

Standing Committee on The Alberta Heritage Savings Trust Fund Act

Tuesday, October 27, 1981

Chairman: Dr. Reid

9 a.m.

MR CHAIRMAN: Good morning, ladies and gentlemen. The committee will now come to order. This morning we have the Auditor General, Mr. Rogers, with us. He has brought some members of his staff. Before we go into the meeting itself, perhaps I should tell Mr. Rogers that we have circularized to members of the committee the letter you sent to Mr. Mack on October 15, also a memorandum from the Law Clerk on the same subject. Perhaps I could ask the Auditor General to introduce the members of his staff and make any initial remarks he may wish to make.

MR ROGERS: Mr. Chairman, first of all, I would like to introduce the group with me. They are the individuals on the staff who have worked on the various phases of the audit on the heritage trust fund. On my right is Mr. Don Salmon, assistant auditor general. On my left is David Birkby, a principal in the office; Jerry Lain, his manager; and Mr. Oni Chagani, a supervisor in the office.

MR CHAIRMAN: I take it the Auditor General has no other remarks he wishes to make at this time, so perhaps we can go into questioning.

MR SINDLINGER: Good morning, Mr. Rogers. It's a pleasure to meet you after seeing your name on so many documents around here. Mr. Rogers, I think you're going to be of a great deal of assistance for us this morning, inasmuch as very few of us on this committee have any accounting background. I wonder if you wouldn't mind just walking us through a few of these things, if you would.

The first question I would like to ask you is in regard to the annual report. The annual report has two sections, one is colored in white and the other in blue. I would just like to ask you, please, which of these sections are you responsible for in your audit, and which of the numbers in this annual report are you responsible for?

MR ROGERS: Mr. Chairman, if I were to be absolutely very precise, I would say page 27 only. The financial statements in all instances are produced by the management of the organization being audited. In actual fact, of course, there is a great deal of influence, shall we say, on the part of the audit, on the contents of the financial statements, because in order for there to be a clean report, as in this case, I have to be completely satisfied with the financial statements, that they do indeed show the results of operations and the situation as shown on the balance sheet is in accordance with the disclosed basis of accounting and, furthermore, that that disclosed basis of accounting is appropriate in the circumstances. So I think I have a great deal of responsibility, perhaps, for the sheets from 27 onwards. The statements in their final form are produced in our office and issued by our office, but they are of course prepared in the first place by the management of the heritage trust fund.

In the case of the white sheets -- that is, up to page 25 -- these are produced by management and only subject to review by our office. That is in effect just to make sure that all figures derived from the financial records are reasonable. But we do not in effect audit the annual report, merely review it. That is to provide a measure of protection to both the organization being audited and this Assembly.

MR SINDLINGER: Mr. Rogers, I understand, then, that you're responsible only for page 27 in the auditor's report and that the other things in the annual report are prepared by, and the ultimate responsibility for them is with the management of the fund. I refer to page 37, which is near the end of the blue pages. In the final paragraph, under Note 10, is Approval of Financial Statements. It says: "These financial statements were approved by management on July 10, 1981." So the ultimate responsibility and the final authority comes from those people being audited, not the Auditor General.

Mr. Rogers, when you conduct your audit, when do you start the audit, and when do you finish it?

MR ROGERS: It is very much of an ongoing thing; in other words, we first of all have an interim during the year, and it sort of reaches a climax as we get toward the end of the fiscal year and in the first couple of months after the end of the fiscal year. If we are talking of the scope of the audit, I can give you some general idea, in that the . . .

MR SINDLINGER: Before you get into that, Mr. Rogers, turn back to my original question: when do you do it? You indicate that you do it on an ongoing basis and you have a climax near the end of the year. How many people do you have assigned to auditing or scrutinizing the fund throughout the year, and how many people do you have at the climax? Perhaps, since none of us here are accountants, you might indicate to us the qualifications of these people.

MR CHAIRMAN: Perhaps the member could let the Auditor General answer one question before he comes back with the second one, because he was answering your first question. The numbers of people are a subsequent question, I would think.

MR SINDLINGER: Mr. Chairman, that was the question, in fact, but the Auditor General began to digress and volunteer information in regard to the scope. It was the number of people and the time they're doing the project that I was inquiring about.

MR ROGERS: Actually, Mr. Chairman, when I talked about scope I was talking about the amount of work involved. According to our time records, it is in the region of 5,000 hours of audit work. Approximately half that is on the investment transactions.

MR SINDLINGER: Mr. Rogers, again, how many people would you have doing the audit over the course of the year? What do 5,000 man-hours translate into in terms of people?

MR ROGERS: It would go from three throughout the winter and six at the end of the year.

MR SINDLINGER: When the six at the end of the year do the audit, how much time would they spend on the audit? Would they spend a day or 10 days? Are you talking about the last 100 days?

MR ROGERS: It's April, May, and June, and it's fairly steady at that time.

MR SINDLINGER: Mr. Rogers, I presume these auditors or people doing this work are assigned to other jobs as well, and I understand that one of your responsibilities is to audit other departments as well. What . . .

MR ROGERS: Not during the period.

MR SINDLINGER: Pardon me?

MR ROGERS: Not during the period from the end of the fiscal year until the release of the statement.

MR SINDLINGER: Yes, I understand that. When an audit of a department or of the Heritage Savings Trust Fund is done, what type of test do you apply? You said that the only thing you are precisely responsible for is the auditor's report on page 27. I note that in the last sentence of the first paragraph you say:

My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

Could you give us an indication of what tests and procedures you considered necessary, given the circumstances, for the Heritage Savings Trust Fund, please?

MR ROGERS: We use a combination of statistical and judgmental sampling. I have the precise figures, but I could state very clearly, Mr. Chairman, that the amount of testing we do, because of the responsibilities we have, is very much in excess of what one would normally expect any firm of auditors to carry out in the course of an audit. That is because of the, in effect, expanded mandate that I as Auditor General have on behalf of the Assembly.

MR SINDLINGER: Mr. Rogers, were there any areas in your audit that you were unable to cover or tests you were unable to apply because of lack of time or lack of staff or because there were not original source documents or receipts? For example, in cases where you apply a test where you work back in numbers, were you unable to work backwards from final numbers? Were there any tests you might have used with other departments that you could not use on the fund because records for the trust fund were inadequate to handle them?

