

Standing Committee on Alberta Heritage Savings Trust Fund Act

Monday, August 9, 1982

Chairman: Dr. Reid

2 p.m.

MR. CHAIRMAN: Ladies and gentlemen, before we call the committee to order, I see a gentleman sitting on the floor of the Chamber who should be in the gallery.

MR. SINDLINGER: Mr. Chairman, perhaps I could introduce to you, and through you to the members of the committee, Mr. Gordon Chambers. Mr. Chambers is a research assistant of mine. He's been assisting me through the summer on the heritage fund and other matters. I've retained him through STEP, the summer temporary employment for students. He's a third year commerce student and has assisted me a great deal. He's also a national debating champion and has won an international debating championship as well. I hope that the committee would give consideration to his presence as it does to the other assistants; for example, for Mr. Rogers and other assistants who come in with the ministers.

MR. CHAIRMAN: The Chair has considerable difficulty with this idea. We'd have 75 people down here pretty quickly, assisting the various members during the discussions. If we start getting research assistants and secretaries and everybody else, the next thing is we might as well have everybody down here. I have some difficulty with it. I don't know about the rest of the committee. I think Mr. Rogers and his staff are in a different situation.

MR. SINDLINGER: I'd just like to know. For example, in other years when we've had the Minister of Housing and Public Works, he's come in with 11 assistants. Certainly he has the time and the expertise to be familiar with his own subject area, yet he brings in his assistants. We as MLAs do not have that much research capability, and I'd certainly like to have access to that which I do have.

I would also like to note that we just happen to borrow the Legislature Chamber for these meetings. When we have held the meetings in other rooms -- for example, upstairs or the committee room beside the Chamber -- we've always had beside us research assistants or whichever observers we might like to have, assisting us in our deliberations. So given those precedents, and bearing in mind also that we are in committee and that we don't have the Mace on the table, there is nothing in *Standing Orders* or *Beauchesne* which would preclude having someone assist the Member of the Legislative Assembly in these matters.

MR. CHAIRMAN: Well, it's up to the committee. Has anybody else any comments they wish to make?

MR. PAHL: Mr. Chairman, I think the hon. Member for Calgary Buffalo may need the help, and I guess that's his judgment. But if I could contribute to it, I think he's already answered the question or the point. When the committee sits in Committee of the Whole, I think it's elected members who occupy the Chamber and work on the committee. I would feel a little uncomfortable, to say the least, with broadening that membership in our deliberations as a

creature of the Legislature which has been limited to members of the Legislature. So I would respectfully request that attendance on the committee be limited to members of the committee.

MR. NOTLEY: Mr. Chairman, first of all, if we're going to be taking a direct parallel with the Legislative Assembly during our committee studies, it would not be appropriate for any of the ministers to have any assistants. But of course we've allowed assistants to come in. When ministers take their estimates through the Legislature during Committee of the Whole, they are not in a position to have people sitting beside them on the floor. They have to be here by themselves and check up in the galleries, et cetera. So we've already set a precedent, in a sense, over the last number of years, that our guests are able to bring along people who can assist them.

The question then is whether or not members of the committee, fulfilling our responsibilities in asking questions of the witnesses, should be in a position to have people sitting near us. Mr. Chairman, I think it would probably strengthen the role of the committee if in fact we did have this opportunity. Perhaps Mr. Pahl is in a position where he doesn't need assistants. But after 11 years, I quite frankly suggest that I need assistants all the time. If we're honest with ourselves, I think all of us recognize that in some of these specialized areas, especially when we're getting into a line of questioning, the assistance we can obtain could be extremely important.

Might I also suggest for your consideration, Mr. Chairman, that while over the last two years we have had Committee of the Whole for the study of the estimates, for a number of years we had subcommittees studying the estimates that did not meet in this particular Chamber, but met elsewhere in the building. During those subcommittee meetings, anyone from the public could come in. I remember on a number of occasions having my assistants right behind me during the course of these subcommittee meetings. For that matter, the ministers had their assistants, or people from the department, present as well.

So in my judgment, I think that what Mr. Sindlinger is doing is simply borrowing an approach that has been used in subcommittee study of the estimates and applying it here. Frankly, I think it's a reasonable one. Not all members may want to do it. Fair enough; no one says that they have to do it. But it seems to me that it would be helpful.

MR. R. SPEAKER: Mr. Chairman, from my own personal point of view I see nothing wrong with having an executive assistant or assistants in the Legislature. I just want to raise the matter that I think it was three or four years ago, I as well brought in my executive assistant to assist me in the committee hearings. At that point the committee, through the chairman, said that assistants weren't allowed in the Legislature and it was prohibited. Since that time, I haven't done that. But on the basis of making the decision now, I see nothing wrong with it.

MRS. FYFE: Mr. Chairman, I think the matter of communication is certainly important to members of the committee. However, these meetings are open to the public, the galleries are open, and I think it allows ample opportunity for any research or back-up assistance that members may require. Maybe what is lacking is the capability of having a paging service or someone who could bring notes back and forth with ease.

My concern in changing the precedent this committee has set, that there be no outside members assisting members of the committee, is that we would perhaps cause more confusion within the meetings themselves where some discussion is taking place. If no discussion is taking place, there's no reason that communication cannot be carried on through written correspondence,

as it is now, where the commissionaires will bring written material to any of the members. When we ask ministers to sit before the committee, or any other guests to attend the meetings, such as this afternoon, we're asking these people to bring forward the maximum amount of material and information and have answers to the questions as quickly as possible. So I think those two situations are not comparable.

I'm just extremely concerned that if we allow this one incident, then obviously all members would feel that we should bring more persons into the meeting. I'm very much concerned that it could have the potential for disrupting the meetings, and I don't think that's the intent of these meetings.

MR. KNAAK: Mr. Chairman, the Member for Calgary Buffalo is always innovative, and that's good to see, especially in this particular committee. The analogy drawn by my two colleagues from Spirit River-Fairview and Calgary Buffalo isn't exactly apt. In some sense we're divided in the House between the executive and the legislative functions. In fact when cabinet ministers bring support staff into this Chamber, they're here as members of Executive Council, not as MLAs. When members of the Executive Council function as MLAs in a debate or in any other kind of capacity, no support staff is present.

In order to carry the logic further, I would submit that when we participate in some of the contentious debates in the House, it would be very helpful for all of us to have assistance in terms of following the debates and assessing them, which are just as complicated as examination of the Heritage Savings Trust Fund report. It would set an interesting precedent if we start talking about all MLAs and all MPs having support staff in the House. It would be a great movement away from the principle of the elected member sitting alone in the Chamber to represent the people of this country.

Although I think the idea of having support is a good idea, we all do have support outside this Chamber. We get briefed and come into this Chamber. But when we're here, we're on our own. Presumably we've been briefed before we come.

MR. SINDLINGER: Mr. Chairman, in conclusion I'd just like to say to you and to the committee that I would like to have equal and fair treatment, just as the ministers have. If they're allowed to bring in their assistants and support staff, if we desire to do so on this side I think we should at least have the opportunity.

MR. ZAOZIRNY: Mr. Chairman, without wishing to unduly prolong this discussion, I'd like to take up the final comment made by the hon. Member for Calgary Buffalo when he talks about equal treatment. If we were to allow an assistant to be present in the Chamber with that member, it strikes me that it would in fact compound the present inequality that exists in terms of the research availability to members of the Legislature. As members are aware, quite generous funding is presently made available to members of the opposition which does in fact enable them to have a much greater research capability than government members of the Assembly. While I'm certainly not taking issue with that, I think that to go a further step and allow the hon. Member for Calgary Buffalo and other members of this committee who have that greater research facility to bring them into this Chamber would be a gross inequality in terms of the ability of members to function.

So I share the view of those other members who have expressed some concern at the precedent the member is seeking to establish.

MR. CHAIRMAN: Having listened to the debate, I think I am prepared to make a ruling. This is a standing committee of the Legislature, appointed by the

parliament of Alberta to do certain functions on behalf of the Legislature. The appointed members of the committee are all elected members of the Legislature. My ruling is that only the elected members take part in the committee function on the floor of the House. So I would ask the gentleman to go to the gallery.

MR. SINDLINGER: Mr. Chairman, thank you for the consideration given to the presence of Mr. Chambers.

MR. CHAIRMAN: Thank you ladies and gentlemen. I would now like to ask the provincial Auditor General, Mr. Rogers, to introduce the two gentlemen with him. If he has any initial remarks he would like to make, perhaps he could follow his introductions with those remarks.

MR. ROGERS: Thank you, Mr. Chairman. I would like to introduce the gentleman on my right, Don Salmon, Assistant Auditor General, in charge of the general audit division of the office. On my left is David Birkby, who is a principal in charge of the Heritage Savings Trust Fund audit.

In order to facilitate movement through the report and primarily the financial statements, I would like to issue a handout, which will bring the figures in front of the members of the committee, which I will then comment on in the course of the comments I will be making on the report and the financial statements.

