

Standing Committee on The Alberta Heritage Savings Trust Fund Act

Wednesday, October 28, 1981

Chairman: Dr. Reid

11:15 a.m.

MR CHAIRMAN: Perhaps the committee can come to order.

If Mr. Rogers has any remarks he wishes to make at the beginning of this morning's meeting, subsequent to yesterday's discussions, then we can go into any further questions from the members of the committee.

MR ROGERS: Thank you, Mr. Chairman. I would like to just make a couple of remarks regarding yesterday and the perception that may have arisen. I would say first of all that we really discussed two items. One was the formal plan, and I must admit I had a little bit of difficulty in that the wording that I had written, this was the exact wording from a management letter, and this posed me somewhat of an ethical problem, as to how freely to discuss this. But I feel that the committee is best served, Mr. Chairman, if I talk in terms of the nature of the replies I received. I think that gets it into better perspective.

There have been three management letters. The first and second ones did not deal with the investments at all. The investment problems only became apparent or came to attention when the market began to fluctuate quite erratically. We should realize that the people involved in Treasury in this investment work were carrying on, as they had done for a number of years prior to that, in investing and handling securities for the GRF. So this part of the operation was not really new.

The recommendations for a formal plan -- the stress is on the formal. There was a plan. There were constant meetings, planning sessions in Treasury. I might add that I have every respect for the calibre of the people involved in managing in Treasury. But our recommendation was that with the growth of the fund, some thought should be given to a formal plan. Now, we're doing this in a number of areas, where we're saying that for expenditure there should be a clearer statement of the objectives. Consequently, that particular recommendation in the management letter was in line with that general concept that objectives should be documented.

In the case of the documentation of transactions, I'd like to stress that the transactions were documented to the extent necessary as accounting transactions. But as I said, with the erratic operation of the market, we felt it could be improved. The recommendations in the management letter in both cases were for improvement. The one item in that letter that I felt was important enough to appear in the annual Auditor General's report, you will note, had to do with deemed assets and with the other item with respect to the estimates of capital projects. Both these were dealt with in the Auditor General's report.

I would like to make abundantly clear -- and I can't stress it too forcefully -- that the decision as to those items which go into the Auditor General's report is mine. They owe nothing to any member of the Executive Council, any deputy minister, or any appointed member of staff of the civil service. My judgment alone is the reason why certain items are in, certain

items are not. The criteria that I use in making that judgment, as provided for under The Auditor General Act, are the responses. The response does not necessarily say: Mr. Auditor, we will do what you say. If that were the case, then we could get rid of a lot of high-priced help, and I could run all the departments. That is not the way it goes. We point out a weakness. We make a recommendation for a correction of that weakness. But that is not necessarily the only answer. As long as the answer satisfies the weakness in control that we've pointed out, we're happy to accept it after our evaluation of it. There's always more than one way of achieving an objective. Departments have to have that right.

On other matters, Mr. Chairman, the losses were not attributable to fraud through collusion or poor control. They resulted solely from investment decisions. The audit mandate does not extend to commenting on those decisions. There was no evidence of collusion. Accounting and management controls were satisfactorily in place. Even before the recommendations for their improvement and their documentation, those controls were not unsatisfactory. Simply because you don't have everything written down does not mean they're necessarily unsatisfactory. These controls on systems are constantly evolving to meet changing circumstances. In 1980, I would suggest, we had a change in circumstance. That led to our recommendations. There was a good acceptance of our recommendations. There was no evidence of fraud or collusion or control weaknesses that would expose, if you will, the heritage trust fund. It was on that basis that I did not include these matters in the Auditor General's report.

Mr. Chairman, if it is considered, I could give some extracts from the replies I received to that management letter, to give the flavor of the way in which the recommendations we made were accepted and the action that was taken as a result. I would rather not, but I will if necessary. I can tell this committee that I found them to be satisfactory.

Thank you, Mr. Chairman.

MR CHAIRMAN: Thank you, Mr. Rogers. I have some difficulties with going any further into management and accounting documents because of the stipulations of The Auditor General Act.

Are there any questions from members of the committee at this time? The Member for Edmonton Belmont followed by the Member for St. Albert.

MRS FYFE: I just want to clarify, Mr. Chairman. Mr. Rogers said that he was satisfied with the reponse he got? I just didn't quite catch his wording.

MR ROGERS: Yes. I do have the copies of the response to the management letter that really was the subject of questioning yesterday. If it would help the committee, I can give some flavor of the type of response that I received. In a way, I would rather not, because the reply is as confidential as the original letter. This word "confidential" -- there is nothing sinister to it, it is provided for under the Act. I am willing to quote from it, if that will help the committee to gain the flavor of the reponses made by Treasury, but I would say that I am satisfied with those responses.

MRS FYFE: I just wanted to clarify that you are satisfied. Thank you.

MR MACK: Mr. Chairman. to Mr. Rogers. You have covered a couple of questions which I had. One was the management systems, and your satisfaction with those that are in place. The other one was the matter of evidence of any collusion,

and you've covered that. One area that concerns me and it's out there; that is, the perception that there are unaccounted-for funds in substantive or any amount. But the perception is that there is a substantive amount of funds out there that are unaccounted for. Can you, sir, address the committee with unequivocation with respect to that?

MR ROGERS: Mr. Chairman, I prepared some handouts. Has everyone got a copy? If not, we have other copies here.

MR CHAIRMAN: I think they've been distributed, Mr. Rogers.