MR ROGERS: No, sir. We carry out a systems-based approach, and there was no lack of records that we experienced at all.

MR SINDLINGER: Mr. Rogers, would you say that the auditing procedures employed for the trust fund are equivalent to the auditing procedures that would be employed for, say, another institution or corporation which had assets of \$10 billion?

MR ROGERS: Very definitely. I just said I think that the amount of testing we carry out is in excess of what would normally be required but I consider necessary because of the sensitivity, if you will, of this particular fund.

MR SINDLINGER: Normally, Mr. Rogers, when auditors conduct their examination, two things are produced: one is the auditor's report, which you've referred to on page 27; the second is what is sometimes referred to as a management control report. Management control reports usually highlight deficiencies or inadequacies in accounting and management control systems. In your audit of the Heritage Savings Trust Fund, was there any such type of report, or anything similar to such a report, like a memorandum, letter, study, or analysis, that dealt with deficiencies in accounting and management control systems?

MR ROGERS: Mr. Chairman, I think at this point, I'd like to hand out something we've prepared which I think will sort of help in this situation.

MR CHAIRMAN: Thank you, Mr. Rogers. In the meantime, the Member for Edmonton Whitemud was wanting in with a supplementary, I think.

MR KNAAK: Thank you, Mr. Chairman. The 5,000 hours -- I think if one farmed it out to a chartered accountant's firm translates to about a \$300,000 audit on the trust fund. Would that be a reasonable amount -- I guess this is a judgmental question, Mr. Chairman -- for a company with that amount of asset to spend on an audit annually? This would be a \$300,000 cost annually. Is the cost to the trust fund or to the government generally with respect to that? I guess it's the Auditor General's office that pays for it.

MR ROGERS: I think if you're comparing it with the private sector -- a couple of things. One is I think you would find we carry out some of the responsibilities, if you will, that may be handled by internal audit in the private sector. The other thing, answering your question on funding, yes. We do not bill the heritage trust fund because we operate under an appropriation of the GRF.

MR KNAAK: With respect to the final statement on page 27, it's a short statement. It's a statement, I understand, that can only be made by a chartered accountant. Is that true?

MR ROGERS: This is in accordance with the CICA handbook; the wording is in accordance. I am bound by the professional ethics and could be subject to penalty, if you will, if I were to make such a statement lightly, without having carried out the necessary back-up work to put me in the position where I can make that statement.

MR KNAAK: I guess that's the point I was getting to, Mr. Chairman. It was a \$300,000 audit that satisfied you, sir, that you could make that statement at the end of that particular examination.

MR ROGERS: That's correct.

MR PAHL: Mr. Chairman, perhaps I could have a supplementary on that point. It seems to me there is an important understanding that needs to be set upon. Although the Auditor General says he is not responsible for the numbers, he

has a responsibility -- and if I'm reading the Auditor's report, he in effect has said that although I'm not responsible for the numbers, I do accept them as being accurately portrayed and I have no notes below that would say those numbers are not, in my professional judgment, as they should be. I don't want to put words in your mouth, but I think there's a layman's understanding here that seems to be missing.

MR ROGERS: Mr. Chairman, may I just make a supplementary comment on this. I was being very precise in saying this is the only thing I prepared, this page 27. Certainly the financial statements were prepared by management, as is always the case. But I do take responsibility for the contents of those statements implicitly by the preparation of this Auditor's report. Every figure in these statements has been audited, and I take full responsibility by the fact that it's a clean report. If I did not agree with any of the figures in the financial statements, then I would have what is called a reservation of opinion, and it would say that I didn't agree because of such and such a reason. If I was limited in scope in the audit, I would also have a reservation of opinion which would, in effect, then be a report which would state that I was not satisfied. The fact that I am satisfied is indicated by this clean report.

Mr. Chairman, I hope that helps.

MR CHAIRMAN: The Member for Spirit River-Fairview followed by the Member for Calgary Buffalo.

MR NOTLEY: I really have questions relating to the handout of material by Mr. Rogers, because there are certain things in it that are rather startling. Perhaps I'll just defer and let the Member for Calgary Buffalo continue his line of questioning, and then I'd like to come back to raise questions on the handout today by the Auditor.

MR SINDLINGER: Mr. Chairman, over the last few years, last year, and this year, we had agreed by vote that we wouldn't discuss these handouts which were given to us in committee because we hadn't had adequate time to read them. I note there are eight pages of reading we have just been given, and it is difficult to read them, condense them, and then respond to them in a short period of time. For that reason, I can't respond to them, but perhaps Mr. Notley can.

This was given out, Mr. Rogers, in response to the question I had made. If I could reiterate the question to you, please, and perhaps have you direct your response in your own words rather than referring to these eight pages, that would be quite helpful if you would consider that, please. The question I asked was that normally when audits are done, two reports are prepared: one, the audit report, which I see in the annual report here; and, secondly, a managerial control report, which deals with accounting procedures and things of that nature. My question to you was: had such a management control report been prepared, or an analysis or memorandum of any of that sort dealing with accounting and management control systems?

MR ROGERS: Mr. Chairman, the second handout, if I may just refer to the handouts -- they look formidable, but in actual fact it's material that everyone is familiar with. The one called "Reporting Criteria" -- they are simply appropriate selections from the Auditor General's report, verbatim; just a copy of appropriate sections of the report which was issued for March

31, 1980. It explains how the audit operates, and it is for anyone who is interested in that.

MR SINDLINGER: Mr. Rogers, for clarification and certainty, is that what you would term a management control system report or accounting control system report?

MR ROGERS: Mr. Chairman, I'm just coming to that. The second handout deals with reports authorized by The Auditor General Act and, again, is a selection of appropriate quotes from the Act: Section 18, Section 19, Section 20, and Sections 28 and 29. Mr. Chairman, I would refer specifically to 28 and 29. The bottom of that page, which is the last page of the handout, shows what happens to the reports. I would point to the last paragraph, the last sentence on that handout, which says:

Reports in accordance with Sections 28 and 29 are considered to be confidential communications from the Auditor General to auditee management.