While that is occurring, perhaps I could comment on one possible anomaly in the report which is not a matter of any figures being incorrect, but probably in need of further explanation. In the third paragraph from the bottom of the first column on page 3 of the report by management, which was reviewed during the course of the audit, are the words that the heritage fund provided over \$250 million in new financing to the Alberta Opportunity Company and the Alberta Agricultural Development Corporation. If you look at those two companies on page 5, you'll notice it comes to \$244 million. The answer of course is in the word "Net" at the beginning of that particular section, "Net new financing". In total, \$266 million of debentures were purchased by the two companies concerned, but there were also \$22 million of disposal, repayments, and redemptions in the year. So the net is indeed \$244 million, whereas the comment on page 3 deals with the total debentures purchased during the year.

Similarly, the next paragraph on page 3 says "New loans totalling over \$700 million were made to the Alberta Municipal Financing Corporation and to Alberta Government Telephones." If you look on page 5, you'll notice that the total financing to those two entities amounts to \$587 million. Again the debentures purchased by AMFC and AGT total \$732 million. There were \$145 million of disposals, repayments, and redemptions during the year, making up the \$587 million which is shown on page 5. So while there is an apparent anomaly between the two sections of the report, in fact there's not because in one case it is talking about gross financing and in the other net financing.

Mr. Chairman, if I may I would now like to turn to the financial statements. The Auditor's report is in the format of a private sector auditor's report, as prescribed by the Institute of Chartered Accountants in the handbook, and it is a clean report without any reservations of opinion.

Commenting on certain fluctuations between 1981 and 1982, I would like to draw members' attention to the Alberta investment division investments. On the first page of the handout, you'll notice that the increase was in the order of \$1,811 million. The increase is broken down in this handout and shows the increase in the year in the first column. The total represented by the balance sheet figure is cumulative, of course, from the commencement of the operation of the fund, subject to any disposals or repayments. So the

Alberta Home Mortgage Corporation increase is \$749 million as between 1981 and 1982, with a total of \$1,903 million. And so on with the Alberta Municipal Financing Corporation, the Agricultural Development Corporation, AGT, and Alberta Housing Corporation. So there was an investment in government entities during the year of \$1,761 million.

There was also an increase of \$255 million in participation in the Syncrude project, to \$439 million in total. As between 1981 and 1982, there was a decrease of \$236 million in the convertible debentures of \$200 million and capitalized interest of \$6 million. That of course was converted into 8.74 per cent equity interest in the Syncrude project. There were other increases of \$31 million, making up the total of \$1,811 million.

Similarly, if we look at the Canada investment division, there was an increase of \$417 million, rounded off, as between 1981 and 1982, and this is accounted for in the increases in debentures, as shown. This information is all available, but it is in the various schedules. I simply brought it out for ease of everyone concerned.

The other large difference is marketable securities. The decrease in this case was to the extent of \$442 million. As between '81 and '82, there was a \$113 million decrease in bonds held and a \$329 million decrease in money market securities. The decline in residual funds to finance commercial investment division acquisitions of \$189 million was the main reason for the decrease. Also, the decline helped to finance other acquisitions, including capital projects not covered by injection of new funds into the trust fund.

Item 4, of course, did not appear in 1981. The \$189 million was investments in the new commercial investment division: common shares, \$86 million; convertible bonds, \$5 million; and money market securities, \$98 million.

Mr. Chairman, the only other significant change in the financial statements is on the statement of income retained earnings, transfers, and fund equity. That is the increase in provision to adjust marketable securities to lower of aggregate cost or market value. The total difference here is of the order of \$41 million, because in the previous year there had been a decrease in the provision. The purpose of the statement relating to item 5 is to show how that came about. If you look where it says Bonds -- Amortized Cost, \$427 million in 1982, \$519 million in 1981, and \$522 million in 1980, then at the respective market values you see the amount of provisions that had to exist in each of those years. Now, as the provision at March '79 was \$14 million, it was necessary, in order to increase the provision to \$103 million -- which was necessary at March 31, 1980 -- to increase the provision by \$89 million in that year. As at March 31, 1981, it was only necessary to have a valuation provision of \$83 million. There was a decrease of \$20 million. But in 1982, in order to achieve a provision of \$104 million, it was necessary to make an increase of \$21 million.

In periods of rising interest rates market values of bonds will decline. Between March 1980 and March 1981 although interest rates increased, the timing of sales and purchases was such that the provision for unrealized losses could be reduced at March 1981. In the following year to March 1982 rates continued to rise and it was necessary to provide a further amount for unrealized losses, reversing the previous year's reduction.

Mr. Chairman, those are the main or the more significant changes as between 1981 and 1982. Otherwise, I have no comments on the statements themselves.

MR. CHAIRMAN: Thank you, Mr. Rogers.

MR. SINDLINGER: Mr. Chairman, I have many questions I would like to ask the Auditor General, but prior to getting to them I would like to ask two questions in regard to the comments just made by Mr. Rogers in the handout he's given us.

The first is in regard to the points made on the annual report on pages 3 and 4, the reconciliation between net and gross. I recall last year, when the Auditor General was before us, the Auditor General being asked which portion of this annual report was his responsibility. His response was that those blue pages at the back of the report were his responsibility. Those were the ones prepared by him. So the first question I ask is in regard to the comments on the first part of the report, which is the responsibility of the Provincial Treasurer. I ask why the Auditor General is this year making some comments in regard to the statements there.

Secondly, in regard to the handout that we've just been given on the financial statements, I wonder why the Auditor General felt it was necessary to do that. It would seem to me that the financial statements should stand on their own; that is, when they are published and distributed throughout this country, anybody who picks them up should be able to look at them and they should be comprehensive and conclusive, because there will be many throughout this country who pick up this report who will not have access to the handout the Auditor General has just given us today. If these statements are not complete enough for us here today that we have to have a handout, then I can see other people in other parts of the country having difficulty when they get this report, picking it up, not having the handout, not having the comprehensive material given us today.

So if I could summarize the two questions: the first is why the Auditor General felt it was necessary to comment on the Provincial Treasurer's portion of the report; and secondly, why the financial statements do not stand on their own and require a handout to complete them.

MR. ROGERS: Mr. Chairman, I perceive my responsibility to assist this committee. I felt that the information would be helpful to the committee and, accordingly, I supplied it. As to why I saw fit to mention an apparent anomaly that would appear to have been an anomaly to a reader of the annual report, I was merely making that clear, although if you look at the statements on page 9, the same information is there. I was not supplying any additional information. Similarly with the other comments in this handout, it is not new information. It is all in here, except to assist the committee I felt that pulling it together in a slightly different fashion would be helpful to the committee in its deliberations. Mr. Chairman, I have not added any information.

The investments in the Agricultural Development Corporation, AGT, the rest of it, are all there in statement 9. In summary fashion, I'm tying those to what is in the financial statements. As I said last year, as to my responsibilities for the information, the only thing I actually prepared was the Auditor's report. I've audited the financial statements produced by management. I agree with those financial statements. Changes were made as a result of our concerns. I'm now satisfied with those financial statements and am willing to attach a clean report to those statements.

As opposed to anything to do with policy, all dollar information in the Provincial Treasurer's report is subject to very careful scrutiny and review by my office before the report is prepared. It was arising from that review that I made the comments.

MR. SINDLINGER: I'd like to ask a supplementary, please, of the Auditor General. Obviously, the conclusion one must draw is that the information put together in the handout facilitates understanding. I'm wondering if the

Auditor General would consider putting that information in next year's annual report in that type of format, so that the report can stand on its own.

MR. ROGERS: As I said, the purpose was to facilitate the committee's study of the financial statements. I see no reason why that information couldn't be given in exactly that form at a later date.

MR. R. SPEAKER: Mr. Chairman, I'd like to refer to item No. 5 on your handout and to page 14 in the report. In studying the report, I noted on page 14 the increase in provision to adjust marketable securities to lower of aggregate cost or market value, at \$21 million. I note here in this report you've explained a little better why the increase is \$21 million. In your note at the bottom, you note that "was necessary to provide a further amount for unrealized losses, reversing the previous year's reduction" for that same purpose.

Two questions. Is the unrealized loss we're talking about only for bonds purchased? It isn't any other kind of speculative type of investment? It's only for bonds? That was my first question for clarification. When I looked at the report, it wasn't clear to me whether it referred to bonds only.

The second question is in terms of your observations in using this technique. In making provision for an increase in this area, I could see that if bonds were losing money on the market, it would be better to keep the bonds under the category of unrealized losses rather than putting them into realized losses. If the government came up with another \$60 million realized loss, I'm sure there would be a lot of discussion in the Legislature. From your observations and investigations, are there any indications that the unrealized losses are kept at a higher rate to protect any rapid or significant increases in realized losses relative to bonds?

MR. ROGERS: No, Mr. Chairman. I think I could put it this way. If they had disposed of all the bonds on March 31, the realized loss for the year would have been \$25 million, which is the total of \$21 million and \$4 million on page 14. However, the provision to adjust marketable securities -- and we are only talking of marketable securities here -- you're quite correct in saying it only relates to bonds. The reason for that is that the cost and market value of short-term investments are the same. So we are only talking about the bond part of the marketable securities. But again, we're only talking of marketable securities; that is, Section 10. This market value of these bonds could of course go up again if interest decreases.

MR. CHAIRMAN: Any further questions on that point?

