent system observation. One example of that is the recent report that they did on budgeting and financial reporting procedures in use in school jurisdictions. The Auditor General is also the external auditor and the named auditor in the Northland act for the Northland school division.

So that's a very brief presentation of the characteristics of the school reporting system. I'm pleased to take any questions that you might have.

The Chair: Thank you, Mr. Henke.
I would ask for questions.

Mr. Johnson: Thanks for being here, Mr. Henke. Just a couple of questions, following up on the Auditor General, for my clarity around scope of the audits that are done for school boards. You talked about financial audits, but are they required to do the value for money, the compliance audits as well?

Mr. Henke: There's no requirement for value for money. There is the capacity within each jurisdiction to determine what additional audit work they may need.

Mr. Johnson: Those decisions, then, would be made by the local board?

Mr. Henke: By the local board, yes.

Mr. Johnson: Then they would just try to make sure they had an external auditor with the right skill set to do that?

Mr. Henke: Based on the objectives. As the Auditor indicated earlier, based on what they're trying to achieve, they would have to get an appropriate set of competencies, yes.

Mr. Johnson: Are there many school boards in the province that actually expand that scope of their audits, go beyond the financial audits?

Mr. Henke: I can't comment specifically. I don't know that there are a lot of jurisdictions. They do engage in specific investigations as and when they deem necessary. The minister also has the authority under the School Act to engage an outside consultant, whether it's an audit firm or another consultant, where there are indications that that level of investigation is appropriate and necessary.

Mr. Johnson: It wouldn't be kind of a regular . . .

Mr. Henke: No. No, it would not be something that we would do on a regular basis. We maintain relationships with the secretary treasurers, and we maintain relationships with the school business officials, and we base our need for advising the minister as to those kinds of investigations on the analysis that we do of both their statement of results and their annual education results reports.

Mr. Johnson: Okay. Thank you.

The Chair: Any other questions, committee members?

Mr. Rodney: Just because we have a little bit of time and for the sake of the record, sir, I know it's not exactly your job, but I wonder if you could just give us a concise pros and cons list, as you see it, for how the municipal auditor general will be affecting school boards. How does this legislation positively and/or negatively affect school boards?

Mr. Henke: Well, as I said earlier, the legislation is silent on its reference to school boards, so it would only affect school boards in terms of a model that they may or may not choose to follow. It would be more by example than by requirement.

Mr. Rodney: Thank you. I appreciate that answer just getting on the record because I know that some people do listen in, and others will be checking *Hansard*, likely, and it'd be nice to just have that directly asked and answered.
Thanks very much.

The Chair: Thank you.

Mr. Johnson: Keray, the contracts that school boards have with external auditors: typically how long would those be? Would those be an annual contract repeated? Is it a five-year contract? I'm just wondering about the independence of the auditor.

Mr. Henke: I'm not familiar with the exact contracting relationship. My experience is that they do establish relationships with established auditing firms, and they sustain that relationship over a period of time. I suspect that they're annual, but I don't know that. I do know that they don't typically switch auditors on a frequent basis. They sometimes choose to change auditors when, in fact, they have

situations that are unusual and require different levels of expertise or competence.

9:00

Mr. Hehr: Thank you for your presentation. You might have gone through this, but it's a follow-up to Mr. Johnson's question on the level of independence. By that I mean that when the auditors finish their report, is it subject to then just putting it out there to the public, or does it have an opportunity to go through a committee at the Alberta Education level or anything like that? What are sort of the steps there to ensure that the public gets their knowledge first-hand and there hasn't been an opportunity to, say, wash the report?

Mr. Henke: Well, we certainly wouldn't review the audit report for completeness or scope. What we're looking for is the content of the attest audit in terms of making sure that it is a fair representation of the financial liability of the jurisdiction involved. We review the management letters that the auditors provide, and we would follow up with the jurisdiction on any untoward activities that are noted in those management letters. Those management letters are also provided to the office of the Auditor General, and he will also report on those in his annual report. The required reporting on an annual basis, from a public perspective, is simply the attest audit report, that is included in their annual educational results.

Mr. Hehr: Thank you.

The Chair: Any other follow-up questions?

Seeing none, thank you for coming to present to us this morning, Mr. Henke. We appreciate your input very much.

Mr. Henke: Thank you.

The Chair: Well, committee, we are in the enviable position of being just ahead of schedule, but I think our follow-up presenters are here, so at this point I'll ask the Canadian Taxpayers Federation representatives to take their seats at the end of the table there.

Mr. Hennig, please.

Canadian Taxpayers Federation

Mr. Hennig: You said "representatives." It's just going to be me. You may not know, but we have a very small organization; not a lot of bureaucracy in the Canadian Taxpayers Federation.

My name is Scott Hennig. I am the Alberta director of the Canadian Taxpayers Federation. The Canadian Taxpayers Federation is a nonprofit, nonpartisan citizens' organization dedicated to lower taxes, less waste, and more government accountability, and we have approximately 14,000 supporters in Alberta. I'll keep my comments brief as well and leave time for questions, or hopefully you can get out of here early if we roll through everyone.

We're in favour of Bill 202. We're in favour of a municipal auditor general. We believe, though, that there are two main issues for it, two main purposes why we're so much in favour of it. One is that we think that it's going to be particularly of benefit to small municipalities. It's more than about just making sure that numbers add up. The current audit process does allow for small municipalities to ensure that numbers do add up, but it doesn't necessarily ensure that the taxpayers know if they're getting value for money, and that's the key. This does to a certain extent happen, I think, to a larger extent in larger centres. I know that you'll be hearing from the auditor of the city of Edmonton, who – not getting ahead of

myself; if this does go through, I think you should be looking, probably, at that gentleman if you're looking to fill this position eventually – does an excellent job in the city of Edmonton. There have been lots of good public audits. The 23rd Avenue audit is a good value-for-money audit that was done by the city of Edmonton.