MR SINDLINGER: Mr. Rogers, you are then saying there were management control reports, highlighting accounting and management control systems, prepared in accordance with Sections 28 and 29, and that they are presented to management but on a confidential basis.

MR ROGERS: That's right.

MR SINDLINGER: I see. Could you please indicate who in management this annual report would go to?

MR ROGERS: It goes to the deputy minister, with a copy to the minister and a copy to the secretary of the Treasury Board.

MR SINDLINGER: Mr. Rogers, have you got any feedback or correspondence from the Deputy Treasurer or the Treasury Board in regard to this report, to which we've just referred? May I ask as a supplementary question: how many of these annual reports have been prepared over the last five years on the heritage fund?

MR ROGERS: The one for '81 has not yet been forwarded. What happens is, there is a period after the audit during which we hold a series of what we call exit conferences, covering various points. The culmination is when we have all these problems fully discussed with management, then we prepare a management letter. That letter for 1981 is in fairly final stages, but has not yet been forwarded to Treasury.

The point is that they are fully familiar with all the points prior to the preparation of that letter, because of the various exit conferences that have been held. This is normal practice and applies to all our audits.

MR SINDLINGER: Mr. Rogers, have you prepared and presented one of these management letters to management, the Deputy Provincial Treasurer, and the Treasury Board for each year of the five years the heritage fund has existed? You're indicating yes, you have. Could you also indicate to us, please, what kind of response you get from the Deputy Provincial Treasurer and the Treasury

Board? Do you get written responses or do you have meetings with them and discuss these things? Do they come back to you on each one of them?

MR ROGERS: As I said, in the exit conferences there are discussions on all points. We have had a response on each and every written management letter.

MR SINDLINGER: Mr. Rogers, you have been very helpful in leading us through the mechanics of your auditing procedures. I'd like to ask you a few specific questions in regard to the audit. First of all, I'd like to ask you if, in your judgment as a professional chartered accountant, it would be desirable to have a formal plan for the investment of funds, such plan to be used as a performance measurement tool.

MR ROGERS: There are practical problems with this in that you have to look at the purposes of the fund and the fact that money is required at various times for Section 6 investments, capital projects division requirements. But, yes, we feel -- and Treasury agrees -- that planning is essential in this area.

MR SINDLINGER: Mr. Rogers, again in your opinion as a professional accountant, would you feel comfortable if you found a formal plan for the investment of funds that could be used as a performance measurement tool?

MR ROGERS: I don't think you can use the plan as a performance tool. I think there should be a plan, but it has to be very flexible because of, as I said, the various requirements on this particular part of the portfolio.

MR SINDLINGER: I'm getting the impression that a formal management plan might not be suitable for the entire fund. However, it would probably be desirable for Section 9 investments. Did you look for such a formal plan for the investment of funds for Section 9 investments?

MR ROGERS: Yes, we did.

MR SINDLINGER: Mr. Rogers, did you find a formal plan for investment of funds to be used as a performance management tool, specifically in regard to Section 9 investments of the heritage fund?

MR KNAAK: Mr. Chairman, perhaps the Member for Calgary Buffalo could enlighten us. What is a performance measurement management tool? So we can all participate in the understanding of the question.

MR SINDLINGER: Before we go on to that, I wonder if the Auditor General could respond to the question. The Auditor General has acknowledged that there are such things as formal management tools, formal management plans, that can be used for performance measurement tools. Perhaps rather than using my layman's definition, we can use the authority's definition of what a formal plan for investment would be as a performance measurement tool.

MR ROGERS: The recommendation, the thought that there should be a plan -- I don't really see that it can be as a performance measurement tool. The performance measurement tool, in effect, is such a thing as the yield of the fund. I think that would be what I would consider to be a performance measurement tool.

MR SINDLINGER: Mr. Rogers, no question that that is an effective management measurement tool. But I've got the impression -- I thought you had responded, when I asked you did you look for one, that you had. My question to you, notwithstanding that: did you find a formal plan for the investment of funds that could be used as a performance measurement tool? Did you find one?

MR ROGERS: There was no formal plan, but I think there were good reasons advanced as to why this was very difficult in considering the various factors involved with this part of the portfolio, because of the calls on these funds.

MR SINDLINGER: If I may pursue this a little further: as a professional chartered accountant, in your judgment do you think it would be desirable to have a formal organization structure for approval, implementation, and reporting?

MR ROGERS: There is such a structure, there is such reporting. I am having a little difficulty in that the situation over the past several years has changed. You have Treasury management and ourselves, both trying to improve controls involved in the administration of the heritage trust fund. It isn't something that is static. Steps have been taken by management, and we have consulted on these steps to improve the controls. They have improved very much over the last two or three years.

MR SINDLINGER: Mr. Rogers, you've said that Treasury and management have been trying to improve controls of the fund over the years. Can you indicate what areas required improvement? Were there significant areas that required improvement?

MR ROGERS: Yes. The recording of investment transaction was originally manual. Then it went to a mini-computer, and more recently a very sophisticated system called TIIS. All this movement has progressively improved the recording of investment transactions.

MR SINDLINGER: Did you find any significant inadequacies or deficiencies in these areas that you highlighted or identified for improvement?

MR ROGERS: Whenever we complete an audit, we always examine the audit exposures and the possible controls that can obviate or diminish those audit exposures. These are always subject to our recommendations contained in management letters. If those controls are rectified, then that is the end of the matter. If they're not, then they will appear in the Auditor General's annual report.

MR SINDLINGER: Mr. Rogers, again to you. In your judgment as a professional chartered accountant, would you consider it to be desirable that there be formal management reporting structures and documentation procedures?

MR ROGERS: Yes, very definitely.

MR SINDLINGER: Mr. Rogers, if you were to do an audit, and you found that there were not formal management reporting structures and documentation procedures, would that make you uncomfortable as a professional chartered accountant?

MR ROGERS: From a systems point of view, it would indicate a weakness. However, from an audit point of view, it means that we have to carry out sufficient alternative audit procedures to satisfy ourselves that there is no significant or material discrepancy in the accounts of the audited entity.

MR SINDLINGER: Mr. Rogers, did you look to determine, specifically in regard to Section 9 investments, whether or not there was a formal management reporting structure and documentation procedure?