MR ROGERS: If I could draw attention to the sheet that looks like this. I don't know whether you can see it. It's headed: Explanation of Losses Incurred or Provided for in the Financial Statement. I would like to stress that whereas bonds and other investments that .#.#.

MR SINDLINGER: Mr. Chairman, on a point of order. Yesterday, Mr. Rogers was kind enough to pass out eight pages of paper, which were very helpful. But after going over them, I find that they were extracts and that there were sections missing from the handout. Furthermore, the sources for the extracts were not identified. I wonder if perhaps we might deal with that firstly; secondly, in regard to the handout we have here, having the source of the extracts identified and the missing sections put in place as well, prior to getting into this in detail.

MR ROGERS: Mr. Chairman, I'd be very happy. The extracts are the appropriate extracts from the report of the Auditor General for the year ended March 31, 1980, which I believe every member has on the one handout. The other handout is extracts from The Auditor General Act, which of course everyone has. The reason for omitting some sections is that they were not pertinent to the present discussion. I simply recopied them for the convenience of members.

MR CHAIRMAN: Perhaps we can now go on to discussion of the document circulated today.

MR ROGERS: Mr. Chairman, there are two types of losses.

MR SINDLINGER: Mr. Chairman, on the point of order again. Mr. Rogers, could you identify where these extracts come from? Are you saying that these come from the same place?

MR ROGERS: I'm sorry, there's a misunderstanding. The extracts that were given yesterday are either from the Auditor General's report, and identified by those section numbers, or they were from the Act. There was another handout that was from the Act, dealing with the reports authorized by The Auditor General Act. Is that satisfactory? The sheets we've got today I prepared for the purposes of helping this committee along. They serve no other purpose.

MR SINDLINGER: Sorry, Mr. Chairman, to take up time on this matter, but the sheets I have here begin with Section 2.4.1, which implies there's a Section 1 somewhere. Am I missing something?

MR ROGERS: It deals with deemed assets, Alberta Heritage Savings Trust Fund. These are extracts from the report of the Auditor for the year ended March 31, 1980.

MR CHAIRMAN: They're the reference points from this document, for the Member for Calgary Buffalo.

MR SINDLINGER: Did I not hear you just say that you prepared something specifically for this committee this morning?

MR ROGERS: Yes, sir. These five sheets. If you haven't got a copy, we have additional copies here. They were not handed out yesterday.

MR CHAIRMAN: If the Member for Calgary Buffalo could take the four pages that are attached with a paper clip at the front, if he takes those off the document that was circulated today, he will then get the documents that were prepared purely for this committee. Is that correct?

MR ROGERS: Mr. Chairman, so there's no confusion, the first one we will be addressing, the heading on the fifth line down states: Explanation of Losses Incurred or Provided in the Financial Statement. The next sheet is sideways on and says: Computation of Unrealized Losses to March 31, '81. The third one: Computation of Realized Losses for the Year Ended March 31, '81. The next one says: Simplex Example, Realized Losses.

MR KNAAK: Excuse me, Mr. Chairman, I think there was a presumption that somehow we had requested to go through these numbers. Mr. Sindlinger and I were just chatting here and with respect, it's not necessary, with the discretion of the Chair, to take us through these numbers, unless other members feel that way. I believe the Auditor General has made the statement that there were no missing funds anywhere, and in fact it's true that the trust fund makes some money and loses some money on some transaction. If that's what these numbers indicate, I think we're aware that that's what happens when you invest funds in the market. Unless other committee members feel strongly about it, my preference would be just to proceed in the normal course with the meeting. But I do appreciate the willingness to do so.

MR ROGERS: Mr. Chairman, the purpose of this was to explain that the net losses, both realized and unrealized, at March 31, 1981, amount to \$141,853,000. If no explanation is needed, that's all right.

MR CHAIRMAN: Is that satisfactory to the other members of the committee?

MR MACK: Mr. Chairman, the purpose of my question was to clearly enunciate, if possible, the perception that has been advanced that in fact there are funds that are unaccounted for. I wanted the Auditor General to respond to that. What method he uses I leave to him.

MR ROGERS: Mr. Chairman. I can state as clearly as I can that there are no funds unaccounted for. To my knowledge -- and that results from very extensive auditing by a staff, the people sitting around me here, with many years of auditing experience. My colleague has had some nine years on the other side of the fence, as opposed to auditing, in financial institutions in the United Kingdom. So there's quite a wealth of experience on the audit team

we have. Others have had a number of years with major firms such as Peat Marwick Mitchell, Touche Ross, Deloitte Haskins and Sells, and Ernest and Winney. On the basis of that auditing, which I believe to be of very high calibre, I would state without any question that we have no evidence of any missing funds, any losses other than those disclosed fully in the financial statements, which are prepared in the most conservative way. There is no window dressing at all on those statements. I would not sign a report if there was. Those statements show what happened, and I'm satisfied that they reflect the situation both during the year and at the year end.

The one factor I pointed out yesterday, and I think that graph which you have shows it clearly. The market value of the bonds is in direct relationship, low inverse, to the movements of the bank rate. That is the one factor, if you will, that has caused this loss. As the example shows, the loss is not necessarily a loss if, in doing that, the yield is increased, which has happened. You can have an accounting loss, or a book loss, and yet be in a better position afterwards. However, this is getting into the area of investment decisions, which are outside my mandate. Those questions have to be addressed to the Provincial Treasurer.