I think it would create a bit of overlap but not necessarily a bad thing. In particular, it's the small municipalities that don't have this type of oversight and don't have this type of value-for-money auditing. In fact, we get calls at our office on, I'd say, a semiregular basis, probably two to three calls a month from individuals who are in small municipalities who have concerns about their local municipality. They want us to look into potential wrongdoing or potential inquiries that they have. Unfortunately, I have to inform them that I'm just a one-man office, and we can't look into every single municipality. I think this is where this would be such a good office to have, a municipal auditor general that would be able to look into small municipalities.

It's really different. I know that those MLAs who are from rural communities and small municipalities will understand this probably better than those who are not, but the culture of small communities is very different. A lot of people who we talk to fear very seriously speaking up about a wrongdoing they know of or they think they may know of within their small municipality because everyone in the community knows each other. Their kids all go to school together, their kids all play on the same hockey team, they all go to the same church together, and they really do fear speaking up.

I mean, I talked to one gentleman a few months ago who knew of an untendered contract that was being handed to a friend or a relative of a municipal councillor. He couldn't speak up because he feared the repercussions to his business. He was one of the only businesses that provided that service in the community and did not want to create a problem. He had nowhere to go, essentially. He could not go to his local municipality. He couldn't go to his local councillors, felt that he had no avenues, came to us, and unfortunately we don't have the resources to look into these sorts of things.

I think that a municipal auditor general would have the ability to investigate these types of instances that do occur for small municipalities where you have a culture of community that really does punish whistle-blowers. That's a serious problem in small communities, and I think that's one that this Bill 202 would address. That's why we're so supportive of it.

I think I'll cut it off there, but generally speaking we're in favour of this bill. I'm happy to answer any questions and hope you move forward with it.

The Chair: Thank you, Mr. Hennig.

Any questions?

Mr. Hehr: Thank you for your presentation, Mr. Hennig. Just a follow-up question. On the structure of Bill 202 what do you see as the independence level of the auditor, where he should report to? What are your feelings, your organization's feelings on that?

Mr. Hennig: I'm assuming that you're referring to whether he reports to the minister or whether to the Assembly. Frankly, as long as the section of the bill that makes the requirement for reports to be made public as soon as possible stays in place, then it really doesn't matter. It doesn't matter, really, to the average citizen whether the minister gets it and it goes public or whether the Assembly gets it and it goes public as long as it goes public immediately.

Mr. Hehr: Can I get one more?

The Chair: Go ahead.

Mr. Hehr: Have you given any consideration to value-for-money audits, or should those be performed by the auditor, not just crossing the t's, dotting the i's, or checking the numbers?

Mr. Hennig: Well, certainly, the numbers right now are being checked, and if this bill was just a rehash of, you know, making sure that one and one equals two, our support would not be nearly as high as it is. The value-for-money and the compliances are exactly what is needed, particularly for small municipalities.

Mr. Hehr: Thank you very much.

The Chair: Thank you.

Mr. Johnson: Mr. Hennig, are you saying that the larger municipalities today are doing value-for-money audits and compliance audits whereas the smaller municipalities, the rural municipalities are not doing that?

Mr. Hennig: In some cases. Certainly, I think that having more eyes look at the books is not a bad thing. Any of our municipal efforts are mostly focused on Edmonton and Calgary just because that's where, you know, the population is and where our support base would be. I can tell you that reading through many of the public audits done by the city of Edmonton, in particular – and that's the one I've most recently looked at – there has been some good work done there on value for money.

I mentioned that the 23rd Avenue audit that was done was an excellent audit that went through and looked at the management of the project. I think it was of great value to the citizens of Edmonton. I think there is some of that work being done, and to a certain extent a lot of it is being handled although having another set of eyes, someone that, as our Auditor General, Mr. Dunn, mentioned, does have the protection of not being fired if the council does not like the results of the audit, an extra level of protection, I think, would be nice. But I think the really huge value in Bill 202 is for smaller municipalities.

Mr. Johnson: Does your organization have a concern, then, with the independence of auditors, the external contracted and even the in-house auditors at the city of Edmonton or city of Calgary?

9:10

Mr. Hennig: I don't know if I'd say we have a problem. I think that always the independence can be strengthened. I wouldn't say that there is an overwhelming problem at this point although I may not be privy to internal dealings of council and how they're dealing with their auditors. The level of need is not as great for greater independence at the larger municipalities as with the smaller.

The Chair: Thank you.

Mr. Hehr: Just a follow-up question here. I think that in this bill, Bill 202, I like the auditing process that we have going on here and the additional layer. I am a little bit concerned about the independence and that. The way it's set up right now, it looks like the bill can be used as a little bit of a stick at times to go in and smack municipalities around or rural jurisdictions, possibly, that the larger governing institution has a difficulty with. I was wondering if you could comment on a way these audits should be performed. Should this auditor that's put in place maybe do from A to F one year and

then the next letters in the alphabet the next, or should they be random? How should they be set? Should they be set by the minister? Should they be alerted when an article comes up in the paper that X, Y, and Z are happening? If you could comment on sort of that process and whether that should be set out in this legislation as to how that occurs.

Mr. Hennig: That's a good question. I think that, obviously, for the concerns that are being raised by constituents, by members of a community that have contacted the office, you'd want to have the auditor have the ability to make those investigations when they do get a tip or some information.

I think you'd also want to have sort of a level of randomness, whether they're picking random letters or whether you're picking them out of a hat, so that municipalities didn't know, if there was a schedule, that they're up in two years and they'd better make sure, you know, that everything is cleaned up for the auditor when they get there. I think having some randomness would be beneficial but also allowing the auditor to have the independent authority to go ahead and investigate as they see fit if they get tips or if they get alerted to certain things they think look like they need to be investigated.

Mr. Hehr: Thank you.

The Chair: Thank you.

Mr. Johnson, you had a follow-up question?

Mr. Johnson: Yeah. Thanks, Chair. Just one more question, Mr. Hennig. I know that you're concerned about the effective use of taxpayer dollars. I'm just wondering how your organization feels about the potential of a municipal auditor general and what kind of extra burden that's going to put on smaller municipalities. It may not have the capacity to deal with a bunch of extra audits, and it's going to bring additional costs and require additional resources, potentially.