MR ROGERS: Yes, and there is such in 1981.

MR SINDLINGER: I'm sorry I interjected there, but it seems to me you said: yes, you did look to see if there was a formal management reporting structure and documentation procedure -- and you said: yes, in 1981. Am I to gather from that, that prior to 1981 there was not a formal management and reporting structure and documentation procedure for Section 9 investments of the heritage fund?

MR ROGERS: No. I think it's a matter of degree, Mr. Chairman, that documentation in existence at any one time can often be improved. We make recommendations for improvement, and they're improved. And that is really the reason for the audit, as much as anything else: to try to effect change. And that is and has been effected.

MR PAHL: Perhaps on a point, I could ask the Auditor General whether those sort of improvements could be determined to be directed at improving the audit trail rather than creating one. In other words, manual entry of all transactions is time-consuming as an input activity; it's also time-consuming as an audit activity. The reason I ask this point is I would like to receive perhaps some clarification as to when does a management control report, oftentimes repeated, become a comment or reservation of opinion in an audit report. Because I think it's useful to know as legislators that the public funds are being well expended. It's perhaps not useful to know the detail that might be covered in a management letter, and I'm sure that's part of the rationale. But it would also be useful to have some feeling in general terms as to when a housekeeping matter becomes one of concern for the public purse, if you will.

MR ROGERS: I think that is a responsibility that has been placed on me by the Legislative Assembly in Section 19(5) of the Act: that I use judgment as to whether or not, by having it at the management report level, change can be effected. The prospect of reporting in the annual Auditor's report provides a great deal of leverage. Using that leverage, changes are effected that prior to the Act -- I know, because I've been in the office for 30-odd years -- you would make recommendations year after year and no change would take place. Because of this leverage we find our experience is that when recommendations are made, then changes do take place. That's the point I was making, that if those changes do not happen, then it becomes a matter for the Auditor General's annual report. And we had several in last year.

MR PAHL: Thank you. So really we're talking about the broader ambit of audit and audit control. And that's really a consequence of The Auditor General Act, as an umbrella.

MR NOTLEY: I don't think there's any question that The Auditor General Act gives the Auditor General, Mr. Rogers, the clout.

I want to go back, just as a supplementary on this question of the investment transactions. Did I understand you correctly that you indicated -- and this would be several years ago -- that there did not seem to be, at least in your judgment, an adequate formal management plan and that there has been in the last few months or several years a substantial improvement? My question would be: is that improvement sufficient to meet your objections, or do you still have some concerns as the Auditor General with respect to the adequacy of the financial plan?

The other element of the question is with respect to the documentation of investment decisions. You indicated they were manually done. Were sufficient records kept? What were the deficiencies that you uncovered in the system? We've now gone to the computer system, but what were the deficiencies that existed several years ago that led you to raise this as part -- if I follow your answers to Mr. Sindlinger -- of your concerns about the deficiencies to the Deputy Provincial Treasurer in your management report?

MR ROGERS: If I could deal with the documentation question, Mr. Chairman. I'm somewhat hesitant, because we're discussing matters that were subject of a confidential report; there's a principle involved. But perhaps in this instance, I think it would be wise to talk about the case in point. It was that the rationale, time, and date be recorded of actual transactions. This was to enable us to better follow the reasoning that took place at each transaction. Because if you get several buy-and-sell transactions during a day, it's important to know which came first, the sequence, to follow the logic of the transactions.

Consequently, it was our recommendation, which has now been accepted, that in effect a diary be kept of these transactions. This is over and above what is normal practice in other organizations. But it was simply a matter of common sense that management should be able to follow the sequence of events, if you will, and certainly we should be able to follow it. So what we did was make recommendations for improvements -- this was in 1980 -- and these improvements have been put into place.

MR NOTLEY: Could I just follow that along, Mr. Chairman? That strikes me as being an eminently reasonable suggestion. I would find it difficult to understand how we could even audit if we didn't have the time and date, because there wouldn't be any records there to in any way check whether decisions were properly made or not.

MR ROGERS: We did have the date.

MR NOTLEY: You did have the date.

MR ROGERS: Yes. We knew when the transaction took place. It was the time in the day, because you can get market fluctuations during the day.

MR NOTLEY: Indeed. That's right. The reason I asked that is: was this the first recommendation that you made, Mr. Rogers? Because we've been dealing with short-term securities now for 30 years. So the problems you've just identified would be problems not only with respect to the heritage trust fund but our accumulated cash surplus as well, it would seem to me. The whole question of how we deal with those kind of securities, it seems to me is at

stake in this issue. Were there any other suggestions or recommendations prior to this that weren't acted upon?

MR ROGERS: No, sir. If I'm giving an overall opinion on the last several years, the response to our recommendations has always been very positive. Answering your earlier point: I think the reason this became a concern in 1980 and not earlier was the fact that market interest rates have such an effect on the bond market. It wasn't really short-term money; it's the bond market that we were concerned with, that interest rate fluctuations were very considerable during that period. Now I have some examples when we get into realized and unrealized losses that I think will make very clear the relationship between interest rates and the, in effect, market value of bonds. It was that that led to this suggestion, because in that year for the first time we had quite a different situation from those we'd experienced earlier.

MR NOTLEY: A further supplementary question. Linking the question of the recording of transactions with an overall formal management plan -- I would take it that that would be one of the aspects of a formal management plan. My question to you, Mr. Rogers, is: are you satisfied that we now have in place the kind of management plan which you would feel comfortable with in every way as Auditor General? Or are there still deficiencies which are being negotiated, if I can put it in that manner, between the Auditor General's department and the Deputy Provincial Treasurer?

MR ROGERS: Our concern in this regard had to do with the fact that the portfolio is growing and there didn't seem to be the sort of plan we felt should be in place. In actual fact the reverse is now happening, and there is a plan which now tells us that there is not that much in that particular portfolio in this next year.

MR NOTLEY: That's true, in the next year. Over the next five years, 30 per cent of \$64 billion will be coming into that fund. The control mechanisms that are in place, in my judgment, are an absolutely critical issue not only for you but also for this committee. My question is: bearing in mind the influx of revenue, which will be massive, and the need to invest under Section 9, do we have a fully adequate program in place, a formal management plan?