MR. ZAOZIRNY: In respect to the level of interest rates, sir, would you have at your disposal the Bank of Canada rate prevailing at the time of the statements -- namely, March 31, 1982 -- in relation to that rate today? In fact there has been some fall in the interest rate. Is that information readily available for the information of the committee?

MR. ROGERS: Mr. Chairman, in answer to that question, we don't have the actual rate available to us. It is somewhat difficult, because the rate usually applies to short-term. It doesn't apply to the bonds. We would have to trace the performance of bonds between March 31 and today. I'm afraid I don't have that information to hand.

MR. PAHL: If I could supplement that. I guess the point made is that the unrealized loss would decrease somewhat.

MR. ROGERS: That's right, because interest rates have been dropping.

MR. NOTLEY: I presume that while Mr. Rogers is here, in addition to answering questions on this statement he will be quite prepared to respond to questions on the special Auditor General's report on the trust fund as it relates to the statement. I presume that would be a correct assumption.

Mr. Chairman, I wonder if I could refer Mr. Rogers to pages 19, 20, and 21 of the Auditor General's report, with respect to the recommendation dealing with accountability of the heritage trust fund. That we might be in a better position to consider what recommendations the committee may make in its annual report, perhaps the Auditor General could give us any further information with respect to Recommendation No. 1:

It is recommended that consideration be given to amending the Alberta Heritage Savings Trust Fund Act to require investments in Provincial Corporations and other government entities, under the Alberta Heritage Savings Trust Fund's Alberta Investment Division, to be first appropriated from the Trust Fund by an Act of the Legislature.

Mr. Rogers, have you had an opportunity to discuss this recommendation with the investment committee?

MR. ROGERS: No sir, I haven't. The response of the government hasn't been made as yet. Of course I have discussed it with the Audit Committee and with senior officials of the Treasury Department. They're fully aware of my intent in making this recommendation.

Mr. Chairman, if I could, as background I would like to state that because of what I anticipated would be quite a wide readership of the report, the pages mentioned -- 19, 20, and the top of 21 -- were to summarize the way in which the Westminster system, if I may call it that, operates, paying particular attention to that authority that is delegated to government by this Assembly and the fact that when authority is delegated accountability is created. As an officer of the Legislature, I feel that it is within my purview to make recommendations relating to the accountability systems in place.

It seemed to me that investment made to entities controlled by the government is not truly an arm's length transaction and, although an investment vehicle is used in order to deploy heritage savings trust funds to Crown entities, in fact it is a deployment of such funds, which, as I mentioned, is really a facilitator of government policy. As such, because of my belief in paramountcy of the Legislative Assembly, I feel that at least those funds should be approved by the Legislative Assembly. That is the reason I made that recommendation.

MR. NOTLEY: Mr. Rogers, may I just pursue that with a supplementary question. In view of the fact that of the growth in the fund of about \$2.4 billion, a little more than 75 per cent is going into Crown corporations of one kind or another, are there any obstacles that prior legislative approval would have placed in the way of proper investment of the 75 per cent of the increase, if you like, in the trust fund?

MR. ROGERS: Mr. Chairman, my belief is that no obstacle would be placed. If approval were being given on the basis of estimates of the requirements of the various Crown entities involved, at the same time there would also have to be some method whereby the unforeseen and unprovided-for happening during the year could be accommodated, which would entail some situation whereby amounts

could be loaned from the Heritage Savings Trust Fund on the basis of executive authority, rather along the lines of special warrants. I did not include that in my recommendation, because I thought it would be self-evident that the Legislative Assembly would not want to see the government tie its hands to the point where it could not advance funds for an urgent and proper purpose.

MR. NOTLEY: May I supplement the question then, Mr. Rogers. I think most of us would understand that. While we may not like the extent of the use of special warrants, which may become a debate later on, I think all members recognize that there is a need to meet emergencies.

However, in terms of the normal borrowing requirements of our Crown corporations, because we are dealing with major Crown corporations, can you give us any information as to how frequent would be the need for these extraordinary circumstances? AGT, for example, plans its cable system well ahead of time. So it would be my off-the-top assessment that the amount of moneys that would have to be borrowed through some kind of cabinet order would be a relatively small fraction of the \$1.8 billion.

MR. ROGERS: Well, any answer I give obviously has to be speculative. But I would say that perhaps in the home mortgage field, for instance, it may be very difficult some 18 months before the end of a fiscal year to know exactly what the requirements would be towards the end of that fiscal year. It is situations like that, that could not be properly foreseen, that may call for such emergency funding.

MR. NOTLEY: I realize that, but we also have two sessions of the Legislature, which does improve the ability of the government to deal legislatively with some of these concerns.

If there are other questions on Recommendation No. 1, Mr. Chairman, other members may wish to pursue it. I'd like to go into some of the other recommendations with respect to greater legislative accountability in terms of this committee, but there may be other supplementaries on the first recommendation.

MR. CHAIRMAN: I think the Member for Calgary Buffalo has one.

MR. SINDLINGER: Thank you, Mr. Chairman. My questions are in regard to Recommendation No. 1. Mr. Rogers, although I didn't agree with everything you had in this report, and we'll certainly get down to that if time permits, I must say that I did enjoy the section on the accountability of the Heritage Savings Trust Fund, because it's one point we as members of the committee have tried to emphasize over and over. It's not that we're trying to ensure accountability of this particular government; it's that there should be accountability for all governments, regardless of when and where they may be. Your comments here are certainly germane to the accountability that should be inherent in this legislative committee on the Heritage Savings Trust Fund.

The first point I'd like to pick up on is the word "response" that you used in replying to Mr. Notley's question. I'm not too certain I understood that, but I got the impression that you had not received any response at all. That concerns me a great deal. When we went through this material last year in the Legislative Assembly, the Premier replied to a question that in regard to the Auditor General's management letter he had given it only cursory attention. Now "cursory attention" doesn't mean much more than an offhand glance and, inasmuch as it was the Premier who requested this special report of you, Mr. Rogers, I'm surprised that you haven't even received a letter of thanks from him or an acknowledgement that he had received this.

Could you clarify it a little more, please, and indicate whether or not you have at least received a letter of reply or response, or a letter of acknowledgement from the Premier or the Provincial Treasurer, saying they've received this? If they've given you at least that, perhaps you might indicate what other written responses you've received from either party or what verbal communications have been held with either of those two.

MR. ROGERS: Mr. Chairman, I should explain that these recommendations, which were made in February with the release of the report, were also discussed with the Audit Committee and included as recommendations 1, 2, 3, 4, and 5 of the Auditor General's annual report. This of course was tabled in March or April. As you know, past practice has been for the Treasurer to respond to the recommendations in the Auditor General's annual report, usually at the first meeting of the Public Accounts Committee in the fall session. Of course when I talked of response, I was not meaning response to me. My recommendations are to the Legislative Assembly, and therefore it seems appropriate that the Treasurer's response is to that Assembly or a committee of that Assembly. Consequently, the response I was referring to would be his response to the Public Accounts Committee, in view of the fact that these five recommendations are the first five recommendations of the Auditor General's annual report of March 31, 1981.

MR. SINDLINGER: A supplementary please, Mr. Rogers. Am I then to understand that even though this was a special, unprecedented report, a special, unprecedented request from the Premier personally direct to you personally, there has been no response whatsoever from the Premier of this province or the Provincial Treasurer?

MR. ROGERS: I was verbally given to understand that the matter was being carefully reviewed. Knowing that the formal response to the recommendations will be forthcoming in the fall session, I was not concerned. It appeared to be quite normal that no detailed response to me would be forthcoming. After all, I'm an officer of this Assembly. Therefore it is appropriate that the answer should be to this Assembly or, as I say, a committee of the Assembly.

MR. SINDLINGER: You've indicated that you were advised it would be carefully reviewed. Could you let us know who it was that advised you of that and who was doing the reviewing?

MR. ROGERS: My understanding was that the Provincial Treasurer and the staff of Treasury were doing the reviewing.

MR. SINDLINGER: And for greater certainty, you've been advised that a response would be forthcoming publicly when the fall session convenes?

MR. ROGERS: My understanding is that it will be a formal response by the Treasurer to at least the Public Accounts Committee, and I believe that is then tabled in the House.

MR. SINDLINGER: I believe you've also indicated that you've had meetings with the Audit Committee in regard to the report. Could you indicate who is on that committee and what the communications were, what the discussions entailed?

MR. ROGERS: The Audit Committee is established under the authority of the Auditor General Act. Its responsibility is to review the Auditor General's

report before it is issued. That is in conformity with private sector practice.

The persons on the committee, who are appointed by order in council, are Houghton G. Thomson, F.C.A., a retired partner of Deloitte Haskins & Sells, Chartered Accountants; Mr. Robert Colbourne, President, Pacific Western Transportation Limited; His Honour Clare L. Liden, Assistant Chief Judge, Provincial Court of Alberta; Mr. Robert A. McLaughlin, Systems Analyst, Imperial Oil Limited; Mr. John M. Rooney, F.C.A., Executive Partner, Clarkson Gordon, Chartered Accountants; and the Honourable Louis D. Hyndman, Q.C., Provincial Treasurer of Alberta. Mr. Chairman, this information is on pages 86 and 87 of the Auditor General's report, March 31, 1981.