Mr. Hennig: Yeah. Generally speaking, correct. We are some of the last people to be out arguing for greater red tape, bureaucracy, and government spending. But we believe that when it comes to transparency and accountability and when it comes to ensuring that the tax dollars are being spent appropriately and effectively, the return on investment from an auditor – I think it's tough to question that we have gotten good value for having our federal Auditor. I think it's tough to question if we've had good value for money from our Provincial Auditor. I think that the same would happen with a municipal auditor. I think that there may be additional costs, but hopefully the auditor would be finding efficiencies in savings that would more than offset or at least offset the costs that would be incurred.

The Chair: Thank you.

Mr. Lukaszuk: From your perspective as the Canadian Taxpayers Federation, now, the federal Auditor audits only one government, and the provincial government only audits one government. This municipal auditor will be auditing some 300 municipalities and 60-some school boards. Just from a practical perspective, knowing that you're not a big fan of red tape, could you just imagine how many phone calls that auditor general will be receiving from everybody who thinks that their driveway was paved improperly by the wrong contractor? And the list goes on and on. How would you handle that aspect of it? I may be wrong, but I foresee thousands of calls

coming in daily from all municipalities because now there's an opportunity to raise all those issues that you were mentioning that couldn't possibly be raised before. How would you handle that red tape?

Mr. Hennig: I agree that your initial wave of calls, I think, would be quite large. I think that it would subside and get back down to a normal level over time. I mean, I can tell you the number I get. We get probably two or three people a month asking us to investigate into a community. Now, I say no to almost every single one of them, so that probably keeps my call volume down. I would imagine that someone that was looking into this would have certainly a higher call volume than I get. So I agree. I think that the initial impact would be high, just like when the federal government put in place a taxpayer ombudsman that would look into problems with the Canada Revenue Agency. They were flooded with phone calls their first six, eight, 10 months. Then they got down to a level they can handle.

I think that not every single person's concern would be worthy of investigation. I mean, just like it is now, not every single phone call that our provincial Auditor General gets is worthy of investigation. I would expect that, you know, it would be handled on a priority basis, and those that are of highest priority would get handled first and would get looked at.

I agree. I think that having hundreds of different municipalities with different books and different people whom you're dealing with would be a challenge, but I think it's probably also a challenge right now for our current Auditor General to look into, you know, 20-some different departments and health authorities and school boards as it is. I don't think that being an auditor at any point is a particularly easy job with no headaches, but I think that there is ultimately value in it, and they will be able to over time as the office is established handle the proper volume.

The Chair: Mrs. Sarich, please.

Mrs. Sarich: Thank you very much. I would like to thank you for your insight today and just was wondering if you would have a comment about the efficacy of, you know, the municipal auditor auditing the audit that has already occurred in systems such as municipalities, whether they be metro, large urban, or rural.

Mr. Hennig: Auditing the current audits?

Mrs. Sarich: Yeah, the efficacy of it. Do you have any comment about that?

Mr. Hennig: I don't know if there would be a huge value in having the municipal auditor general go through the already audited books in terms of just numbers. I don't think the major concern is that the dollars are being improperly added up at the local level or that the local municipalities are not properly submitting their financial statements. It's value for money, which is the audit that's not being done. It's the compliance. The compliance audit is not being done. I think that's where the benefit would be. Looking at the current value-for-money audits that are being done by large municipalities, I don't know if you need to have the duplication necessarily, but there may be if there is concern of the audit process having some oversight by an additional, provincially appointed municipal auditor general.

Mrs. Sarich: Thank you. Just in follow-up, I was wondering if you could comment. In the Auditor General's presentation this morning

– you were here to hear what he said – the role could in fact have a direct role, meaning full, comprehensive offerings of services. Another role could be on a contractual basis. It seems to me that this particular approach in Bill 202 would suggest the direct auditor role with comprehensive services, and naturally the cost of that would have to be borne by somebody or a particular entity. I was wondering if you could comment about that.

Mr. Hennig: Yeah. I mean, ultimately there's only one taxpayer. To the taxpayer it really doesn't matter whether it's borne by the province or by the municipality. I understand that to the different levels of government it does make a big difference. I think that probably being that this is a provincial program and a provincial initiative, the province would foot the bills for this type of program. Ultimately, if we understand and we agree that the Constitution gives the provinces the right to make legislation for municipalities, then I think it's not inappropriate that the province would handle the cost of the oversight.

9:20

Mrs. Sarich: Thank you.

The Chair: Thank you.

Seeing no other members wishing to ask further questions, thank you, Mr. Hennig, for presenting this morning and for your time. We appreciate your presentation.

Mr. Hennig: Thanks for having me.

The Chair: Thank you very much.

At this point we'll go to the municipal district of Greenview No. 16, please. Thank you, and welcome this morning. We'll ask you to introduce yourselves for the record and to then go ahead with your presentation, please.

Municipal District of Greenview No. 16

Mr. Yelenik: Thank you, Mr. Chairman. My name is Tony Yelenik. I'm the reeve of the MD of Greenview. With me is our CAO, Jim Squire, and he'll be here to answer any technical questions. Thank you very much for this opportunity to present to your committee this morning.

The MD of Greenview, upon reviewing this proposed legislation, cannot support the creation of a municipal auditor general for the following reasons. There is already more than sufficient authority provided by the Municipal Government Act regarding the auditing of municipalities. Section 282 of the act gives the minister the ability to require an audit of a municipality whenever the minister considers the audit to be needed, and section 281 provides that the auditor must report any improper or unauthorized transaction or noncompliance with this or another enactment that is noted during the audit. This section also states that the minister may require any further examination and report from the auditor.

Municipalities currently must prepare annual financial statements in accordance with the generally accepted accounting principles and must submit those statements to the province. In addition, municipalities must file documents outlining fully the intended use of any grants during the application process and subsequently file detailed summary reports after the fact on the use of any capital or operating grants received.

Accordingly, existing audit processes achieve the purpose attributed to the proposed municipal auditor general position. The

current provisions of the MGA provide the Minister of Municipal Affairs with the necessary authority to perform a secondary review where deemed necessary or advisable. The proposed municipal auditor general position would provide a third duplicate and redundant level of review. This proposed legislation would therefore create unnecessary bureaucracy and increase cost for both the province and municipalities and would add nothing substantive to the existing ministerial authority or the reporting process currently in place.