MR ROGERS: The plan -- and we never visualized the plan would be to buy this, buy that, buy the other; but rather guidelines. Those guidelines are in place.

MR NOTLEY: They're satisfactory in every way as far as the Auditor General is . . .

MR ROGERS: Well, as an auditor, I would never say satisfactory in every way. We're always seeking to improve. But right now I have no adverse comments to make about the situation.

MR NOTLEY: I realize you can never be totally satisfied. But the areas of deficiency must be of concern to us as well as you, because we are entrusted by legislation with the responsibility of being watchdogs on the trust fund. If there are any deficiencies, then we have to be in a position to examine and discuss those.

MR R CLARK: Mr. Rogers, I have great respect for your office and for you, sir. But I need a little help in an explanation; that is, when I look at the Auditor General's report for, let's say, I think it was two years ago, reference was made in that report to items that were important like personnel. Are people not being hired under the proper appropriation?

I recall in the Department of the Solicitor General where there was a transfer of funds which were contrary to what was approved in the Assembly. I think you, sir, and, properly so, members of the committee felt that was important. And that found its way into the report. As a member of this Assembly for a number of years, I find it very difficult to rationalize in my mind how matters of those kinds of things fit into your report to the Assembly. Yet, sir, when your office finds that there's no adequate formal management investment plan, that doesn't make its way into your report. Would you please explain, so I can understand?

MR ROGERS: The events you mentioned being in the report all occasioned loss. I think it's fair to say that the comments we made in our management report on the investment plan were prospective in that this heritage fund administration had been developing. Because the amount of funds involved were growing, we felt they should improve their controls -- and this was only one of the aspects for improving controls -- and we made this recommendation. They did not fully agree with it, but for good reason. But what they have come up with now is, I believe, adequate.

Now this is the whole process of improving controls. It was not a reportable item in 1980. Of course by 1981, it had been rectified. That is the way in which we operate under sanction of the mandate, The Auditor General Act.

MR R CLARK: Mr. Rogers, just one further supplementary question. To oversimplify the situation, I really look at myself on this committee or on the Public Accounts Committee as a director of a corporation. Perhaps that's a very poor example. But it would seem to me, with great respect, and being a total layman, that in fact you are the individual who's really looking out to see that things are being well looked after in this fund. If on your first, second, or any look, you find that there's no adequate formal management investment plan, that seems to me to be the kind of thing that shouldn't be solely the part of just discussions between the Auditor General's office and the staff. That's pretty major, as I see it. Some place along the way, members of this committee, I think, have some not only right but some responsibility. I'm grappling with this problem of the independence of the office and yet the frankness to members of the committee, and I'm having great difficulty.

MR ROGERS: Mr. Chairman, perhaps I can draw on the analogy of the private sector. Under normal circumstances, shareholders do not receive the detailed comments of the auditor, but management does in the first place. Only in an extreme situation would the auditor appear before the annual general meeting and discuss problems with the shareholders. If the situation had not improved, then it would definitely have been reported to the Legislative Assembly. So it is really a matter of timing.

MR R CLARK: Mr. Rogers, I would simply say, once again with the same respect, that I view members of this committee as more than shareholders.

MR KNAAK: A supplementary on that. I think there was a presumption made by the hon. member that isn't quite consistent with the way a government functions. We have a lot of confidence in the Treasurer and his departmental officials. It is his ultimate responsibility; that is, the Treasurer's responsibility and his departmental officials to manage the fund properly, profitably, and in a responsible manner. It is the very same government that established the Auditor's Act and appointed the Auditor as a double check to make sure things are done right. But it's not the Auditor's responsibility, with all respect, to manage and operate the fund. It's up to him to make recommendations to the department to see where improvements can be made. If the elected officials feel those improvements are in the best interests of the population and their constituents, those recommendations will be accepted. The Auditor may report to the Assembly if he feels strongly about that.

But in the first instance, I think the proper procedure is to discuss his judgments with the judgments of the elected officials to determine where they can be resolved. If they can be resolved, that's the way it should go. To the extent there are losses or discrepancies, yes, this watchdog committee should be entitled to it and is getting that kind of information.

MR CHAIRMAN: I have a list now of some six members with supplementaries, I presume. So perhaps we should take them in sequence. The Member for Calgary McKnight followed by the Member for Calgary Buffalo.

MR SINDLINGER: On a point of order, please. The precedent has just been set whereby if a member comes up on a supplementary in regard to the point just raised, he has been allowed to speak. I'm only asking for the same consideration. I'd like to direct my . . .

MR CHAIRMAN: Well, he got in while I was waiting for the Auditor General to respond to the previous remark. I'm trying to get the thing back in sequence. He was actually out of order. We're trying to get the thing back in sequence, and it's the Member for Calgary McKnight followed by the Member for Calgary Buffalo.

MR MUSGREAVE: If the Member for Calgary Buffalo has a supplementary, I'll let him go ahead, Mr. Chairman.

MR SINDLINGER: Thank you, Mr. Musgreave. It's on a point that's been raised in regard to the report of the Auditor General and where it should go; that is, the management report as opposed to the audit report. I'd just like to refer the attention of committee members to The Auditor General Act. Mr. Rogers, you've made reference to this already today. Section 19, when it talks about the report, says that "the Auditor General shall" -- not may, there's no discretionary latitude involved in this.

. . . the Auditor General . . . shall call attention to every case in which he has observed that

- (d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with . . .

The Auditor General shall call attention to those.

Mr. Rogers, you pointed out that there is an exception to that, and in fact there is later on in Section 19(5), to which you referred earlier. You have said where, in your management reports to management, your management letter, there is evidence that things have been or are being rectified, the Auditor General need not report these deficiencies. But we've been talking about deficiencies in regard to the manual recording of transactions, Section 9 investments. These things did not just occur last year. And as you pointed out, they probably weren't there in the first year of the fund because it was so small. They probably weren't there in the second year of the fund. But I submit to you, Mr. Rogers, that they were there in the third year, the fourth year, and the fifth year, as demonstrated by the net loss on marketable securities, as reported in the audited statements.