Mr. Chairman, I hope that clarifies it.

MR R SPEAKER: Mr. Chairman, yesterday we were talking about the formal management and reporting structure. I believe a comment possibly Mr. Rogers made -- I thought I read it in the press this morning relative to further utilization of the computer system and a computer program to meet some of these needs. I wonder if that remark could be expanded on here in the committee for our information.

MR ROGERS: The Treasury investment information system has been developed, and it took a long time to develop, to provide management with all the information that's necessary, both at a point in time and ongoing, as to the status of the various investment transactions that are entered into. In effect, it becomes almost like the books and records of that particular facet of the heritage trust fund.

That letter that was referred to earlier pointed out some problems that we'd had during the year with it. It's quite usual to get bugs in a new system. But I would point out that before those financial statements had my report attached, and before they were other than in draft form, all the errors were corrected. That is what an audit is all about too, to make sure that the financial statements are as correct as they can be before being issued.

The computer system has improved, if you will, the ability to control because it gives more flexibility to management than the preceding minicomputer records, and before that the manual records.

MR R SPEAKER: Mr. Chairman, a supplementary question to Mr. Rogers. Is the system at a point where it's satisfactory, in terms of the request you made to the management of the trust fund, in terms of reporting structure and documentation procedures, or is there program writing to take place? I'm sure there are improvements, but is it adequate and satisfactory in your terms at this point?

MR ROGERS: We get away from the computer system -- the computer system is satisfactory, but it isn't the whole story. I think I have to say that, as a result of our discussions, and this is very much a mutual thing. This is what I really want to bring across, the flavor. We make recommendations. Those

recommendations in effect are the catalyst for change. They focus, if you will, on a particular issue. As I said earlier, I have every respect for the management of Treasury. As a result of that, they reorganized their operation and have both portfolio management people and dealers, so they segregate duties that are incompatible. This has increased the controls very much. There's a tight structure now, for reporting purposes. This has improved the controls. I would say that they were only reported in one management letter, and before the next one could be written were amended in a satisfactory way.

That is the way the process works, not just with the heritage trust fund, but throughout the government. That leverage that The Auditor General Act provides is, I believe, a great asset as compared with other jurisdictions where the auditor might make the headlines, but he doesn't necessarily effect much change.

MR KNAAK: Mr. Chairman, I'm going to ask a question that I think I know the answer to, but perhaps the Auditor General wouldn't mind repeating it. Part of the reason for asking the question is just to make sure the record is very clear on this. I think there's no question the opposition members are entitled to try to discredit the government. That's part of the political process. But I think when the public loses confidence in the management of the trust fund for no reason, the record should be set straight. It's on the point of the prior management system. I believe the Auditor General stated that when the interest rates began to fluctuate throughout the day, then for the first time it became important as a management tool to start recording the transaction daily, because of that fluctuation. That makes sense. But I believe the Auditor General also said today that prior to that time there has never been a loss that was the result of an inadequate management or control system. Is that correct?

MR ROGERS: In this particular organization, if we're talking of the heritage trust fund, that is correct. That is the essence of the problem, that when we were looking at several transactions that took place in a day, we knew the day, we knew the transactions, the records had been what had been hitherto considered to be adequate. But then we ran into the problem of wanting to know the sequence of those transactions to get at the substance of them. It was not easy without being able to reconstruct exactly the sequence of events in the same day. This a very rare situation that you get this, but we did run into it. It did suggest the idea that an improvement in control which, as far as I know, is not standard in other organizations that I know of. We felt that it would be a comparatively simple thing to note the time as well as the day. We already knew the date. We knew the transaction. There was no problem with the ordinary accounting data relating to each transaction. We needed a rationale, and we felt management should have the rationale behind each and every decision.

There were no sales, for instance, that were not properly authorized. But the records did not necessarily indicate why the sale took place because it had to be for a variety of reasons, as we state here: that funds were required for Section 6 investments, which can mean funds required for deemed assets. Then we have the disposal of lower yield bonds to acquire higher yield bonds. Now, we wanted to be able to identify what were these higher yield bonds; again, not as auditors necessarily, but to make sure that management could do this. Therefore, we are talking about significant improvement of the existing controls.

The immediate response that I got to that was to the effect that as from that date all secondary bond transactions would be subject to time stamping as well as dating. Also the documentation of the rationale -- diaries were established so that we and, more important than we, management could go back and follow, if you will, the thought processes that had taken place.

MR KNAAK: The point I was hoping would be made, and I think was, was that part of the reason for making this recommendation and then the implementation of the recommendation was the change in the market. Because of the vulnerability and the rapidly fluctuating interest rate, I believe it must have become necessary to make several transactions in a day to try to either minimize losses or maximize profits. Was that one of the reasons for making the change? Was it market necessity which wasn't quite the same before?

MR ROGERS: The erraticness of the market, while it has an adverse effect, of course is also an opportunity. Treasury management, rightfully -- and Mr. Chairman, in this whole thing I want to be fair to those people; not protect them, but be fair -- were exercising their judgment to try to, through trading, get a little bit extra on each trade. As I say, there was nothing wrong with that. The only thing is of course that it does create a situation that is very hard for management and auditors to follow at a later date. It really arose out of two situations. One was the erraticness of the market and the other was of course the growing size of that particular part of the heritage fund, that portfolio, which in 1980, from memory, I think was \$1.4 billion.