MR. SINDLINGER: A final supplementary, Mr. Chairman. In regard to Recommendation No. 1, which I consider to be one of the more important recommendations of those included here, inasmuch as it involves prior approval of expenditures of funds by the government, I wonder why there could not be prior approval, not only of those funds you've indicated in your recommendation here but also prior approval for the Canada investment, the energy investment, and the marketable securities divisions as well. In your opinion, do you see any reasons why the logic you've applied for this recommendation cannot be applied to those divisions as well?

MR. ROGERS: Mr. Chairman, I think my recommendation -- and incidentally, my recommendation was not a criticism of the existing system of accountability or of the way in which this was handled previously, in that the way it was handled previously was the way in which in all such funds, all such investments, had been handled from 1905 onward. It was simply that my recommendation was taking into account the ongoing growth of the Heritage Savings Trust Fund and the feeling that this part of the public purse was getting to be so large that perhaps it was time we took a look at possible improvements. As I said, because the government is, in effect, in a position to very strongly influence or control both sides to the transaction, it appeared that there would be no reason why those matters could not be brought before the Legislative Assembly.

However, when you get into a situation where third parties are involved, I think you have a different ingredient, if you will, in the mix. I think there would be problems in view of the negotiations that have to go on before such transactions take place. So in this instance, I did not extend the recommendation to the other divisions of the Heritage Savings Trust Fund.

MR. SINDLINGER: Mr. Chairman, if I might pick up on one of the remarks just made by the Auditor General in regard to -- if I have the words correctly -- the government being in a position to influence or control both sides of a transaction. I wonder if the Auditor General might embellish a little on Recommendation No. 1 and indicate how the implementation of that recommendation for the other investment divisions would impede or ensure that something like that did not occur, the point being, Mr. Chairman, that I think it's very important that the Auditor General has recognized that the government is in a position where it can influence or control both sides of a transaction. I'm just trying to seek assurance that there are adequate management control procedures to make sure that that does not in fact happen and what effect this recommendation would have on that.

MR. ROGERS: Mr. Chairman, here we're talking about Alberta Government Telephones, the Housing Corporation, the Home Mortgage Corporation, the Opportunity Company, and other such Crown entities. By their very nature, I think the government is able to control the amounts they are going to borrow

from the Heritage Savings Trust Fund. That is what I meant by the fact that the government can, in effect, control both the borrowing party and the lending party. This is why I believe that such transactions could be brought before the Legislative Assembly. This situation does not exist in other divisions.

MR. KNAAK: Mr. Chairman, is the concern, sir, that the government might, assuming it has a developed budgetary deficit and operating account, shave the interest rate to, say, Alberta Home Mortgage, thus reducing the return to the trust fund but lowering the provincial deficit? Is that the concern? It seems to be one hand to the other, if there is that kind of manoeuvre. Could the Auditor just mention whether he's seen any indication at all of whether or not the Heritage Savings Trust Fund has loaned funds to the Crown corporation at a lower rate than they would achieve in the market for comparable risk?

MR. ROGERS: No, sir, although I would not want any significance of any sort of act that was not aboveboard to be read into the fact that is perfectly obvious that the government does control both the lender and the borrower. To my knowledge, the rates that have existed in all transactions have been as close to market at the time of lending as possible.

MR. R. SPEAKER: Mr. Chairman, to Mr. Rogers. I'd like to raise a matter that was raised earlier in the spring and earlier in January, February, March. That's with regard to the management letters. The earlier three letters were described, and we talked about them here in the committee. Mr. Rogers, have there been further management letters since then, and can we as a committee obtain any general information with regard to those management letters? In the description of the earlier management letters, you also indicated that there is a formal plan and documented objectives for investment. I wonder if you could comment on how far that formal plan has been put into place. If I recall your earlier remarks in committee, you indicated that that was in place and there was good progress to your satisfaction. I think it would be good for the committee to be brought up to date at this time with regard to those matters.

MR. ROGERS: Mr. Chairman, I think I made clear my belief as to what the status of management letters should be. As an officer of the Legislative Assembly, my job is to carry out the will of the Assembly. As expressed in the Auditor General Act, that will was designed to allow me, as Auditor, to act in a way very similar to an auditor in the private sector; that is, to be able to counsel and advise but not enforce, and to report when needed. The sole criterion, if you will, of "when needed" is my judgment, because the provisions of the Act allow a certain discretion.

This discretion is not new. As a matter of fact, at the opening fly-leaf of the special report I recalled a situation in 1887 when the Controller and Auditor General, as he is called in the U.K., was being severely dealt with by the War Office for some matters he brought to the attention of Parliament. The response of the Treasury lords defending the Auditor General stated that he was correct in bringing matters to the attention of Parliament but that these must be matters of discretion. So what we have is not new, but it hasn't necessarily existed in statute before. But I would say that these management letters are fairly universal in the practice of auditing. If I'm to have the discretion as allowed by the Act, to table them or make them public would completely nullify that discretion.

Answering your question with regard to subsequent management letters, I'm satisfied that all matters dealt with in earlier management letters have been rectified. The way in which they were rectified was not quite in accordance

with the recommendations in the management letter made public, but the answer arrived at by Treasury, the reorganization and the segregation of duties that took place, fully achieved the recommendations under that first point. Reasons why the recommendation couldn't be adopted as it was in the management letter were given to me -- mainly because of the fact that Section 10 investments often need to be made liquid at very short notice, which would tend to nullify a long-term plan.

Also, I would like to point out that when we talked about the plan we were talking about it being a formal plan. As auditors, you need to see something. We now have something to see which expresses the strategy and the decisions of senior management. In the course of our audits, we can now see that those are actually carried out by line management on a day-to-day basis. So as far as we're concerned, the changes that took place during 1980 and 1981 fully rectified the situation that was the subject of that letter.

Mr. Chairman, if I may just expand on that a little. The other thought is that I take this discretion allowed by the Auditor General Act very seriously, as you may well appreciate. If any matters come to my attention that I feel should be reported, they will get reported, and they are.

MR. R. SPEAKER: Mr. Chairman, Mr. Rogers said there were no further management letters since the first three letters. There have been no further letters to any department?

MR. ROGERS: There is one every year. At the conclusion of each audit, there is a management letter. That's normal procedure in every audit we complete, however small.

MR. R. SPEAKER: That's to the Provincial Treasurer, is that correct?

MR. ROGER: It's to the Deputy Minister with a copy to the minister, and of course in this case that is the Treasurer.

MR. NOTLEY: Mr. Chairman, I wonder if we could just go back to the question of Crown corporations for a moment. Mr. Rogers . . .

MR. SINDLINGER: Excuse me, Mr. Chairman. On a point of order, I thought I was recognized for a supplementary on the question asked by Mr. Speaker. I have a supplementary on Mr. Speaker's question if I might, please, prior to going on to a new subject.

MR. CHAIRMAN: A supplementary from the Member for Calgary Buffalo.

MR. SINDLINGER: Thank you, Mr. Chairman. I'm sorry, Mr. Notley. I didn't want to lose this while we're on the subject. It's with regard to the management letter. While we were dealing with that, I thought it would be appropriate to discuss it prior to getting onto another subject.

First of all, I'd like to make an observation with regard to the Auditor General's desire to act in a similar way to an auditor in the private sector. Certainly those are good standards that one would wish to emulate. The reservation I have about that on this side is that we cannot draw an analogy, because in the private sector, boards of directors have outside directors on their board. That's touched on in your special report here as well. In this case, the board of directors is comprised of the government. It's like students grading their own examination papers. I think we have a common concern in that area.

Specifically though, I was wondering about your comment that you are satisfied that all matters in earlier management letters have been rectified.

I'm wondering if you might comment further on that. In your special report, and in your other reports as well, you have pointed out that the inclusion of deemed assets in total assets is misleading and is almost a misrepresentation. In fact, as evidence of that one can look at various credible and reputable publications across this country which state the size of the Heritage Savings Trust Fund as being, today for example, \$11.1 billion, when in fact there really isn't \$11.1 billion in the Heritage Savings Trust Fund because that includes deemed assets. Your special report also points out that if the generally accepted accounting practices used for the General Revenue Fund were used for the Heritage Savings Trust Fund, the deemed assets would not be included. So we have an exception to generally accepted accounting practices with regard to the Heritage Savings Trust Fund.

You yourself, Mr. Rogers, have recommended time and time again that this be changed. I have recommended through this committee that that be changed, and I've also introduced a private member's Bill to that effect. By itself, this committee has recommended that deemed assets be included and the manner of accounting for them be changed. Yet the Provincial Treasurer has not seen fit to do that, up to and including this most recent annual report. Given the fact that you have tried to change this -- you've recommended time and time again -- this committee has recommended that it be changed, I have recommended that it be changed, yet it hasn't been changed. Yet you're saying that all matters in earlier management letters have been rectified. I submit to you that they have not.

Mr. Auditor General, the next question I have to ask you is what other things you have recommended in those management letters that have not been implemented by the Provincial Treasurer or the Alberta government.

MR. CHAIRMAN: If I might just point out, I think that's really stretching the supplementary a little to get in ahead of the Member for Spirit River-Fairview.