I would come back to the observation made by Mr. R. Clark, that these inadequacies or deficiencies, being a significant accounting inadequacy: why weren't they presented to the Legislature? It's not enough to say that they had been or are being rectified, because there should have been some evidence presented after the third year that they were being rectified. And if they were not, going into the fourth year, then the report should have been made to the Legislative Assembly. If those things had been or are being rectified if they were not, then there's no latitude on your part, Mr. Rogers. The Act says that you shall call attention in every one of those cases in your report to the Legislative Assembly. I'm in the same position as Mr. R. Clark; I cannot understand why they were not brought to the attention of the Assembly in your report.

MR MUSGREAVE: Mr. Chairman, could I get in? I would like to clarify. I happen to take a different point of view from Mr. Sindlinger and Mr. R. Clark. I just want the Auditor General to perhaps help me in this. As chairman of the Research Council, I have been the recipient of one of your management letters, I would assume. I don't recall your calling it that, but we've had very long letters from you. When I read those letters -- and then I struggle with what we're discussing here -- your letters pointed out areas of responsibility as far as the handling of funds, who was responsible for deciding what should be paid here or there, why certain accounts weren't collected in a certain period of time, why certain bills weren't paid as they should have been, why certain inventories of certain assets weren't made: these kinds of things.

What we seem to be implying here, and I'm getting a little worried about it, is that somebody made a lousy investment. So two years later, we're unhappy because he made a lousy investment. I would suggest that, hopefully, the people who made those investments, while they may not have had a detailed guidebook to what they should or shouldn't have done, were professional people, were hired to do what they automatically would do. If you have a chartered accountant as part of your staff, maybe you need a manual to tell some of them what to do; others you don't. Some will live by the book, and good people don't need the book, sort of -- you get into that debate.

I suggest to you, Mr. Auditor General, that I'd be very concerned if you felt that your responsibility was to come back to the Treasurer and the Deputy Provincial Treasurer and say that you didn't agree with the investment decisions that had been made. I think there's a significant difference there. They certainly should be following certain guidelines, if we can determine what these guidelines are. Lots of people in New York or London or Zurich would like to know. If they had those kind of lines, they would be using them. I just feel we're getting into dangerous ground if you think your

responsibility is in that area. I sort of assume that Mr. Clark feels it is, and I would be very upset if you thought it was.

MR CHAIRMAN: Perhaps the Auditor General would like to respond to the last two or three remarks.

Is it on the same point?

MR R SPEAKER: Same point, Mr. Chairman.

I'd like to say that when I was part of passing The Auditor General Act, one of the feelings and intents I felt was in that Act is that as members of the Legislature we would be assured that reporting of incidences, deficiencies, would come before us in the Legislature. I felt that this was a position from which there would be no reporting in terms to government, maybe suggestions to government, but items of any consequence would come to us as members of the Legislature. I felt that was a basic principle and intent of that Act. I get a little concerned when we talk in terms of what has occurred under the present circumstances where there's no revealing of this formal management and reporting structure and documentation procedure being in deficiency; and the consequences of that not being revealed to us in the Legislature.

I relate to Mr. Rogers, in terms of the Auditor General's report under Reporting Criteria, 2.1.1. It refers to subsections 19(2) and 19(5) and says:

These two provisions allow the report to concentrate on the more important reportable matters, including significant deficiencies in systems and procedures.

What I would expect by just reading the report, not understanding that there are these other management reports -- which I didn't, because my background certainly isn't accounting. It was my expectation that anything of consequence or importance would be in this. And I studied and related to the report, and took my responsibility on the committee on that basis. I'd certainly like Mr. Rogers to comment on that. If I'm wrong, I think I should know that.

MR ROGERS: Mr. Chairman, the comments regarding the lack of a formal plan for the investment of such funds -- and we did say to be used as a performance measurement tool and no formal organization structure for approval, implementation, and reporting. We were talking about the formality, the documenting. This is an ongoing process. The fund was admittedly several years old, but the control had been subject to a process of evolution and development. There comes a point in the growth of any organization, when the time has come to create a manual that sets out in detail what people shall do and so on and so forth.

I would like to say that I don't believe there's any cause and effect, if you will, from this lack of formalization and documentation and the so-called losses. I say "so-called", because I think you have to look at the yield as well as the accounting losses. I would like to talk on that, if time permits.

But coming back, this formalization, to me, is not that serious a problem. The fact we reported it in the management letter has led to a reorganization and to a change in the way things were carried out, because management and ourselves were in agreement. They formalized the reporting structure to a much greater extent, appointed expenditure officers for each of the areas. These improvements go on all the time, pretty well in all the organizations my office orders. That is, without that, auditing becomes a very sterile thing.

The changes that one effects are really the important aspect, in my opinion, of auditing. The fact that when any losses occur of public funds, then these are properly presented to this Assembly and to the committees.

MR NOTLEY: Mr. Chairman, [inaudible] one point that Mr. Rogers made. You indicated, Mr. Rogers, that there was no cause and effect with respect to the reported losses and the inadequacy. Are you saying that emphatically, or that that is a judgmental decision, that that is your opinion? Can that be an objective statement?

MR ROGERS: I believe that to be the case, that there is no cause and effect, very definitely -- emphatically, if you like. You know the factors cause the losses, which I think we can show. But I would come back to one other thing; that is, that my mandate does not extend beyond systems. It does not extend to second guessing, if you will, professional judgments of people in Treasury who invested money. In other words, I cannot make a comment on the wisdom, if you will, of particular transactions, only that those transactions were properly recorded and their effect is properly reflected in the accounts, so that judgments can be made by this Assembly.

MR NOTLEY: The question in dispute now, Mr. Rogers, is that very issue: the deficiency of the system and whether or not that deficiency should have been reported to the Legislature.

MR ROGERS: But I think whether or not there is a formal plan as opposed to an informal plan; in other words, is it down on paper; is it documented as opposed to whether it isn't -- it doesn't make what went before wrong. My office operated for many years without an office manual. We now have an office manual that thick. I don't know whether it's improved our operation; I'd like to think it has. But the documenting of it was necessary because of the growth of the office. And so with the plan, the time had come to formalize and document the way in which they operated. This was especially true when you had changes of staff.