We concur with the AAMD and C's comment that discussion regarding Bill 202 has yet to outline a specific problem that this bill is meant to address. The approach which has been used by the province recently has been for the province to funnel funding down to the municipal level and let the cities, towns, and municipalities make their own spending decisions.

Some of the discussion on Bill 202 suggests that the proposed new municipal auditor general would make public recommendations on how to increase efficiencies and improve business practices and that making the recommendations public would increase the municipalities' accountability. Accountability now in municipalities: municipal councillors report to their ratepayers, and contrary to what the former presenter suggested, they are held accountable every three years by election.

The problem is not only redundancy of this new level of audit but the effect on over 300 local authorities. This not only is a matter of financial reporting but would possibly affect many other areas of local authorities and their autonomy. The proposed legislation refers to the municipal auditor general making recommendations on municipal systems or programs. These recommendations would be made by a nonelected body with substantially less knowledge or awareness of the community or the needs of the area businesses and residents. Contrary to what the Canadian Taxpayers Federation states, small municipalities are held more accountable by their citizens than larger ones. We deal with these people every day on the streets, in the coffee shops, and all over, and they are quite aware of what is going on in our municipalities.

The Minister of Municipal Affairs currently has the authority to require any matter connected with management, administration, or operations of a municipality to be inspected. The minister may order an inquiry into the affairs of the municipality or at any time appoint an official administrator to supervise a municipality and its council, and they have done that in the past.

It has been suggested that the proposed position would help to ensure that a municipality's operations and services are executed in a way that makes the best possible use of public funds and would make local elected officials more accountable to the taxpayers and residents for efficiency and effectiveness in delivery of services to their residents. As the level of government closest to and in most frequent contact with constituents local elected officials are by necessity already the most accountable on a daily basis, accountability that citizens evidence in every sector of our lives.

Section 279 refers to the municipal auditor general making recommendations and requirements respecting the accounting principles and standards to be used in preparing municipal financial statements. This would be contrary to the current and historical requirement to adhere to the generally accepted accounting standards currently in use and consistently mandated across Canada, and it's updated on an annual basis by the Canadian Institute of Chartered Accountants. It would also fly in the face of new public-sector audit and accounting standards, that have just come into effect and for which municipalities have spent a great deal of time and expense to prepare. The question is: how can a single bureaucratic appointee

provide a recommendation for accounting standards which will be improved over those established by the full body of professional accountants who are entrusted with establishing accounting standards for the entire public and private sectors across Canada, particularly when this appointee must be a member of one of those same accounting professions?

On reviewing some of the prior discussion on the proposed legislation, it is interesting to note that neither the Institute of Chartered Accountants of Alberta nor the Institute for Public Sector Accountability is confident that the proposed municipal auditor general would be successful in its intent as outlined. If there are municipalities not operating under the requirements of the Municipal Government Act, they should be dealt with accordingly by that minister utilizing the powers that are already bestowed upon his office.

As a municipality we are aware of provincial initiatives toward a competitive advantage, and they are very supportive in developing our programs and the capital expenditures, which are imperative so that we as a municipality encourage economic development sustainability.

Our council is of the opinion that Bill 202 is a costly duplication of functions that are already carried out by annual audits performed by independent auditors. Staff currently dedicates considerable time and cost to complete these audits, and to require an additional layer of accountability is unnecessary and wasteful of resources.

Thank you very much.

The Chair: Thank you, Mr. Yelenik.

Are there questions from the committee at this point?

Mr. Johnson: Thank you, gentlemen, for coming in. Sir, that was a great presentation, some good points in there. I realize you've come a fair distance, so we appreciate your time and your interest in this. I just want to ask you a couple of questions and get your thoughts on the whole scope of auditing. You know, typically we do the financial auditing, and the Auditor General talked about the compliance and the value-for-money auditing. Does your municipality or your auditor do those, and if you don't do them, do you see value in those? That seems to be one of the cruxes of the discussion here today.

Mr. Yelenik: Our current auditor spends approximately three weeks with our staff going through and carrying through on different aspects of our organization and our expenditures.

Jim, maybe you want to elaborate on that.

Mr. Squire: I can a little bit, yes. On the question of compliance audits, the auditor does do some extent of that, particularly with regard to compliance with things like funding programs, where we may end up with a liability for funds if, in fact, we aren't compliant, and that would affect the financial statements directly. So there is a level of compliance audit done. There would not be a level of, I guess, value-for-money audit simply because that's outside the scope that they would deal with. But the compliance is included in what they do.

Mr. Johnson: Do you think their scope should be increased to do some of those value-for-money audits around the province? The other question I have for you is: on the compliance piece, who decides what he looks at for a compliance? Obviously, compliance would get into purchasing practices and all those kinds of things as well.

9:30

Mr. Squire: The decision as to what they look at for compliance is strictly on the part of the auditors. They maintain complete independence. Do I think that they should do value-for-money audits? You're asking a question of somebody who's not in a policy role, so I normally wouldn't answer that.

Mr. Johnson: You can take the fifth.

Mr. Squire: Having said that, I would agree very much with the reeve in that the local elected councillors, particularly in smaller municipalities, where I've spent my entire career, are in daily interaction with the residents. If there is a problem with value-for-money, they will hear it long before the auditors will.

Mr. Johnson: Just a final question on the external auditor. Can you give us a sense of what kind of contracts you have? Like, is it a two-year, a five-year contract with an external auditor? How often have you changed auditors? Just with respect to the independence.

Mr. Yelenik: We've had the same auditor now, I think, for about 15 years. It's a requirement in the Municipal Government Act that we appoint an auditor every year, and they're reappointed every year. If we choose not to use that same one, I suppose we would tender out for another position, but we've had the same firm that's done our auditing for I think it's close to 15 years.

Mr. Squire: It's about that, yeah.

Mr. Johnson: You just have them on a one-year contract, and you renew every year, typically.

Mr. Yelenik: Yeah.

Mr. Johnson: Okay. Thank you very much.

The Chair: Thank you.

Mr. Lukaszuk, please.