MR ISLEY: Mr. Chairman. I have no questions, but I do have a few comments. I think we've sat here in the last two meetings and we've heard the Auditor General state categorically that there is no evidence of collusion or fraud, that it is not his role to comment on investment decisions, that he's completely satisfied with the response to management letters, and that all funds of the Heritage Savings Trust Fund have been accounted for, which should discount the rumor that's been travelling around the province, precipitated by a member of this committee, that there is misplaced money. The bottom line . . .

MR SINDLINGER: On a point of order, please, Mr. Chairman. Perhaps the hon. member might identify the member of the committee who he's insinuating has been spreading rumors around the province.

MR CHAIRMAN: Perhaps he'll do it at the end of what he's saying.

MR ISLEY: I think the bottom line is that there is a clean Auditor's statement attached to this report with no reservations.

As one of the committee, I think we've taken this as far as we need to, and we could move on to other business. If there is any other member who has further evidence to submit to the committee, I suggest it be done.

MR SINDLINGER: Mr. Chairman, I would like to ask some additional questions in three different areas. The first area, Mr. Rogers, is in regard to the annual report. I'd like to refer to page 36 of the Heritage Savings Trust Fund. Note 4 gives segmented information on investment income loss, or whatever. In this case, for 1981 it's all income and there is no loss. On the marketable securities, under money market and under bonds, I can take that investment

income and by reference to page 25, deposits and marketable securities, summary of investment transactions for the year ended March 31, 1981, I can calculate a rate of return in the order of 12 per cent, give or take. That's consistent with the rates of return which are published in the other sections of this annual report.

However, if I attempt to apply the same methodology to the deposit in the Consolidated Cash Investment Trust Fund of the province of Alberta and look at the summary of investment transactions for the year ended March 31 on page 25, I note that at the beginning of the year, there is only \$44 million. At the end of the year there is only slightly less, \$43 million. So that over the course of one year, there's been a change of only \$1 million. There's a level of about \$44 million in that section. However, the investment income shows that there's investment income on that deposit of almost \$31 million. So, on a level balance of \$44 million over the year, we have investment income of \$30 million, indicating a rate of return in the area of 71 per cent.

Now, what this table doesn't show us on page 25 is that there obviously was a much higher level in there at one point of the year in order for that to earn a rate of return of 71 per cent, or \$30 million. I wonder if you might comment on that for us, if you would please, and indicate to us whether or not that money was left there for any specific purpose, whether it was drawn upon by the government to meet its normal day to day operations, or whether it was used to meet special warrants or special appropriations.

MR ROGERS: This money has a depositor in the Consolidated Cash Investment Trust Fund, which the heritage fund is. You're quite correct. That balance did jump around quite widely during the course of the year. But the reason for it is to keep as liquid as possible. That is represented in the assets of the Consolidated Cash Investment Trust Fund, which itself is a trust fund. Therefore, those moneys are not used for other purposes, because it also is subject to The Financial Administration Act. The balances of the depositors in the Consolidated Investment Trust Fund are in short-term money market instruments because the Consolidated Investment Trust Fund has to respond to draws on it. It isn't used for expenditures of government. That would be a contravention of the trust concept.

Mr. Chairman, just in passing, the whole idea of the Consolidated Investment Trust Fund when it was formed was to be able to pool trust moneys for investment purposes to maximize return. These trust moneys in no way should be intermingled nor are they intermingled with General Revenue Fund moneys. But what does happen is that at any given time, excess General Revenue Fund moneys are invested in the Consolidated Investment Trust Fund. In other words, the General Revenue Fund acts as a depositor. That's the only connection between the two.

MR SINDLINGER: A supplementary to that question, Mr. Chairman. The reason I brought it up is it seems that moneys deposited in any other section, bonds, government of Canada, short-term securities, as you've indicated in your response to my initial question, are recorded in this particular table on page 25, so that one can determine what did go into a particular division or place and what came out. However, on that Consolidated Cash Investment Trust Fund, there is only a snapshot picture, showing what happened on the first day of the year and what happened on the last day of the year. There is no way at all to determine what went in and went out of the Consolidated Cash Investment Trust Fund.

Perhaps that's not significant in itself, but when I look at other items in here; for example, on page 22 where the Alberta investment division's summary of investment transactions are for the year ended. There are several of these transactions which take place on March 31, I think, but it's difficult to tell, which raises some question in my mind all the time: why the movement of moneys around on the last day of the audit, and other questions as well. For example, under Alberta Agricultural Development Corporation debentures, investments, you see things listed there in chronological order. That applies all the way down the page, except for the very first investment of the Alberta Agricultural Development Corporation, which is March 1. I note that that may or may not have been acquired in this accounting period. It's difficult to tell. It might have been a back-dated issue. Things like that just lead to other questions. Perhaps this is what we've been discussing in the last hour and yesterday as well, the management control procedures. Perhaps I might ask you to respond to that.

MR ROGERS: Mr. Chairman, the statement on page 22, the statement on page 25 are a product of the department. While we review them for any misleading statement, which we don't believe there are any, nevertheless they are not subject to audit. Having said that, with regard to the way in which the cash deposit with the Consolidated Cash Investment Trust Fund is shown, they are not purchases in amortization, if you will. There's a constant flow of funds, non-renewable resource revenue. The heritage fund portion, the 30 per cent is in there until otherwise invested. They aren't investments. Instruments are not purchased in the Consolidated Investment Trust Fund. There's a constant, daily flow of cash in and out. That applies to the Consolidated Investment Trust Fund as a whole, whose statements of course are also in Public Accounts.