MR NOTLEY: Mr. Rogers, I don't want to be argumentative. But that's true that the time had to come to document it and have a formal plan. I don't think anyone would quarrel with that, and obviously some measures have been taken subsequent to that. But there were deficiencies in the method by which transactions were recorded. So it's not just a question of informal procedures which were operating well. It was obviously a question of informal procedures which concerned you or you would not have made that point, it seems to me, in your management letter.

MR ROGERS: There are two aspects to this that we discussed this morning. One is the plan and the other was the documentation of the transactions. There I said that what was taking place was in conformity with normal practice, if you will, in other investment organizations. We wanted to add the further step that the rationale be recorded on paper and that the time of the transaction be noted. And that has now been done. That permits both management and us to get a better view of the thought processes of the dealer at the time the transaction was made. So everything we've done is to improve the systems. I do not think that was a point to be included in the Auditor General's report at that time. If it had not been dealt with properly, yes, then I would have reported it. That's in line with the way in which we operate in all areas.

MR CHAIRMAN: If we can now return to the ordinary sequence of supplementaries. We have the Member for Edmonton Mill Woods followed by the Member for Calgary McCall.

MR PAHL: Mr. Chairman, I think the Member for Calgary McKnight was on to my point, and certainly the Auditor General was on to the point. I can see why managers would perhaps be a little less enthusiastic about documenting decisions and rationales. Because I think there's a danger of having dealers become very good at justifying and very good at documenting, and not very good at making decisions. Because it seems to me that the amount of money people pay to people who manage their money for them and make money for them would indicate that it has some elements of art in it.

Notwithstanding all that, my understanding of an audit function -- and I guess I could boil it down to ask the Auditor General very directly if he could assure this committee that no unaccountable losses, frauds or thefts occurred from the Heritage Savings Trust Fund moneys. And if any one of the three had occurred, would it have been reported in a way that we as a committee could recognize it?

MR ROGERS: I can categorically state that I had no evidence whatsoever of any wrongdoing, of any fraud at all. Unfortunately -- or fortunately -- we did mention the possibility of collusion, the exposure to collusion. But that is a very different thing to saying there was evidence of collusion, and therefore inferring a fraud.

When you're designing controls to protect against fraud, you're doing two things: you're protecting the entity in question; but you're also protecting the staff involved in those transactions. For instance, in the case of cheques, we have two people sign cheques. It does not mean to say that if we had either of those two people sign the cheques on their own alone that we would think therefore they would betray a trust and misuse public funds. But when there are two parties signing a cheque, it means that there are two people who independently have looked at the transaction and have come to the conclusion that the payment is proper. Now that is a control, in effect, to protect public funds. Similarly, we were suggesting a control that would, in effect, obviate or make it a little, shall we say, more clear that there had been no collusion, so that management could follow the substance of the transaction by this additional recording.

There's absolutely no evidence that there was any wrongdoing whatsoever. I want to emphasize that in fairness to the staff involved. Our tests were to the extent of 78 per cent of those losses, for instance, which means that every transaction was compared with market of that particular day. In most cases, the bonds were sold for higher than market.

Now you had a situation -- and I have a graph, if anyone is interested, showing that as the bank rate went up, the value of our bonds came down. We have one particular bond that came down from \$99,000 to some \$50,000 market value, over some four years. Mr. Chairman, I would ask the committee, if it's in order, to distribute that, which I think really pinpoints this whole matter of how these losses occurred.

MR PAHL: Mr. Chairman, if I may interject and ask the Auditor General the second part of the question again: if such an event, as I had described, had occurred, could this committee be assured that in the past it would have been reported; it would be reported now; and it will be reported in the future, given your mandate?

MR ROGERS: Mr. Chairman, I would assure everyone that if there was any loss detected in the course of our work, it would be reported in the next Auditor General report; or more to the point, in a special report, under Section 20, if it was of the significance that a loss in this area could be. If it was a significant loss in this area, I would immediately submit a special report, under Section 20 of the Act.

MR PAHL: Specifically with respect to the Heritage Savings Trust Fund and the report that we have a mandate to review: it would as well appear there, I assume? This report, Mr. Chairman.

MR ROGERS: That report is a production of management of course.

MR CHAIRMAN: Is the Member for Edmonton Mill Woods asking: would the Auditor General add it as a supplement to his statement on page 27? Is that the question?

MR PAHL: I want to be assured that the information -- at least that I think we would expect as a committee -- would appear before us in the normal course of events, should such an eventuality occur. In other words, we wouldn't have to find it somewhere else.

MR ROGERS: It would be included in our report.

MR PAHL: Thank you.

MR LITTLE: Mr. Chairman, there's been such a delay that possibly the impact of my remarks are lost now. But I wanted to discuss this investment management plan. The only investment plans that I'm aware of would take place in the investment companies that deal with the objectives of a particular client, it must take place before the fact, and an investment management plan has implication or inferences of investment decisions. Now my understanding of your function, Mr. Auditor General, is: after the fact. So I want you to make it perfectly clear to this committee that you take no part in investment decisions; that is, before the fact.

MR ROGERS: Mr. Chairman, for the record, I do not take any part in any investment decisions, neither do I comment after the fact on investment decisions. That is purely the responsibility of management and the government. I am responsible for commenting on the systems that surround, if you will, those investment decisions for ensuring that the results of those decisions are properly reported and properly reflected in the accounts of the heritage trust fund, and therefore can be judged, at least in aggregate, by members of this committee.

MR LITTLE: Very well.

MR CHAIRMAN: The Member for Calgary McKnight.

MR MUSGREAVE: My points have been made, Mr. Chairman.

MR D ANDERSON: If I might make a procedural comment. This goes back about nine supplementaries ago -- and I hope the Chairman will consider either sticking strictly to a list that's developed or instructing us that we should

interrupt our colleagues when we have a point. I guess I'm at a loss as to know which procedure to take when we're in the middle of this sort of questioning.