Mr. Lukaszuk: Thank you, and I also thank you for coming from so far away. In response to some of the speakers before you – and I know you sat in the gallery, so you heard their comments – our Auditor General, Fred Dunn, was definitely more than alluding to the fact that your auditors, appointed by you, are not, perhaps, truly independent, that if they were to uncover something, (a) they cannot make it public, (b) they are subject to not having their contract renewed. I would want to hear your comments on how it really plays itself out in the real world. That's my question number one.

Then the speaker from the Taxpayers Federation basically said that your constituents, because you live in such small communities – and I believe you said that you go to the same churches and you shop in the same shops – are afraid of reporting things that may be taking place in your municipality because, I guess I'm paraphrasing, you would tar them and feather them and drive them out of town. Can you tell me how that plays itself out in the real world, in your municipality?

Mr. Yelenik: I have a great deal of respect for Mr. Dunn, but when it comes to small communities, I don't think that Mr. Dunn is quite aware of what the actual situation is. In smaller communities people are fairly cognizant of what's going on in their local community, what the local elected officials are doing and how they're doing it.

In fact, they're so much aware of what's going on that I think they keep track of different construction equipment and graders and the like that are going around, and I think that local ratepayers are well aware if the local authority is wasting any of their money. I've been in this business for about 21 years, and I haven't met one of my residents that's scared to voice their opinion when it comes to how the municipal district is operating.

Mr. Lukaszuk: Thank you.

The Chair: Mrs. Sarich, please.

Mrs. Sarich: Thank you very much. I, too, would like to thank you for your presentation this morning and for travelling in to provide some insight for us as a committee. You had provided some information in your presentation about – and these are my words – a bit of discomfort at having this particular oversight role because that role would not be familiar with the undertakings and the community at large. I was wondering if you could just elaborate on that comment in your presentation.

Mr. Yelenik: We're concerned that an individual sitting in an office in Edmonton should be able to dictate to us what roads we should build, what social services we should provide to our local residents. We feel that as elected officials in smaller communities we're aware of what the needs of the community are, and we would hate to see someone second-guessing some of the decisions that we made. I realize we're not infallible, and we probably do make errors in some of our programming, but I don't think that a person sitting in an office in Edmonton should be able to make the decisions on the programs that we should be rolling out to our residents.

Mrs. Sarich: Your information was heavy on the programming part, yet the Auditor General, Fred Dunn, had framed it a little bit differently, that anybody serving in an audit role has to have independence. They have to have capabilities. The scoping referred directly to a work plan that's agreed to and approved by the entities. It was very clear in that scoping piece that there had to be a lot of clarity around what will be done so that it is well understood by, for example, elected officials if they are approving that work plan, and then the reporting: who does that function report to? So how do those four key areas really lean toward what you're speaking of in that not having familiarity with the community when it's quite clear that the role is very specific and targeted and well understood?

Mr. Yelenik: I'm not sure I understand your question, but as I mentioned in the presentation, we feel that under the current Municipal Government Act there's adequate oversight in the key areas that Mr. Dunn outlined that adequately address that. If there is any action taken by a local authority that contravenes the Municipal Government Act, I think the current minister has the power in his department to be able to address any of those issues, and those powers can be exercised and have been exercised by Municipal Affairs in the past.

Mrs. Sarich: Okay. That is very helpful for me and clarifies your point.

Thank you very much, Mr. Chair.

The Chair: I have a question as well. I appreciate the experience that you've had with regard to municipal representation. My question is along the line of: to what extent do municipalities, in your experience, share best practices and that kind of thing in terms

of neighbouring municipalities and others? You know, there are some 300 municipalities across the province. From your experience do you have a relationship with neighbouring municipalities where you share best practices or efficiencies as they emerge?

Mr. Yelenik: I'm glad you asked that question. We currently in our municipality encompass three towns in that area: Grande Cache, Valleyview, and Fox Creek. We have a working agreement with them: fire, rescue, and various other programs that we share with them. We also have a sharing agreement where we contribute to those towns for any impact that our residents have on those towns, whether it's recreational or any other service that those provide. I think we share some of those things, and we cost share most services that are provided on a joint basis with those three. We also have agreements with neighbouring municipalities, with neighbouring counties that we share services as well as provide backup in fire and emergency cases.

The Chair: Thank you.

I'll ask committee members: any other questions? Comments?

I appreciate the commitment you've shown in coming here this morning and appreciate your input, and thank you very much for your presentation.

Mr. Yelenik: Thank you for the opportunity.

The Chair: We continue to be ahead of schedule, which is a good thing. The representatives from the city of Calgary are here, so at this point I'd ask you to take the microphones at the end of the table and please introduce yourselves for the record, and then we welcome your presentation.

City of Calgary

Mr. Tobert: Morning, members of the committee. My name is Owen Tobert. I'm the city manager for the city of Calgary.

Ms McTaggart: Good morning. My name is Tracy McTaggart. I'm the city auditor for the city of Calgary.

Mr. Tobert: Thank you for the opportunity to allow the city of Calgary to follow up on our written submission on Bill 202. We'd both be happy to answer any questions you might have following this short presentation. At least, I think it's short.

As outlined in our submission, the city of Calgary has concerns over the effectiveness and clarity of this bill as well as the duplication of effort and the additional cost to taxpayers that would be incurred should Bill 202 pass as put. The city of Calgary currently has an auditing process that I believe is transparent and accountable to our citizens as well as to the provincial government. In fact, we believe that the city of Calgary's current processes go beyond the public accountability and transparency process as proposed in Bill 202.

9:40

I should note that this presentation is administrative in nature. I have not reviewed this with any of my elected officials, so this is the perspective of the administration. Of course, Tracy would have different comments to say, but that's because she's an independent auditor and does not report to the city manager. In fact, she is appointed by and reports to council directly through an audit committee.

The city of Calgary's current audit processes consist of three main elements. The first is the city auditor. As I explained, Tracy is recruited, appointed, and reports to city council. She has the ability to conduct audits on all facets of the administration, to have unrestricted access to various documents needed to conduct audits, to determine the audits to be conducted each year, to operate a confidential hotline program for the reporting of suspected fraud and wrongdoing, to operate in an open and transparent manner. All reports issued by the city auditor to the audit committee are posted on our website for public access.