MR. ROGERS: Mr. Chairman, I really would like to answer that, because I admit my error. If you look at everything in those management letters, yes, I have to say that you are correct. However, in answering the member's question before, I'm afraid I was concentrating on those things that management itself could change, having to do with systems and internal control. I'm afraid I had a mind lock on that.

In effect, there are two recommendations I have made over the last several years which have been reflected in my Auditor General's report. Once it has got into that status, I'm afraid I was looking at it as an annual report recommendation. One has to do with deemed assets. As it stands at the moment, management cannot do anything other than what they're doing, because that is a requirement of this Assembly. It is in the Act that expenditures under the capital projects division shall be treated in this way and shown on the balance sheet as investments, in effect. I feel that means that in this particular manner, the requirements of the Alberta Heritage Savings Trust Fund Act are at variance with generally accepted accounting principles. I've drawn that to the attention of this Assembly on three occasions. But it goes without saying that when there is a conflict with generally accepted accounting principles and the provisions of a statute, the statute overrides. That is of long standing in other jurisdictions.

Consequently, I cannot fault the way the statements are prepared, because they are prepared in accordance with the requirements of the Alberta Heritage Savings Trust Fund Act. I was drawing members' attention to the fact that that Act was at variance with generally accepted accounting principles in this instance. Having done that, I feel that is the end of the matter. It is then for members to act upon it and take it from there.

There is one other instance, and that has to do with the amount of information available when the Legislative Assembly considers capital projects, both those constructed from the funds of the Alberta Heritage Savings Trust Fund as well as those from the General Revenue Fund. Here the recommendation was that there be considerably more information available for matters of this kind than has been available hitherto. It has to do with the effect of inflation on multiyear projects and so on. Those two recommendations were in management letters and have not been acted upon, but all others have.

MR. SINDLINGER: Just a supplementary on that, Mr. Rogers. I wonder what response or communication you or your department have received from the Provincial Treasurer in regard to the deemed assets. Specifically, what reasons have they given you for not making the changes? I fail to draw the distinction you have made between the management of the fund and the change of the Act in the Legislative Assembly. Certainly it's incumbent upon the management of the fund to introduce legislation in this Assembly and carry it through, effecting the changes you have so diligently, persistently, and rightfully made over the last four years. The responsibility lies with the Provincial Treasurer. It's on his shoulders and cannot be abrogated in any way whatsoever, certainly after your good advice and the recommendations made by this committee.

MR. ROGERS: Mr. Chairman, the responses of the Provincial Treasurer to those recommendations are contained in the appendix to the annual report, which I will read in a moment.

MR. KNAAK: Mr. Chairman, while the Auditor General is looking for that information, I might make a supplementary comment. The Member for Calgary Buffalo is so indignant about the new legislation not having been introduced. It seems to me that if he felt that strongly about it, he himself could introduce either a resolution or an Act to amend it. Although I don't follow everything he does, I can't recall that having been done.

MR. SINDLINGER: Mr. Chairman, just for the record, if I might, please, I have had a recommendation before this committee to that effect. It was turned down the first year, but subsequently it was passed. Also for the member's information, I did introduce a private member's Bill in this Legislature, amending the Act. Of course it went the route of all private member's Bills in this Legislative Assembly. It never came to the floor.

MR. ROGERS: Mr. Chairman, we seem to have a little hang-up here. Perhaps I could paraphrase. It was to the effect that the treatment of expenditures under the capital projects division was in accordance with the statute. There was no indication that anyone was prepared to recommend a change. It was simply acknowledging that the advice had been given. I think somewhat similar were the comments on the one having to do with the capital projects for the time that funds are approved by the Legislative Assembly or matters are being examined. It was to the effect that this information would be made available by minister if it were asked for.

MR. SINDLINGER: In regard to the second recommendation that wasn't followed -- that is, more information being given on capital projects -- this is an incidental question, but I'm just wondering what happened to the annual report this year. It's only 24 pages long. Last year it was 42 pages long. When you talk about the Provincial Treasurer saying we can get more information,

we've gone in exactly the opposite direction. We're getting half as much information this year as we got last year, if you look at the number of pages.

MR. R. SPEAKER: Mr. Chairman, a supplementary to my first question, where I asked about the strategy put in place following the sending of the management letter. Is there any way that members of the committee or the committee itself could observe that strategy in action? We talked about that earlier as well, the possibility of following one, two, or more of the investments through the process so we could observe the accountability that's going on, who is involved, what time frame certain investments take, so we as legislators would have some first-hand knowledge as to what really happens during the implementation of a strategy relative to an investment or a bond.

MR. ROGERS: Mr. Chairman, because that involves management, I suggest that that should perhaps be addressed to Treasury, which no doubt would be in a position to provide that information.

MR. CHAIRMAN: Perhaps the member can bring it up when the Provincial Treasurer is in front of the committee later.

MR. R. SPEAKER: Mr. Chairman, my question to the Auditor General is whether that kind of observation can be made by committee members. There's no difficulty? Thank you.

MR. ROGERS: From my understanding of the way the system works, I see no problem with that.

MR. CHAIRMAN: There's a visit to the Treasury Department later on this month. I think the Member for Spirit River-Fairview had a question some time ago.

MR. NOTLEY: I had a supplementary, Mr. Chairman, but no major problem. I want to go back to the question of Crown corporations, Mr. Rogers. On the handout today, you talk about provision to adjust marketable securities; for example, the loss that would take place if we were to sell the bonds, et cetera, in terms of what is about 7 or 8 per cent of the trust fund. But by far the largest part of the trust fund is the money we have invested in our Crown corporations.

Has any assessment been done as to how practical it would be to free up some of the money that is invested in some of these Crown corporations? You've indicated we have purchased debentures in Crown corporations at market rates. Presumably those corporations could have gotten the same deal elsewhere, or we could have gotten the same deal elsewhere; we got the best possible deal under the circumstances. But to what extent are we locked into these debentures? I look down the list here, AGT debentures and the amounts. To what extent are we locked into them because if we were to sell them we would move into actual losses of fairly considerable magnitude?

MR. ROGERS: Mr. Chairman, while this is a sort of offhand opinion, it would appear to me that the fund is locked into those investments. They are commercial. They could be sold. But because there is no established market value, I have no way of knowing what that would be in fact.

MR. NOTLEY: Presumably the higher interest ones could be sold without loss, because they would be good instruments for people to purchase on the private market.

MR. ROGERS: But obviously the ones with the lower interest rates, there would be a considerable loss I would say.

MR. NOTLEY: Can you give us an overall assessment of the magnitude of what that would be, in the same way we've done with the bonds and our marketable securities division?

MR. ROGERS: The concept and philosophy here is that they be held to maturity. There's no way in which we could establish a market value, because it would depend upon the reaction of third party investors to the quality of the paper.

MR. NOTLEY: However, our Crown corporations are in a position to borrow at the very best interest rates, are they not? They are owned by the province of Alberta, and our collective credit rating would apply to them. That is correct, is it not?

MR. ROGERS: As you know, at one time they did borrow in their own name, and of course they could do so again. But this has been a strategy to centralize the borrowing, in effect. Obviously they could borrow in their own name, if that was indeed to be the strategy. They have the power under their various legislative authorities.

MR. NOTLEY: Just in terms of following that a bit further, there would in fact be no financial loss to the corporations by so doing?

MR. ROGERS: That's correct.

MR. NOTLEY: Mr. Chairman, just to follow along then, that sort of blends in with Recommendation No. 2, page 21, of the special Auditor General's report:

It is recommended that the Select Standing Committee on the Alberta Heritage Savings Trust Fund Act exercise similar powers to those of the Select Standing Committee on Public Accounts with respect to the financial affairs of Provincial Corporations and other government entities which borrow from the Alberta Heritage Savings Trust Fund.

Mr. Chairman, now that we have Mr. Rogers present, I wonder if perhaps he would elaborate a bit on that recommendation.

MR. ROGERS: Mr. Chairman, it seems that as the majority, if not all, of the funds expended by these entities originally came from the Heritage Savings Trust Fund, whether this committee could not act in a way similar to the way in which the Public Accounts Committee acts with Crown corporations when they are expending GRF moneys or even when the Public Accounts Committee is examining their accounts . . . We've had the senior management of AGT, the Housing Corporation, and so on and so forth, before the Public Accounts Committee. It would seem to me that if this committee is following money to where it is ultimately deployed, this committee could have a better view of what was happening if indeed it were able to call senior officials of the entities concerned and question them on the financial affairs of those Crown corporations. It seems to me that the financial affairs of those Crown corporations become within the ambit of the concerns of this committee if they are indeed employing Heritage Savings Trust Fund funds. That was the purpose of the recommendation.

MR. SINDLINGER: Mr. Rogers, with regard to the first question Mr. Notley put to you a few moments ago with regard to valuing Crown corporation securities,

you indicated there would be difficulty establishing what that evaluation would be. If I could refer you to page 11 of the annual report, please, that deals with deposits and marketable securities, for example. There are two columns on the right-hand side. One deals with the cost as of March 31, 1982, and the other deals with the market value, March 31, 1982. In both columns -- for example, in the middle table -- it shows money market securities, cost \$98.5 million, market value also \$98.5 million. Going down to the last table, under marketable securities there are money market securities, cost March 31, 1982, \$526 million, market value of \$526 million as well. I'm wondering what kind of process was undertaken to come to similar numbers for both columns.