I really don't have a ready answer for the March 1 item. It was purchased in the year. It could well be that it was issued on March 1 but wasn't received or paid for until the new year started.

MR SINDLINGER: It could also be a redemption date, could it not?

MR ROGERS: I think this is shown as a purchase. As I said, I didn't prepare this statement. I think that question really should be asked of the minister.

MR MUSGREAVE: Mr. Chairman, I have trouble with the question. I can't see where it says here that they were purchased March 1. I thought that was the maturity date. But the Member for Calgary Buffalo suggested that suddenly there was a scurrying around on March 31 and there was a lot of investing done. Did I not understand him to say that?

MR ROGERS: These are maturity dates. That's what they are.

MR MUSGREAVE: All right. So the point we're making then is these could have been purchased at any time?

MR ROGERS: In the year, yes.

MR MUSGREAVE: Well, that was one allegation he made. I just wanted it clarified.

MR ROGERS: Well, you have to have them in some order. That's the earliest maturity date.

MR SINDLINGER: Before I go to my second question, I just should assure Mr. Musgreave that I was not making any allegations at all. I was just placing the question.

MR MUSGREAVE: Mr. Chairman, on a point of order. I sit here and try to struggle with the questions of the hon. member. But if he is not aware of what the question is relevant to, then I have great difficulty listening to his questioning. All I was trying to do was clarify if he suggested that the investment had been made on March 31. He said -- and I'm sure the record will say -- that many of them were made on March 31. I skimmed down and I could only see two March 31. Then I realized that I was looking at the maturity date. There wasn't a purchase date at all.

MR SINDLINGER: I must apologize for getting my hon. colleague so excited over there. I didn't mean to impinge on the integrity of anybody. I was reading the annual report. That's what it says. The Auditor General himself couldn't determine whether they were the purchase date, the date they're initiated, or the redemption date. What do you do? You ask the question.

My second question relates to the documentation you distributed yesterday, Mr. Rogers. It's just entitled the Select Standing Committee on The Alberta Heritage Savings Trust Fund Act, Tuesday October 27, 1981. The first subtitle is: Reporting Criteria. It goes on with Communication of Audit Observations and comes to Audit Responsibilities. Under Section 4.2.9. it says, and I quote:

It is accepted that in an examination made in accordance with generally accepted auditing standards, an auditor fulfills his professional responsibility by complying with those standards. An auditor seeks reasonable assurance that fraud and error, either intentional or unintentional, which may be material to the financial statements or other accountability information, have not occurred or that, if they have occurred, they are corrected and appropriately reported.

Then it goes on from there as well.

Mr. Rogers, as a professional chartered accountant, if in the execution of your duties as an auditor you found that there was scope for collusion or fraud, would that concern you?

MR ROGERS: Mr. Chairman, I would say that there is hardly an audit where there is not scope for collusion or fraud. Our responsibility is to make sure that the controls which will either prevent or detect such collusion or fraud are as good as they can be made to be. That is what our office is all about really. We say somewhere in this report that there has been a great improvement over the last four years. We were talking generally, not just to the heritage trust fund, but all aspects of the financial administration of the government. The statement I make here is perfectly true.

I said outside, and I think some of you may have heard me say it on the news last night, that we all know of situations where collusion and fraud carried on for many years and was not detected by the auditor. It is possible. If all the transactions are outside the books and records of the audited entity, it is quite possible that such fraud and collusion can go undetected. There have been many instances of that. But what I'm saying here is that we did far more testing than would normally be the case in a private sector financial

house operation, and we found no evidence whatsoever of fraud or collusion. The testing we did at least is persuasive in that, as I said, most of the transactions received a price higher than that day's market. It is at least persuasive of the fact that there was no wrongdoing.

You have to make a professional judgment on these things. I made such a judgment.

MR CHAIRMAN: This is bringing up a point, if the Chair could make a remark. We are now getting into a situation where we're discussing the Auditor General's report, because the item under discussion is under the Auditor General's report. There is another forum for these discussions. It's the Public Accounts Committee. As the Auditor General pointed out, he was talking about the general operation of the government's function, not specifically the Heritage Savings Trust Fund. It's the intention to conclude the discussions with the Auditor General today and also to conclude discussions of the remaining proposed recommendations. I think if any member wishes to go to Public Accounts, they can cover the rest of this in the Public Accounts forum. I understand the Provincial Treasurer will be there next Wednesday. The Member for Calgary Buffalo.

MR SINDLINGER: Thank you for your suggestion, Mr. Chairman. If we do deal with the Public Accounts, I assure the Auditor General that I will appear there before him. However, I would like to ask some further questions in regard to this matter which has been discussed at length yesterday and today, and just to clear them up. I would like to deal with them so that there is no uncertainty in anybody's mind.

Unfortunately, I do not have the benefit of having viewed you or listened to your comments to the public last night. Nor do I have the benefit of the responses to your management letters before me, as you do there. You have indeed graciously volunteered to provide some extracts to us. I understand the committee does not want to see them. I myself would not like to see the extracts unless I could see the entire response, because again, when you look at extracts, it raises questions about other things as well. I would invite you, if the committee does not want to receive that information from you, to please provide it to me privately. Perhaps we can discuss it that way. However, if that's not the case, let me go to the questions that have been raised here today, and also the material you have passed out.