On a daily basis or on a working basis the city auditor reports to the audit committee, which provides oversight and support for the audit function in our municipality. The audit committee consists of five members of council, two citizens, one of which must be a professional accountant. In this case both of them are at the moment. The mayor is an ex officio member of that committee. All meetings are conducted in public on a monthly basis and move in camera only as permitted under the Alberta Freedom of Information and Protection of Privacy Act. All agendas and reports are publicly available through the city clerk's office and on the city of Calgary's website prior to audit committee meetings.

Thirdly, we have an external audit, which is conducted by a professional services firm engaged by council on the recommendations of the audit committee, as required under the MGA. They are appointed by council under sections 280 and 281 of the MGA. They provide the audit committee with a management letter which identifies issues of concern noted during the audit. The audit committee then ensures that appropriate action is taken by the city administration to remedy all issues and concerns. The external auditor must report to council on an annual basis with respect to our financial statements, which the city of Calgary must then make available to the Minister of Municipal Affairs by May 1. The reports of the external auditor must be in accordance with national accounting standards and any other regulations as established by the Minister of Municipal Affairs. The city of Calgary's annual financial statement, auditor's report, and management letter are all available to the public through the city of Calgary's website, the city clerk's office, and the city's finance department.

Some small other relevant provisions. The city of Calgary council also has the ability to appoint an auditor to conduct specific audits of any city operation or activity as they deem necessary outside of those three elements I've already indicated. Section 282 of the MGA already empowers the minister to appoint one or more auditors to audit the books and accounts of any municipality at any time. The governments of Alberta and Canada already have right-to-audit clauses in their various provincial and federal grants and funding agreements to ensure compliance with terms of those particular agreements.

It's our position, then, that the city of Calgary already has an effective audit regime that achieves all of the stated objectives of the bill, meets the standards as set by the Public Sector Accounting Board, and meets the Canadian generally accepted auditing standards. In our opinion, then, a municipal auditor general would be a duplication of the existing functions all at the taxpayers' expense. It's not clear how such a role will improve upon the MGA provisions that require municipalities to prepare their financial statements in accordance with these rigorous standards.

As written, Bill 202 would likely result in increased costs to municipal taxpayers. These increases would be incurred to ensure that the external audit of the financial statements complies with any new requirements or additional requirements required by a municipal auditor general beyond those already required by the Public Sector Accounting Board. The city of Calgary council is composed of members of our community elected by Calgarians. They must be

able to carry out their oversight responsibilities effectively on behalf of those same citizens. Bill 202 would likely not improve upon the current accountability standards relative to our finances and may indeed undermine local autonomy through new provincial requirements in oversight.

In summary, then, the city of Calgary, we believe, has a thorough, transparent, and publicly accountable financial accounting auditing process that ensures the integrity of our finances and accounting systems while identifying potential areas for improvement at the same time. Bill 202 as written will most likely cost taxpayers additional funding with little benefit. In the city of Calgary's opinion, then, any new costs associated with the implementation of this bill, including new requirements for additional work imposed by the municipal auditor general, should be borne by the provincial government.

Thank you.

The Chair: Thank you.

Mr. Johnston, please.

Mr. Johnston: Thank you, Chair. Proponents of this bill – and I'm the author of this bill – say that therein lies the problem, in the recruitment and appointment of your positions and that you report to city council. They feel that's part of the problem. Can you give me your opinion on that? Is there anything that would change and assist independence, shall we say?

Mr. Tobert: Are you talking about the city manager or the city auditor?

Mr. Johnston: Both.

Mr. Tobert: Well, I suppose that in making the city manager appointment, council could make mistakes. I'd like to believe that they haven't recently. I don't believe that having the discretion to appoint people to a position precludes their ability to carry out their functions properly. Now, I'm speaking about the city manager's position specifically. I mean, I report to council, and I must do, under the MGA, what council directs. In terms of that being a problem, I can't see one.

I'll let Tracy speak for herself and her position, if you don't mind.

Ms McTaggart: My position is appointed by council. The way it was conducted was through an executive search firm that conducted a national search, so they had professional advice in doing that. They had a selection committee that consisted of members of the audit committee, one of whom was one of the citizen members, one with financial expertise, and three members of council. Ultimately, the appointment has to be made by someone within the organization, same as the senior staff appointments within provincial and federal departments. There is a rigorous screening process. It could perhaps be enhanced by more external members, but that's perhaps some of the evolution.

My appointment was the first time that process was in place, and I think it was a good starting point. It is similar to what's used in other cities and to some extent similar to what's used for the provincial and federal Auditors General, but also they rely more heavily on external members.

Mr. Johnston: Okay. I understand that the city doesn't support this bill, so is there anything you can suggest that could be done to implement any kind of mechanisms that would lead to greater accountability and transparency?

Mr. Tobert: Frankly, I'm at a bit of a loss to know what accountability it is you're looking for. I mean, oftentimes public policy decisions are made by council, which are subject to debate, sometimes ongoing after the decision is made. Public policies sometimes are compromises between one position and another, and at times they're very unpopular. I've seen examples such as that. How do we resolve that? You will never actually render public policy decisions that are important and profound without causing public debate.

If the intent of this is to remove the ability for the public to have a recourse to say, "We don't like what's going on," well, then, I don't think you should fix that. That's what public debate is all about. You can't remove the ability of the public to say: "Notwithstanding the position of the government, in the case of my municipality this is what our elected officials have done. We don't like it." Well, the recourse is clear when there's another election.

Mr. Johnston: Okay. Thank you. And if you could just tell me how the hotline works, please. I wasn't sure.

Ms McTaggart: Council has approved a policy that requires my office to maintain a hotline for receiving calls about fraud, waste, or wrongdoing. We have several mechanisms for that. It includes a third-party service provider that has both a web-based and a call centre approach for any citizen of Calgary or any employee to call and leave an anonymous complaint or leave their name. We also have several internal mechanisms, so you can mail it to us, e-mail it to us. We have an internal phone line. You can stop any of my staff in the hallway and talk to them. Buy them a coffee; it really gets their attention.