MR. ROGERS: Mr. Chairman, when we're dealing with marketable securities and the money market, we are dealing with instruments that are traded on the open market, and therefore it is possible to determine a market value. In the case of the money market securities, because they are short term it is customary to equate cost to market value, because there is very little, if any, significant difference between the two. And they're held to maturity, which of course also makes it reasonable that they be recorded at the fiscal year-end date at cost, which is the same as market value. In the case of the bonds, because these have redemption dates much further away it is reasonable also to value at what those were trading at at the time, at the end of the fiscal year.

I was talking earlier about investments in the Alberta investment division. Of course, the details of those investments appear on pages 9 and 10. You'll notice there is no market value for those instruments because they are not traded, at least those that are involved with Crown corporations.

MR. SINDLINGER: In regard to Recommendation No. 2, Mr. Rogers, could you elaborate a little more, please, on the "similar powers" you would like to see the select standing committee have, powers similar to the Standing Committee on Public Accounts? Could you elaborate a little more and say specifically how much more, or what kind of more powers you would like to see this committee have than it does now?

MR. ROGERS: Mr. Chairman, I'm not sure of the powers of this committee. It may well be that this committee has the necessary powers, because I believe the powers of all standing committees are the same. How this committee wishes to act is really the matter we're discussing. The recommendation is that the committee "exercise similar powers to those of the Select Standing Committee on Public Accounts", which is to call witnesses, have them testify under oath as to the accounts, matters to do with systems, the purposes for which the money was spent, and so on and so forth. I think an examination of the transcripts of the Public Accounts Committee would give you a very good idea of the way in which that committee conducts itself.

MR. SINDLINGER: Mr. Rogers, I have difficulty understanding what you did mean then by Recommendation No. 2 when you suggest that this committee "exercise similar powers to those of the . . . Public Accounts Committee". This committee does now call witnesses before it and require testimony from those appearing. What should this committee do that it is not now doing? That seems to be inherent in your recommendation. The inference is that there are other things this committee should be doing, and I don't really understand what they are.

MR. ROGERS: I perused the transcripts of a number of meetings of this committee, Mr. Chairman. It didn't appear to me that this committee required the senior staff of various Crown corporations to account for the expenditure of funds that were obtained by way of borrowing from the Heritage Savings

Trust Fund, in the same way that the Public Accounts Committee would question senior staff of entities they called as witnesses in the various Public Accounts Committee meetings.

I was not suggesting that this committee be granted additional powers. That's why I carefully worded this, that it "exercise similar powers to those of the Select Standing Committee on Public Accounts". To my knowledge, all committees have the same powers granted them by the Assembly.

MR. CHAIRMAN: A supplementary from the Member for St. Albert.

MR. SINDLINGER: Then I take it that . . .

MR. CHAIRMAN: The Member for St. Albert was the one I recognized first.

MR. SINDLINGER: Pardon me, Mr. Chairman.

MRS. FYFE: Mr. Rogers, I just wonder then how you would ensure that there was no duplication between the accounts committee, which could be asking similar questions that would be asked by this committee. Is not our prime responsibility how the money is lent to these agencies and the Public Accounts is responsible for the specifics of the spending of it within government departments and their agencies?

MR. ROGERS: Mr. Chairman, because this committee would be following up on the expenditure of Heritage Savings Trust Fund moneys, it would be a matter to be worked out, I imagine, between the two committees. I'm getting in a little deep here, but it seems to me that this is a matter that could be resolved between the chairmen of the two committees, to co-ordinate their activities so the senior officials of one particular corporation didn't find they were sitting before the Public Accounts Committee on the morning of one day and before this committee the following day.

MR. CHAIRMAN: Perhaps I could say something. I notice the word "expenditure" is slipping in here. It would be the use of funds borrowed from the Heritage Savings Trust Fund. This has been going on all afternoon. Any money expended from the Heritage Savings Trust Fund -- in other words, the deemed asset group in the capital projects division -- is approved by the Legislature before the money is spent.

MR. ROGERS: Yes, but when you're examining the Crown entities that borrowed the money from the Heritage Savings Trust Fund, they are the ones that expended this money ultimately.

MR. SINDLINGER: If I recall correctly, Mr. Rogers, individuals on this committee have advocated that other officials of Crown corporations do in fact appear before this committee -- to use your words, to follow up expenditures of the Heritage Savings Trust Fund. I just wonder if you would also include in that category officials of Alberta Energy corporation and Syncrude.

MR. ROGERS: I have some difficulty with that, Mr. Chairman. I think that's a matter for the committee or management to resolve, because in actual fact they are not government entities. I think that is something the committee would have to resolve for itself.

MR. CHAIRMAN: I'm not sure, but did the Member for Spirit River-Fairview have another question? I got a little lost back there among the supplementaries some time ago.

MR. NOTLEY: That's fine.

MR. CHAIRMAN: If I'm right then, the Member for Calgary Buffalo has another primary question.

MR. SINDLINGER: Mr. Chairman, I have a great number of other primary questions. I thought we were going on the course of the recommendations in the special report. I thought it was Mr. Notley's intention to go to No. 3. But if that's not the case, I will. I am through with supplementaries on Recommendation No. 2.

MR. CHAIRMAN: I have nobody else who has indicated supplementaries. So we are down to the next primary question by the Member for Spirit River-Fairview.

MR. NOTLEY: We're down to Recommendation No. 3:

It is recommended that the Treasury Department establish an internal audit group, with an appropriate mandate and reporting structure, to review the administrative and performance measurement systems of the Alberta Heritage Savings Trust Fund on a continuing basis.

Mr. Rogers, in terms of deciding what recommendations we're going to make in our annual report, I think it would be useful for us as members of the committee to have this opportunity to have you share with us the reasoning behind the recommendations you've made. That's why I'd like to see us go down each of these recommendations, one by one.

MR. ROGERS: Mr. Chairman, in the last several annual reports of the Auditor General, I have recommended that there is a need for management review to be conducted by internal audit groups in major departments, those departments that are involved in major expenditures. In a similar way, I think this particular function needs management review to be conducted by internal audit, and that is specifically the investment procedures carried out by Treasury Department. In the course of the special investigation, or in preparation of this particular report, together with my colleagues on either side of me I visited a number of other organizations. One thing that did strike us was the fact that internal audit individuals were usually involved in making sure, on behalf of management, that all internal controls were operating on a day-to-day basis and giving more frequent reports than is practical by my office.

In view of the exposure here at all times -- because the best system in the world can't guarantee that there is no exposure -- it appeared to me to be a very significant additional safeguard to have internal audit present or involved in the operation of the investment staff of Treasury Department. I would say that internal audit is fairly general now in all larger organizations. In view of its many activities, I think the Treasury Department could well benefit from such an activity. That is why this recommendation was made.

MR. NOTLEY: Mr. Chairman, as a supplementary question, I note that you suggest that the work of this committee might be improved if we had a comparison of performance ratios. How would you see this internal audit relating to this particular committee?

MR. ROGERS: I wouldn't necessarily see the internal audit reporting directly to this committee. If the internal audit -- and again this is in accordance with the recommendations made regarding internal auditors generally -- is, in effect, a part of management review of all the intervening levels of

management, in order to be able to tell senior management that these people are all performing in accordance with the predetermined rules, it must report directly to senior management. That is why I said here that it should report directly to the Deputy Provincial Treasurer.

I think, though, that such reports made to this committee by Treasury management, and that would be the Provincial Treasurer, would benefit from, if you will, the activities of an internal audit group, because you have there a level immediately below the deputy minister reporting directly to the deputy minister, and the deputy minister to the minister. That was the reasoning.

MR. NOTLEY: It would seem to me that the kind of information in D.5, the performance ratios, would be useful to the committee. How would that be done?

MR. ROGERS: Are we talking about 5.d?

MR. NOTLEY: Yes. Just under the recommendation. I'm just trying to get a feel for the way you would see the committees functioning, and the relationship between the committee and Treasury.

MR. ROGERS: Fine. 5.d is part of a package. 5.a suggests

that each published annual report of the Alberta Heritage Savings Trust Fund contain a positive representation by the Provincial Treasurer relating to the adequacy of the Trust Fund's internal control system . . .

5.b says that I would give an opinion on that representation.

MR. NOTLEY: No. I think we're talking about D.5. I'm sorry, Mr. Rogers. That was the note I was making reference to under Recommendation 3. I'm sorry.

What I really wanted to get a feel on from you was the relationship between the internal audit and this committee, and what restructuring might be feasible and appropriate, in your judgment, in order to allow us to have the benefit of performance ratios and, at the same time, work that within the general overall supervision of the fund by the Treasury Department.

MR. ROGERS: The Auditor General Act contemplates that, where reasonable, there be measures of effectiveness. I suggest that ratios such as the ones we have in this report are, in effect, measures of effectiveness. Now it seems to me that if management determines how effective it is, it should also be in a position to report on that effectiveness to this select standing committee.