MR D ANDERSON: Just a clarification. I understand that in fact those management letters cannot be tabled according to legislation. Is that correct or not correct?

MR ROGERS: My understanding, from advice I received this morning, is that those would be construed as part of the audit working papers; therefore, would not be subject to tabling under The Auditor General Act. The offer I made to quote certain extracts from the responses that were received from the management letter was because the management letter itself had been dealt with in some detail, at least certain aspects of it, and I felt that in fairness to everyone, I would take the responsibility of discussing verbally with this committee certain of the responses in order to clearly show that the responses were satisfactory. If the committee does not feel that is necessary, that is the end of the matter. I do regret that I would not be able, under The Auditor General Act, to provide copies to anyone.

MR KNAAK: On a point of order, Mr. Chairman, it sort of sounds as if there's some reason, in addition to the logical reason for The Auditor General Act being what it is. The kind of working letters that we're talking about talk about systems that should be instituted to assure that fraud or any dishonesty can be detected. If those kind of letters are made public, the whole purpose for having the letters would be vitiated. I think I just want to put that on the table so that there is no leftover doubt that there is anything in those letters that normally couldn't be available to the public. But it has an actual purpose why those kind of working papers aren't distributed. They would vitiate the whole purpose of having them. If everyone knows what the plan is, then there's no longer a plan.

MR SINDLINGER: Mr. Rogers, I would like to put two final questions to you, please, for greater certainty. As a professional chartered accountant, in your audit of the Heritage Savings Trust Fund did you find that there was any scope for collusion?

MR ROGERS: I have to reply that in this kind of situation, where dealings are over the telephone lines, there is always the scope for collusion. All I'm saying is I believe that through reorganization, tighter management control of transactions, that possibility is greatly lessened. I would also say that in the attest audit, which is really leading up to my letter on page 27 by which I state that the financial statements fairly show the transactions in accordance with GAP, subject to the noted exceptions from GAP, that in that attest audit we did a far more extensive test of these transactions than would normally be the case in a normal audit. The reason we did that is because there's an obvious opportunity, if you will, but as long as you're dealing on a day to day opportunity, there is always that risk. But there is no evidence that any collusion or fraud occurred. That's all I can state.

MR SINDLINGER: That's a very explicit response, and I thank you very much for it. It was a direct question and a direct answer.

The last question I would like to ask is about the communication of the audit observations. The distribution of your management letters is discussed in the material I referred to just previously. It says that copies of the management reports are forwarded to the minister responsible for the audit entity as well as others: deputy ministers or senior executive officers. Mr. Rogers, in getting responses to these management letters, do you or have you ever met with the responsible minister and discussed the content of the management letter and the response to the management letter? The reason I bring it up is in regard to comments made by Mr. Clark yesterday and questions posed to Mr. Hyndman in the Legislature yesterday.

MR ROGERS: No sir. The letter is my own. Admittedly, my staff -- I don't write every one personally, but I approve every one personally. I have first-hand knowledge of every one personally. I very often make the ultimate decisions as to the way in which we will reflect an item, but those decisions owe nothing, as I said earlier, to any member of Executive Council, any deputy minister, any appointed official. They are solely the product of our office.

MR SINDLINGER: I didn't mean to imply that they helped you in drafting or writing the letter. I was directing my question more to the response. For example, did you have any discussion with whatever minister was relevant at

the time in regard to the letter -- meetings over lunch or dinner, or things of that nature -- when the subject came up?

MR ROGERS: The discussion with the department finishes at the exit conference. That exit conference is only common sense. Auditors don't have that good vision of all things. They are not experts in everything and don't hold themselves out to be. Therefore, it is absolutely necessary, to protect the auditor as much as anyone else, that his findings be discussed with the client. That is normal practice, that is prudent, and I don't think that affects the independence of the auditor one iota; the fact he sits down and discusses his findings with the auditee. At that point, the auditee has a pretty good idea of what is going to be in the management letter because of the weights you give these things in discussion.

These exit conferences are not attended by me but are attended by senior members of my staff, usually the people involved in the audit.

MR SINDLINGER: Does the minister attend those exit conferences?

MR ROGERS: No sir. They are sometimes attended by deputy ministers, depending on the particular entity. But often as not, only senior officials in a department below a deputy minister are involved. Usually they are the people whose work has been audited. It gives them a last chance to make representations as to the correctness of our findings. If we feel we have been unfair to those people, if we feel there is an element of doubt, we will go back and do more work. We must satisfy ourselves that what we are reporting is accurate. That's our only concern.

MR SINDLINGER: Mr. Chairman, I'd just like to thank you for the latitude you've given me in asking what I have found to be very difficult questions to ask.

MR CHAIRMAN: Thank you. Are there any more questions for the Auditor General?

MR MUSGREAVE: Just one last question. These management letters, once they're out of your hands and into the department, are reviewed by the minister or whoever is responsible?

MR ROGERS: Yes they are. Also, of course, they are reviewed by Treasury Board. If a department does not respond, they don't hear from me; they hear from Treasury Board.

MR MACK: Mr. Chairman, since we're talking about collusion and fraud, it occurred to me that could there possibly have been a fraudulent attainment of a management letter outside of those that were necessarily to be purview to that type of correspondence?

MR ROGERS: Mr. Chairman, I can't comment on that, I'm afraid.