We take those in, and we evaluate each one of them and investigate them to the extent necessary and write a formal report on each investigation that goes back to the management team for appropriate disciplinary action if and as required. We report annually on the results of the overall program to a committee in council, and that report is delivered in public.

Mr. Johnston: Just as an approximation how many calls would you get a year? How many would you have to look into, kind of thing?

9:50

Ms McTaggart: We get about a hundred calls a year. The program is, I think, just finishing its second year. Probably about 40 per cent of those require some level of investigation. We do get a lot of calls about public policy matters, which are outside the mandate of that, and we refer those individuals where we can identify them to their elected officials. A lot of them are generic concerns about operations. We've referred some of those to the audit process. But anything that makes specific allegations, if we can tie it to a specific incident or individuals or breach of a policy, then it is investigated to the extent necessary.

Mr. Johnston: Thank you, Tracy.

Mr. Benito: Good morning. I just want to ask: the position of city auditor and the external auditor, how many years are they supposed to sit if they get a new appointment? My follow-up question is: the city auditor and the external auditor right now, how long have they been in those positions so far?

Ms McTaggart: In both cases it's five years. The external auditor is appointed annually for a maximum of five years. At the end of the

five-year period the audit committee most recently has undertaken competitive tendering processes to get bids on a new external auditor and most recently changed the external auditor for the 2008 fiscal year. They've just completed their audit, and I believe had changed it five years prior to that as well, so they have a high level of rotation there. That selection and appointment is made by council. In my case it's also a five-year term. I've been in place approximately four, so we're just talking about a renewal at this point with the designated members of the audit committee, and that would be affirmed by council if and when it gets to that level.

Mr. Benito: Can I ask a follow-up question? The accountability is to your job and to your profession and basically, you know, just to make sure that the council is getting the value of your appointment. Basically, they should be happy when you're appointed. Is that correct?

Ms McTaggart: If I understand that, you're asking what my mandate is and what basis council would use for evaluating renewal?

Mr. Benito: Yeah. Okay.

Ms McTaggart: My mandate is essentially anything that does not fall within the external audit. I have access to all departments that report directly to Mr. Tobert. I also have access to all elements of city government in Calgary that receive any funding from the city of Calgary. That would include anything from some of the autonomous agencies – the Calgary Police Service, the Calgary public library, Calgary Housing – and also some of the civic partners. So agencies, community associations where the city provides some grants to operate specific programs: my office has a mandate to be able to audit those in case of concerns.

Mr. Benito: Thank you very much.

The Chair: Ms Notley, please.

Ms Notley: Thank you. You may or may not be able to answer this. If you can't, that's fine. I'll ask both of you. It seems to me, I mean, that one element of what this discussion is coming down to is the degree to which the appointment process of the auditor either improves or diminishes the independence of the auditor above and beyond the professional independence that comes from their profession. I guess in theory with this bill the notion is that with the minister appointing the auditor, there is somehow a greater level of independence than what would happen if the auditor was appointed by, say, the council. I'm just curious whether you have any opinions on whether in your view that process itself, sort of the minister being able to appoint the auditor for a five-year period, that actually is a mechanism that provides for greater independence or if, in fact, it actually provides for a different type of fettering of independence.

Ms McTaggart: In the audit profession at cities we've evolved over the years. Probably 20 years ago the auditors were very much appointed by the city managers or, in some cases, the chief financial officer, the head of the finance department. We've evolved from that to a dual, where it's been a joint appointment by the city manager and some members of council. Now in most large Canadian cities the appointment is done through a process that's controlled by council, much like the Auditor General, where the appointment is done through the legislative mechanisms. Municipalities are continually looking at how to improve that, but that takes

the control to the elected level versus one individual or one individual office and makes that accountability relationship serve the governance level, the elected officials, and adds to the transparency.

My appointment is ratified by the full council. My dismissal or nonreappointment would be by a majority vote of the full council, so not just the quorum of the day; the full council. It's done in a public forum, so it would be subject to the media scrutiny of the debate process. That does a lot to entrench the independence of the office, when it's not controlled by an individual and those relationship managements are done in the public forum. I think that's a strength of the model we have here in Calgary and most other large Canadian cities.

Mr. Tobert: If I might add to that, I think the appointment is an important part of the process to give, I think, psychological independence to the auditor to be able to feel unfettered. Actually, almost as important, though, is the design and the execution of the work plan. Without being unfettered in the work plan, that auditor, who was appointed independently, can then go wherever they need to go based on their assessment of the risks. To me almost as important as the recruitment process is the design and the execution of the work plan.

Ms Notley: Thank you.

The Chair: Any other questions?

If not, again I appreciate the commitment you've shown to travel some distance to present to us this morning. I think you've provided good information to the committee. I appreciate that. Thank you very much for your presentation. We appreciate your coming.

Mr. Tobert: Thank you for the invitation.

The Chair: I will repeat that we are in the enviable position of being just a little ahead of schedule, so I'll suggest that we take just a three-minute break for the committee and, during that time, ask the representatives from the Institute of Chartered Accountants of Alberta to take their place at the microphone. We will hear from your group just a little ahead of schedule, please.

[The committee adjourned from 9:57 a.m. to 10:03 a.m.]

The Chair: I think we can resume. Our last presenter for this morning, the Alberta Institute of Chartered Accountants. If you'll please introduce yourselves for the record, and then we'll hear your presentation. We're looking at about five minutes for a presentation and then a period of time for questions.

Institute of Chartered Accountants of Alberta

Mr. Kauffman: Yes. Thank you, Mr. Chairman. My name is Wayne Kauffman, FCA. I'm the associate executive director with the Institute of Chartered Accountants.

Mr. Simpson: Thank you, Mr. Chairman. My name is Roger Simpson. I'm also an FCA. I was formerly a senior principal with the office of the Auditor General of Canada.

Mr. Hoffman: Ken Hoffman, just a CA. I was an Assistant Auditor General with the Alberta Auditor General up until a few years ago, when I retired.

The Chair: Go ahead. Thank you.