So my Recommendation No. 4 deals with that situation. What it contemplates -- just as this report reports on the at least two-year effectiveness of the investment performance of the Treasury Department, which again I obtained as a result of the visit I paid to a number of other organizations and found that they use the services of people such as the man I eventually engaged. I found that he was looked upon as being highly competent and of good repute. After some further checking, I engaged his services, whereby he took the aggregate performance on a quarterly basis of the various factors involved in the investment dealings of the Treasury Department on behalf of the Heritage Savings Trust Fund, and compared those with a number of other portfolios. This gave a feel for the way in which the management had taken place. I feel that there is perhaps some continuing benefit for that procedure to take place on an ongoing basis. It is for this committee to decide whether or not it wishes that to occur, of course. I'm simply suggesting there may be a benefit to the committee to have that take place.

MR. KNAAK: Mr. Chairman, one of the considerations for all governments at this particular point in our economic history is the sensitivity to increasing the public service, increasing government expenditure with respect to the public service, and, in addition, increasing the size of government in relation to the private sector. These recommendations, in particular the one about the internal audit committee -- I don't doubt that such a committee can be useful but, like all things we all do, there has to be a trade-off between the desirable and attaching a weight to it, and how much money is available to achieve that objective. You, sir, and your department have audited the trust fund for a considerable number of years, and each year found it more or less to have no problems and have given it a clean bill of health. Given that there is, I think, a general mood for restraint on increasing government expenditure, in your view is the recommendation of such urgency that it must be immediately implemented?

MR. ROGERS: Mr. Chairman, I believe the recommendation is desirable. Whether it is a priority item over and above restraint, I think is a matter for management to make a decision. That is definitely a management policy decision. That does not detract from the fact that as a recommendation I feel it is worth while, because the exposure is there. After the fact, one could look at losses that might have occurred as a result of there not being someone to alert management to a situation. It's like insurance. You may decide to go without insurance to save the premiums, but at a later date you may regret that.

MR. KNAAK: That's quite possible. I do have insurance. I guess the point I was trying to make and ask at the same time was: the recommendations you make in your report are recommendations to the Assembly, and you're asking us as an Assembly to weigh the other public interests, such as a restraint on government expenditure in relation to your recommendation. In other words, if a majority of the elected Assembly said these are great recommendations but we're in a time of public restraint; this isn't the time to increase the public service; we'll have to look at a year down the line -- in other words, you would understand and presume in your recommendation that that kind of decision could be made.

MR. ROGERS: Yes, Mr. Chairman. But we are not talking about a great number of people. We are talking about two or three professionals.

MR. SINDLINGER: Mr. Chairman, obviously this is a very important recommendation or it wouldn't have been put in this special, unprecedented report. It occurs to me that some things have to be done as per this recommendation, but it would be that they are not being done right now. I wonder if the Auditor General could elaborate a little and indicate what things that should be done are not now being done, but would be done if this recommendation were accepted.

MR. ROGERS: Mr. Chairman, I used the analogy of insurance. I think that is exactly what it is. We have looked at the controls in place, at the way those controls have operated at a prior time, and we are satisfied with those controls. However, on an ongoing basis, if management can be alerted quickly to any failure of those controls, that is a very big plus, rather than hearing about it at some later date when we conduct our audit examination. So it's a matter of time limits as much as anything else.

MR. SINDLINGER: Mr. Rogers, I wonder why you've recommended an internal audit as opposed to an external audit.

MR. ROGERS: Mr. Chairman, we are the external audit. I'm auditing as an officer of this Assembly. In auditing on an annual basis, it is not possible to look at every transaction. But certainly an internal audit group within Treasury could well do that. Coverage, the extent of the examination, and time limits are the factors I would see being improved by the adoption of this recommendation.

MR. SINDLINGER: Mr. Chairman, to Mr. Rogers. If the auditing of the Heritage Savings Trust Fund were separated from the General Revenue Fund, the Consolidated Cash Investment Trust Fund, and other activities of the government, would it facilitate the insurance, as you put it, and the time factors you've just alluded to?

MR. ROGERS: Mr. Chairman, I really don't think there would be any improvement by doing that. In effect, we have a group involved with Treasury *per se* which spends a considerable amount of time on nothing but the Heritage Savings Trust Fund. But again, it is not possible to review every transaction in the way in which an internal auditor, who's there all the time, can.

MR. SINDLINGER: Mr. Rogers, given the growth of the Heritage Savings Trust Fund -- and over the last year you've pointed out to us that it has been growing and systems have had to be changed as it has grown. There was a time when the heritage fund was less than the annual provincial budget, but now the size of the heritage fund far exceeds the annual provincial budget. So it would seem to me that there would have to have been some large quantum changes made in the auditing procedures and in the physical resources available to do those audits. If the system in place was adequate for the provincial budget at the time, I don't see how it could now be suitable not only for the provincial budget and its regular activities but also for the Heritage Savings Trust Fund, which is almost twice the magnitude.

Given that premise, it would seem desirable and prudent to develop a system separate from government for the Heritage Savings Trust Fund by itself. I don't know that the Treasury Department, your department, or any other department of the government is capable of handling the additional burden of the Heritage Savings Trust Fund to that for which it was originally designed.

MR. ROGERS: Mr. Chairman, I wouldn't issue a report if I had not conducted a fully comprehensive audit and satisfactory from the point of view of the resources applied to it. From the point of view of the audit conducted by my office, that audit is as full as any annual external audit need be. We have no problem there. The problem is that if you call for the external auditor to look at every transaction while it's taking place, then you get what has been referred to, and was the way in which expenditure functioned in this government prior to '78 -- you put the auditor in the position of pre-auditing, of looking at and approving every transaction. That in fact makes the auditor less independent, in that it involves him in a management process. The only way in which the auditor can be objective and independent is not to be involved in the day-to-day operation of anything but to look at matters objectively sometime after the event, preferably as close as possible after the event but not to be part of the event itself. I'm talking about an internal auditor who is involved in the day-to-day process of the investment procedures.

MR. SINDLINGER: Inherent in this recommendation, Mr. Rogers, is the assumption that what is there today is not adequate. We have to have not only what is in place today and has been in place in the past, we have to have something more: an internal audit group, which you are recommending in Recommendation No. 3.

I wonder if you might be able to advise us how often the Audit Committee met in the days before the Heritage Savings Trust Fund and how often it meets now that it has the additional burden of the Heritage Savings Trust Fund.

MR. ROGERS: The Audit Committee met specifically to examine these statements in May, which was a meeting that would not otherwise have occurred. That meeting was called specifically to examine these financial statements.

MR. SINDLINGER: Just out of curiosity, how long was that meeting?

MR. ROGERS: I'm sorry, it was in June. It was an afternoon.

MR. SINDLINGER: The Audit Committee met for one afternoon to go over the financial statements of an \$11 billion trust fund. How many hours did it meet in the afternoon?

MR. ROGERS: They examine the statements before the meeting, of course.

MR. CHAIRMAN: Mr. Rogers, I think there's a mix-up here between the Audit Committee and your auditors who, by last year's statements, spent many weeks auditing the Heritage Savings Trust Fund books.

MR. SINDLINGER: A supplementary. I appreciate what you've just said. I recall we did go over that last year in some detail, but now it is the Audit Committee I'm inquiring about.

MR. CHAIRMAN: Perhaps before we get to that, we could have a supplementary by the Member for Olds-Didsbury and a supplementary by the Member for Calgary Forest Lawn.

MR. KESLER: Thank you, Mr. Chairman. A question to the hon. Auditor General. You've made a recommendation that an independent firm of investment analysts be hired as an internal audit group. That's not right? Well, we establish an internal audit group, and then we go down into D.5 and talk about the most convenient way of achieving it being through engaging the services of an independent firm of investment analysts.

MR. ROGERS: That's Recommendation No. 4, Mr. Chairman. That's a new point we're talking about at that point.

MR. KESLER: Let me ask you this. Would the report or information compiled by the independent firm of investment analysts you recommend in D.5 be available to this committee?

MR. ROGERS: Mr. Chairman, that would be a matter for management to decide.

MR. KESLER: Would it be like the management letters and not be available to the public?

MR. ROGERS: Because there has been only one such appraisal, which was commissioned by me, from Hitchens of Vancouver and is contained in this report, I have no way of knowing the reaction of management.

MR. KESLER: Would it be your recommendation, sir, that that information be made available?

MR. ROGERS: I feel that when effectiveness is measured, such reports on effectiveness should be made available. That is in accordance with the wording of the Auditor General Act, which says we should examine systems whereby departments or provincial agencies report on their effectiveness when it's reasonable to do so. Consequently we would, in effect, involve into our audit such a system of evaluating effectiveness.

MR. ZAOZIRNY: Mr. Rogers, my supplementary question to you arises from a series of questions asked by the hon. Member for Calgary Buffalo. I'd appreciate your clarifying the present situation and your recommendation, because it seems to me that some confusion is being created by your Recommendation No. 3 which, as I understand it, relates to a recommendation for internal audit to provide a more hands-on counselling, if you will, in terms of investments. Stemming from that recommendation, I think we've gotten into a line of discussion about the adequacy of the present external audit mechanism which, as I understand it, is the function your office performs.

Would it be fair to say that with the significant growth in the size of the heritage fund in the last number of years, as has been mentioned by the Member for Calgary Buffalo, your office and its staff complement has been expanded to meet the increasing workload that has been created by the growth in the fund? Has there been some growth in the size of personnel within your office?