MR CHAIRMAN: Before the Auditor General leaves, I'd like to comment. I think it has been a very useful discussion. I hope it has clarified to the people of Alberta that both the government and the employees of government who as trustees look after the funds of the people are doing it honestly, without collusion and fraud, to quote your own words. I'd like to thank you for the

clarity with which you've explained the situation. I hope this will settle the matter.

MR ROGERS: Thank you, Mr. Chairman. On one little point, I would say that I've enjoyed the opportunity to appear before this committee. I would suggest that it might be considered by the committee as something that happens once a year perhaps, for one session. I would leave that entirely to the committee, but I would be very happy to make myself available for such a meeting.

MR CHAIRMAN: I'd like to thank you, sir, and your staff for coming.

Perhaps the committee can now revert to the few remaining recommendations. I know that the Member for Spirit River-Fairview is not here, but he has indicated to me that he intends to withdraw the remaining recommendations standing under his name.

MRS FYFE: Mr. Chairman, does that include those that have been referred but were sponsored by that member?

MR CHAIRMAN: He indicated to me he was withdrawing all the remaining recommendations standing under his name, so I presume that means the ones that were referred as well.

MRS FYFE: Right. All the ones that haven't been dealt with. Thank you.

MR CHAIRMAN: I think we go to Recommendation No. 27, the Member for Calgary Buffalo.

MR MUSGREAVE: Mr. Chairman, I just wonder who is going to acquire the building. I understand the provincial government already owns it.

MR CHAIRMAN: Perhaps the Member for Calgary Buffalo can explain that.

MR SINDLINGER: Mr. Chairman, Recommendation 27 I'd like to read into the record, please:

Consideration be given to acquiring the building occupied by Kerby Centre in Calgary and the adjoining land. Furthermore, that this building and land be leased in perpetuity for \$1 to the Kerby Centre for the purpose of establishing a gerontological centre for Alberta and a multi-service resource centre for seniors.

Mr. Chairman, it's true that the building now is occupied by an organization called Kerby Centre. The building used to be Mount Royal college. The building, the land it is on and is adjacent to it are all owned by the province. The question Mr. Musgreave posed was who would acquire it. I suggest that the heritage fund acquire the land, just as the heritage fund has acquired the land for the Capital City park, Kananaskis Country, Fish Creek park, or whatever, and that the heritage fund hold it as a capital asset. Is that an adequate response, Mr. Musgreave?

MR CHAIRMAN: Are there any more comments referable to Recommendation 27?

MR MUSGREAVE: Mr. Chairman, I really would have trouble supporting this because there are a lot of agencies in Calgary doing this kind of work now.

As the member said, the Kerby Centre operates from the building. They do have the multi-service resource centre for seniors right now. I understand that gerontology studies are under way at the University of Alberta and the University of Calgary. Frankly, I question the wisdom of setting up another such enterprise.

The concern I have, though, is that I don't think the heritage fund should be getting into what is essentially a small operation in relation to Fish Creek park, which is many millions of dollars and a very large, significant project.

MRS FYFE: Mr. Chairman, as a member who represents a constituency considerably north of Calgary, I'm not familiar with the services of the Kerby Centre, other than in a very superficial manner. It would seem to me that specific requests that come to this committee should certainly be documented by some information to assist members in making a decision as to whether this type of program would fit into the terms of reference of the capital projects division of the Heritage Savings Trust Fund. This is no more meaningful to me than if I had submitted a recommendation within the constituency of St. Albert that would have no broad understanding to members throughout the province.

So I don't feel I could support the motion. It may be a very worth-while idea, but I simply don't have enough information upon which to make an intelligent decision.

MR CHAIRMAN: Any further comments before the Member for Calgary Buffalo concludes?

MR SINDLINGER: Mr. Chairman, Mrs. Fyfe would like some more documentation, some more information. Perhaps I can give it to her. What the people at Kerby Centre are interested in doing is developing a housing project for senior citizens in Calgary. It would be for people of moderate means. Over the years, the people at Kerby Centre have conducted surveys with regard to the needs for seniors in the city. It is not a centre just serving people in a specific locality, but serves people in all areas of Calgary, a population of almost 600,000. They've been so successful in doing that that they have been visited by various senior citizens' groups around the province to emulate what they are doing there. What they are doing there derives directly from their motto; that is, seniors serving seniors. They're not asking people for things. They're not asking for people to do things for them. They're attempting to acquire the means whereby they can meet their own needs. They want to be self-sufficient. They've also been visited by people from around the world -- Australia, New Zealand, London, and Germany -- looking at the system they have there, so that those people in those countries might also emulate what is being done in Calgary.

Kerby Centre is in my riding, Calgary Buffalo. I would ask members not to look at it in those terms, that it is the Member for Calgary Buffalo who is sponsoring this or the fact that this is in the riding of Calgary Buffalo. It's a centre that serves people across the province. It's unique in Canada. There is nothing else like that. I've put plenty of recommendations before this committee, a lot of them technical, some involving a little foresight. But there is nothing I've ever said or could have done in this committee or in the Legislature over the three years I've been here than just to progress a recommendation like this for those senior citizens. I'm not asking this committee to say that the Alberta government should do this or that the Alberta government shall do that. All I'm asking is that consideration be

given to doing this. Please, why can't we just give consideration to this concept?

You're absolutely correct. I don't have enough documentation here to support this thing, to substantiate what I'm saying. But the same criticism could be made of every other recommendation in here. If I had the time and resources behind me, all those recommendations that I had here I would have come to you with some sort of report, sufficient documentation to sway a decision one way or another. But it's difficult to do that.