But the questions deal, to some extent or directly, with the question of a management investment plan as well as with the other changes that were discussed earlier, and the question as to whether or not they should have been reported to the Legislature versus a management letter. I heard the Auditor General say in a earlier comment -- and perhaps he could clarify if that was in fact the case -- that these aspects were not necessary for the reporting year. In other words, they did not affect the decision-making for that reporting year. But because of the projections of the fund and the fact that it was growing that these were thought to be safeguards required in the future. Perhaps I could let the Auditor General clarify that one way or another first before I ask the second question.

MR ROGERS: Mr. Chairman, in the course of our auditing in the case of management letters, we make many recommendations that are prospective in nature. Because in the course of an audit, you're able to see developing trends, if you will. And this was such a case that we felt there was a need for greater documentation, better organization. These changes have taken place in 1981. This 1980 report was issued early in 1981. So the response was very rapid. In fact, a number of the recommendations had already been complied with, because they had been discussed with management in exit conferences in the latter part of 1980.

MR D ANDERSON: Just so it's perfectly clear: is the Auditor General saying in fact that the performance of the fund was not affected by the lack of a management investment plan or the reporting procedures at the time those recommendations were made, but that in fact those were recommendations for the future?

MR ROGERS: That has no connection in my opinion with the results, if you will, of the transactions in the audit period.

MR D ANDERSON: Thank you.

The second question is just following on that. Is this approach to reporting to the Legislature and management letters consistent with that used in other provinces and the federal government, be they government projects or funds that might be similar to this one; for example, in Saskatchewan.

MR ROGERS: I have knowledge of the way in which operations are carried out in other jurisdictions. I would say that we are the only jurisdiction that has formally established this method of operation in its statutes. But in actual fact, to my knowledge, a number of my colleagues operate in the same way.

MR D ANDERSON: Thank you.

MR CHAIRMAN: The Member for Calgary Buffalo. While he's asking his question, perhaps members can think about scheduling the next meeting of the committee.

MR SINDLINGER: Mr. Rogers, in 1979, according to the Auditor's statements, there was a net loss on sale of marketable securities of almost \$3 million. In 1980, there was a net loss on sale of marketable securities of \$43.6 million. In 1981, there is a net loss of \$13.7 million on sale of marketable

securities: in the aggregate, almost \$60 million. Mr. Rogers, was it possible to obtain from the investment managers a precise reason for each of these sales?

MR ROGERS: This comes back to the point we were talking about earlier in documentation. It was because of the time difference, be it weeks or months, between the transaction and the audit that it was often very difficult to follow the rationale that took place that led to the transactions in question. However, as I said, we audited 78 per cent of the transactions that caused losses. And, as I said, in almost all cases, the price obtained was better than the rate for that day.

MR SINDLINGER: Mr. Rogers, I'm not asking you about the price. I'm asking you specifically: was it possible to obtain from the investment manager a precise reason for these sales? I'm asking that of you as a professional chartered accountant.

MR ROGERS: And I said, the recommendation we made for improving documentation was just that, that the rationale be written down, so it could be reconstructed at a later date.

MR SINDLINGER: Are you saying that, at one time, you could not determine the rationale for those sales?

MR ROGERS: That's right. This is what we said, yes.

MR SINDLINGER: I take it then that that was due to a lack of documentation. And if there was such a lack of documentation, the question I would then put to you, Mr. Rogers, is: how can you determine decisively and conclusively whether or not there was in fact any scope for collusion or fraud, as per the questions put to you by Mr. Pahl?

MR ROGERS: I just said that we examined 78 per cent by money value of the losses; that is, all the more significant ones we looked at. And in every case -- not every case; a slip of the tongue -- in most cases, the price obtained by the dealer was better than the rate for that day.

MR SINDLINGER: I'm sure . . .

MR CHAIRMAN: I think we're going to have to call an end to this discussion and come back to it at the next meeting of the committee. Because the committee on private Bills is meeting at 10:30, and it's now 10:27.

MR SINDLINGER: Just two questions, and that would . . .

MR CHAIRMAN: I don't think there is time for two more points. We only have two minutes now, and we have to decide when the next meeting of the committee will be. Have we any recommendations from members of the committee about the scheduling of the next meeting?

MRS FYFE: Can we possibly schedule another meeting this week. I don't know whether this Assembly is available tomorrow or even Friday afternoon, seeing as we adjourn at 1 o'clock from the session.

MR MUSGREAVE: I would just support Friday afternoon, if it could be arranged.

MR SINDLINGER: Mr. Chairman, my question is: can we have the Auditor General back at our next meeting? Would that be the purpose of our next meeting?

MR CHAIRMAN: Well, obviously, we haven't finished the discussions with the Auditor General.

MR SINDLINGER: I want to make sure.

MR NOTLEY: What about a morning time? Friday afternoon is difficult for many of us who have to be back in our constituencies for other things. So it there's some possibility for either tomorrow before Public Accounts or Thursday . . .

MR CHAIRMAN: We can't have it tomorrow morning, because there are meetings of both private Bills and Public Accounts tomorrow morning, then Thursday is also out. So the Assembly is meeting Friday morning.

MR R CLARK: What about tomorrow night, Wednesday evening?

MR CHAIRMAN: I'm not sure if . . . Is Wednesday night the suggestion from the Member for Olds-Didsbury?

MR R CLARK: I'm suggesting the possibility of Wednesday evening at 5:30.

MR CHAIRMAN: Perhaps I can poll the members to find out what's best.

MR NOTLEY: What about 8:30 on Friday morning? We'll have an hour and a half before the Assembly meets. Is that a possibility for people? We're all here. If that would fit in with Mr. Roger's plans, could we do that?

MR CHAIRMAN: Is 8:30 on Friday morning acceptable?

MR R CLARK: Mr. Chairman, if I kind of get the consensus of the group here, I think the Member for Calgary Buffalo has only a relatively short number of questions left, if I understand the member, and that we may not be looking at a long period of time. So something like 8 o'clock tomorrow morning for perhaps the best part of half an hour or something akin to that may very well meet the needs of having Mr. Rogers and the staff here.

MR CHAIRMAN: Well, perhaps if I poll the members, because we have to get out of here for the next committee. Then I'll get hold of Mr. Rogers and tell him what the time is. Is that suitable to you?

Thank you, Mr. Rogers. The committee is adjourned until we call it back again. I'll let members know as soon as possible.

The meeting adjourned at 10:30 a.m.