Mr. Kauffman: Okay. If you'll permit me, Mr. Chair, on behalf of the Institute of Chartered Accountants of Alberta and my guests I want to thank the committee for the opportunity to speak to you about Bill 202. I think all Albertans support measures by Legislatures to increase accountability, transparency, and the efficient use of public dollars. How do you argue against that? We know that this is the ultimate goal of this bill, and it's a concept that we very much understand and support.

The concept of a municipal auditor general is an interesting one and also a very unique one. Before making a decision on whether to proceed with establishing such a post, the Institute of Chartered Accountants of Alberta urges the Legislature to consider a few issues. Some of these matters were covered in our letter we sent to the standing committee on July 31 of this year. We won't repeat the contents of that letter in any detail here today. However, I know that we only have a few minutes for our presentation, so I'll begin by asking my colleague, Ken Hoffman, to speak of a few matters for consideration by this committee.

Mr. Hoffman: Thank you. First, I ask: is there a demonstrated need for this position, and does the legislation reflect it? As written, the legislation seems to in part duplicate some of the aspects of the financial statement audit. An examination of needs should identify an enhanced audit function. I was listening earlier to the presentation from Calgary, and that's the kind of thing I'd be thinking of. A duplication would simply be an additional financial burden to the municipalities as well as the province, so we want to avoid duplication of effort with the existing models.

Secondly, the question of credibility is fundamental to auditing. Independence is an important part to credibility and to the moral authority of the report, which you want to be accepted if you're the auditor. The position reports to the minister. This could reduce its real or perceived independence in that the municipality is wondering who you are actually working for. Are you working for the council or the minister? Also, it increases the potential for the minister to face a rather difficult situation if controversies arise. Regardless of the location of the position, it must have legislative backing to operate independently, so that would be built in the legislation, the power of independence.

I'll now turn the floor over to my colleague, Roger Simpson.

Mr. Simpson: Thank you, Ken.

Mr. Chairman, there are other comments in our letter that Wayne referred to regarding confidentiality and terminology issues that I think the committee members might want to consider.

I've got some additional points here. In paragraph 279.1(4)(a) the bill mentions that the AG would conduct random audits. While it would be prudent for the AG to have the capacity to investigate issues of concern, we wonder whether random is a little bit too generic. Would it not be better for the AG to conduct audits based on whether or not he or she perceives a risk of waste or malfeasance? That way the AG could retain a professional approach vis-à-vis the municipalities and not be seen as somebody that's going in there basically looking for dirt.

Secondly, the legislation should contain a reference to the auditing standards that the AG would use in his or her work.

Finally, it would likely be inappropriate for the minister to make regulations such as referenced in paragraph 279.1(9), pertaining to the manner in which the activity should be carried out. Professional auditors follow well-established professional standards, and they shouldn't be influenced or required to use other directives. Mr. Chairman, the same comment also applies to paragraph 281.1.

Thank you very much.

Mr. Kauffman: Thank you, Roger.

In closing, I'd just like to summarize. We'll end with the following message. The institute supports the concept of the audit if it is going to deliver on all of the objectives. Please ensure that you know what you want and that the legislation will be able to deliver it. We suggest getting professional input on the technical aspects of the auditing, and indeed the Institute of Chartered Accountants, as it mentioned in its letter of July 31, would be willing to help in that regard.

I know our time is up, and that will conclude our presentation, Mr. Chair. We would be pleased to answer questions that committee members may have.

The Chair: Thank you very much. I think we do have some questions.

Mr. Bhardwaj, please.

Mr. Bhardwaj: Thank you very much, Mr. Chairman. Thank you very much, gentlemen, for being here this morning. In your submission you've talked about refining Bill 202, and you've suggested that the independence of the auditor general would be impaired. My understanding is that by doing this, we're trying to have them independent. Do you have any specific suggestions how we could improve the process?

Mr. Kauffman: Ken, do you want to take that question?

10:10

Mr. Hoffman: Yeah. I'd go back a little bit to the answer that was given, I think, to your question by the auditor from Calgary. I thought that was very interesting. Right now you have the auditor being appointed by the minister. I would think that if it was appointed through maybe a committee of municipalities. The idea of one auditor per municipality doesn't make sense because there's just not enough money out there, but through a committee structure, through the AUMA, I think it's called, they could contribute to that decision, right? So now you're getting municipal contribution to the decision of who the auditor should be. Typically the model is that the elected officials appoint the auditor. It happens at the federal level, the provincial level, certainly in Edmonton and Calgary, so there needs to be a role there.

The other thing is the location of it and what that location means. Right now it's located in the Municipal Affairs department, right? Does that mean that they take direction from the Minister of Municipal Affairs, or do they act independently? That's where there may be a conflict of interest arising in the minds of the municipalities. Who are you working for, us or the Alberta government? So where might you locate that person? Well, that's a fine place to put it for administrative purposes, budget purposes perhaps. My former boss, Fred, won't like me saying this, but you can make it a suboffice in the Auditor General of Alberta's office, and then it's funded through the Legislative Assembly, through the appropriation of the Auditor General.

There are different models that you can use, but the key is that whatever happens, I think the answer about being able to plan and carry out their plans with independence, without direction from other people, is an important component of it. If it's warehoused in Municipal Affairs, the auditor then has to be able to put the plan together and execute the plan based on their best judgment as opposed to direction from somebody else.

Mr. Bhardwaj: Thank you very much.

Thank you, Mr. Chairman.

The Chair: Thank you.

Any other questions? Any questions from the committee at all?

If not, I'd very much like to thank you for coming in and providing us your comments this morning.

Mr. Kauffman: Our pleasure.

The Chair: Any other comments before we adjourn this morning?

Mr. Kauffman: No. I think that's it. We certainly, again, welcome the opportunity to be here and make the presentation on behalf of the profession. Thank you for listening.

The Chair: We thank you very much for your presentation.

In the absence of any other business this morning and recognizing that we're meeting again this evening to hear some additional presentations, I would like to thank the committee for your participation this morning. We've certainly had some good input and, I think, good presentations this morning and look forward to the same this evening.

With that, we'll adjourn the meeting and see you again this evening. Thank you.

[The committee adjourned at 10:13 a.m.]