All I'm asking the committee to do is to please recognize -- and I'm not saying the government shall do this or not do that. I'm just saying please give consideration to it, think about it.

MR MUSGREAVE: I hate to be crossing swords with the hon. gentleman, but I thought the committee was to do more than to just make recommendations that the government consider. I thought our recommendations were supposed to be firmer than that. I'm very sympathetic with this project. For the benefit of the hon. member, I was on the steering committee of city council that got this thing started way back when. We worked in the basement of the building on 8th Avenue behind, which was then the office of Mount Royal college which, as he says, was located there. The province has spent hundreds or thousands of dollars upgrading this building, including putting in a new elevator. The last I heard -- I haven't checked into this, but it was a PSS funded program. So it's not an operation that is standing on its own feet.

I know there is a report out on housing, and I recognize some of the names of the people who were interested, and they were trying to promote a condominium project across the street from the college on some vacant land owned by the province. I think they've got lots of things going for them, and I really feel it just doesn't fit into our responsibilities as members of the Heritage Savings Trust Fund. I'm sorry.

MR CHAIRMAN: From my understanding of the discussion, the building is currently owned by the province, and among last year's recommendations was the establishment of a gerintological centre. I think in the responses that came from the Provincial Treasurer, there was indication that that is currently under study by the Department of Social Services and Community Health. Any further remarks?

MRS FYFE: I just want to take issue with one comment the Member for Calgary Buffalo said. In trying to justify why he hadn't brought background information, I do not agree with him that many of these recommendations have the same amount of background provided or that the resources that affect the ability of the member to explain the background of any situation. Most recommendations are a principle we are recommending or a direction in a specific area. For something as very specific as the name of a centre which other members are not familiar with simply limits our ability to make any intelligent decision. All we can now do is to look at the principle or the trust fund's acquiring assets that are already owned by other segments of government.

Thank you, Mr. Chairman.

MR CHAIRMAN: Those in favor of Recommendation No. 27? Those against? The recommendation is defeated. Perhaps we can now go to Recommendation No. 4, on page 4, put forward by the Member for Calgary Buffalo, which was held over.

MR SINDLINGER: I thought we had dealt with all my recommendations. On the last meetings we had on these recommendations, Mr. Chairman, I thought I had withdrawn all the recommendations I had except this one on Kerby Centre.

I can't really discuss this Recommendation 4, that:

Consideration be given to guaranteeing an adequate fresh water supply to small communities.

Mr. Chairman, I have an opinion on this matter. I might suggest that I also have an informed opinion on it. However, I can categorically say that I don't have an expert opinion on this matter. I would suggest to the member Mrs. Fyfe that for almost all these recommendations, all of us have an opinion. Some of us might have an informed opinion. But I would challenge anyone to demonstrate they have an expert opinion upon which a decisive and conclusive response could be made to any of these.

MRS FYFE: I think the member is being a little difficult. Regardless, I have done some bit of research on this recommendation since it came up last time. I think the basis of the recommendation is a positive one. In fact I would support the resolution.

I would like to make some comments, though, related to discussion. Last time we discussed this, I mentioned a number of communities in which I felt it may not be realistic to provide adequate water if in fact there is no supply that the cost of piping water may not be realistic, that development dependent upon the supply of fresh water may not be able to go ahead based on this resolution.

Specifically, I want to mention some comments made by the Member for Spirit River-Fairview, who brought forward information to this committee of the taxation base of the town of Spirit River. I feel he misled the committee in saying that taxation increases this year were primarily due to the provisions of fresh water supply within that community. I agree with the member that there were very significant taxation increases in Spirit River. But out of a total mill rate increase this year to 136.52 mills, 27 were to cover debentures involving the supply of water. So there was a very large increase but a very small proportion of that increase was due to actual water. I don't want for a minute to underestimate the problems that the town of Spirit River is having in providing municipal services. But I also don't think it's fair to mislead the committee in providing information that is not accurate.

MR FJORDBOTEN: Mr. Chairman, the Member for Calgary Buffalo said he had withdrawn that recommendation, and some others, and we're in the process of debating it. Is it academic? Is it withdrawn or is it not withdrawn?

MR CHAIRMAN: Perhaps I can clarify this with the Member for Calgary Buffalo. Has he withdrawn Recommendation No. 4 on page 4? Also, I don't have indication of formal withdrawal of Recommendation 18 on page 3.

MR SINDLINGER: Yes sir. I've withdrawn Recommendation No. 4 that we've just referred to. We did discuss Recommendation No. 18. We've debated these things enough, so I withdraw them in order to serve expediency.

MR CHAIRMAN: Are any other members of the committee aware of any other resolutions we have not dealt with? By my list, they are all finished. Agreed?

HON MEMBERS: Agreed.

MR CHAIRMAN: Perhaps we can now adjourn. I will try to put together a report, which I will submit to the committee as soon as I can so we can get it tabled in the Legislature.

I'd like to thank the members of the committee for their patience. I think we've accomplished some useful work this morning in clarifying the situation about government funds.

MR MACK: Mr. Chairman, as a new member to the committee, I understand this is new to you. I wish to congratulate you on the manner in which you've conducted these meetings, and your patience and understanding of those of us who must obviously have a learning process. Thank you very much.

MR CHAIRMAN: The committee is adjourned.

The meeting adjourned at 12:37 p.m.