MR. ROGERS: Yes and, as I said, it is fully adequate to take care of the additional demands of the Heritage Savings Trust Fund.

MR. ZAOZIRNY: Just one further supplementary, Mr. Chairman. Mr. Rogers, quite apart from the adequacy of your personnel to cover this mandate, would you say there might be some significant disadvantage in having a second external body functioning? Might that give rise to certain difficulties of overlap and duplication of services? Is that a potential hazard of going with two external bodies?

MR. ROGERS: Mr. Chairman, I'm not advocating a separate external audit. I am suggesting that there be continual management review on behalf of management; that is, the internal auditor. He is a part of the management apparatus. He is able to inform the most senior management, virtually on a daily basis, that everything is working the way it should. Recommendation No. 4 is talking about an independent investment analyst. While it is possible for us to determine the rate of return, the reason I went to an independent analyst, Barry Hitchens of Vancouver -- as I said, he was recommended to us by some of the people we interviewed in the east -- is that he has the same data available relating to many other portfolios, in fact almost the whole investment picture in Canada.

MR. ZAOZIRNY: Just for the record, I appreciate that you're not recommending a second external audit body. But I understand the Member for Calgary Buffalo is recommending that sort of entity. That's the understanding I came away with from his remarks.

Thank you very much, sir.

MR. SINDLINGER: I asked a question out of curiosity with regard to the Audit Committee and established that it met one afternoon. Out of further curiosity, I'd ask how long in the afternoon it met. Was it more than three hours or was it a couple of hours?

MR. ROGERS: I think it was three and a half to four hours, but I can't remember precisely. It was of that order, Mr. Chairman. But realizing that

these people are private sector individuals, that they receive the statements well ahead of time and were able to study them, we were able to answer all their questions. It was a very productive session.

MR. SINDLINGER: Were any changes made because of those discussions with that Audit Committee?

MR. ROGERS: Not to the statements themselves. There were some minor word adjustments. Getting their reaction was a very good indicator of the clarity of the wording in the notes, for instance. There were some minor changes there, but nothing substantive and obviously nothing that changed the information presented by the statements.

MR. SINDLINGER: Another supplementary with regard to Recommendation No. 3, Mr. Chairman, the internal audit group. The reason for the recommendation is "to review". If we'll recall, last year in the preamble to the annual report the Provincial Treasurer said that this standing committee conducts an annual in-depth review of the Heritage Savings Trust Fund. Those are the terms of reference for this committee. Inasmuch as it's this committee's responsibility to conduct an annual in-depth review of the Heritage Savings Trust Fund, would it then not be more appropriate that such a group as you're proposing in Recommendation No. 3, an internal audit group, report in some way to this standing committee, if not in total, in part?

MR. ROGERS: Mr. Chairman, I think it really depends on one's definition of "review" and the context in which that review takes place. I think this committee does conduct an in-depth review of the use of the heritage trust fund and the deployment of that fund. The review I'm talking about is looking at transaction by transaction and determining that there is compliance with policy, with standing rules of internal control, and so on and so forth. A very different kind of review, I submit.

MR. SINDLINGER: Is there any reason, though, Mr. Rogers, that such an internal audit could not report to this committee?

MR. ROGERS: Mr. Chairman, again, I think that would be up to management to decide.

MR. CHAIRMAN: Are there any more primary questions? It looks like we've exhausted the supplementaries on that one.

MR. KESLER: Mr. Chairman, one supplementary question. Could the Auditor General indicate perhaps the areas the people on the internal audit committee suggested here might be drawn from?

MR. ROGERS: Are you talking about the internal audit group?

MR. KESLER: Would they just be part of the existing Treasury Department?

MR. ROGERS: They may be people presently employed by Treasury but they would be transferred to these duties, or they may be people hired from other departments or directly from outside. It would depend who applied for the posts, I imagine.

MR. KESLER: Would it be your recommendation that they be brought in from the outside to sit on that committee?

MR. ROGERS: It's not really sitting on a committee. It is acting as an internal auditor on a day-to-day basis.

MR. KESLER: To do the auditing then. Would it be recommended that they be, I guess, politically unattached?

MR. ROGERS: Oh yes, completely. But they could well be people presently employed in the office of the Auditor General -- they could be on my staff -- who may be attracted to go to such a position. I don't know, but that's a possibility.

MR. KESLER: Thank you.

MR. CHAIRMAN: Do we have any further primary questions?

MR. SINDLINGER: Are you referring to Recommendation No. 3, Mr. Chairman?

MR. CHAIRMAN: I don't know. I can't read people's minds, but I have run out of the list on my sheet of paper.

MR. SINDLINGER: Knowing your penchant for order, Mr. Chairman, I thought that's what we were doing, following the recommendations in the special report. We have now gone through recommendations 1 to 3 in the special report. Recommendations 4, 5.a, b, c, and d still remain that I would like to go through if we could, please.

MR. CHAIRMAN: Fire away.

MR. SINDLINGER: Thank you, sir. In regard to Recommendation No. 4, Mr. Rogers, which reads:

It is recommended that the Treasury Department retain the services of an independent investment analyst capable of providing regular comparisons of the performance of the Heritage Fund with the performance of similar investment entities. Furthermore, consideration could be given to making the performance comparison information obtained from the independent investment analyst available to the Select Standing Committee on the Alberta Heritage Savings Trust Fund Act.

I wonder if you would explain to us why you are recommending that the Treasury Department retain the services of an independent investment analyst. I ask that in light of the comment I made earlier in regard to Recommendation No. 3; that is, the responsibility of this committee to conduct in-depth reviews.

MR. CHAIRMAN: I think we already had that question asked almost word for word by the Member for Olds-Didsbury, and it was answered.

MR. SINDLINGER: It just shows you the quality of the questions from the Member for Olds-Didsbury.

MR. CHAIRMAN: Perhaps it shows you weren't listening to the quality of his questions.

MR. SINDLINGER: Yes, could be. Perhaps I might direct it to Mr. Rogers in a different way; that is, how he would envision this being done. Would it be done on a day-to-day basis or on a snapshot basis, such as it is done in the

annual report? How would it be communicated to this committee and to the public?

MR. ROGERS: Mr. Chairman, because any evaluation of performance has to be related to a time period, I suggest that some clues to that could be obtained from the evaluation earlier in this report. I point to the pages prior to page 18. That is the kind of evaluation I was visualizing. It commences on page 13 and goes through to page 18. That is the kind of evaluation I was suggesting. Of course, this would probably be taken once a year or on a quarterly basis but reported on to this committee once a year. That was the recommendation and the thought I had in mind when this report was prepared.

MR. SINDLINGER: Mr. Chairman, I'll go on to Recommendation No. 5, unless there are supplementary questions. Recommendation 5, through a, b, c, and d, recommends generally that the annual reports of the trust fund contain representations from both the Auditor General and the Provincial Treasurer as to the adequacy of the internal control systems. I suspect that this recommendation is a result of the questions posed last year not only in this committee but in the Legislative Assembly during the fall. It's also recommended that the Audit Committee and the Select Standing Committee consider these representations and the trust fund's financial statements. I ask the Auditor General if he would elaborate somewhat on why he felt these recommendations were necessary.

MR. ROGERS: Mr. Chairman, I made these recommendations . . . Obviously, we needed something different from what we had if this committee was to have assurance that no matters of importance were to be reported by the Auditor General in his next report. We really have a timing problem here. The year ends on March 31. This committee, as we see today, meets in August of the same year and continues its meetings through the fall. Any matters found in the completion of this audit would not be included in an Auditor General's report until the one tabled in the spring session of the following year. Now as far as the Public Accounts Committee is concerned this is not a problem, because the report is usually tabled prior to the budget. So they have a chance to look at it, and their meetings usually commence after the budget is brought down in the spring session. So that timing is not a real problem at the moment, but it is a problem from the point of view of this committee.

For instance, if there were a report of a defalcation in the Heritage Savings Trust Fund, through breakdown in controls or so on and so forth, this committee would not learn of it until perhaps it had finished its deliberations on a particular fiscal year. So this was my first thought in meeting this problem.

I would like to share with the committee a thought I've had since this report was issued, because you'll understand it was issued in a great hurry; we were under very tight time constraints. But I must say that the thought occurred to me at a later date, which is well within my authority and well within the provisions of the present Auditor General Act. It is to this effect, and I would like to make this commitment to this committee. If ever there is a matter worthy of being included in the Auditor General's report that pertains to the operation of the Heritage Savings Trust Fund, I will undertake to issue a special report as provided for by Section 20 of the Auditor General Act. This report would be issued in the fall session, or as soon after the beginning of the fall session as possible, so this committee would never be in a position of having carried out its deliberations with regard to a year without knowing there was a significant matter that was going to be included in the next Auditor General's report. I think this overcomes

the timing problem in the reporting of any significant matters relating to the stewardship of the Treasury Department.

I've made this recommendation or statement, if you will -- because I regard it as an undertaking -- because I think it would assist this committee and prevent the sort of situation occurring which I suggested could occur.

MR. LITTLE: Mr. Chairman, I would like to hear Mr. Rogers outline what possible advantages he sees in this investment analyst and what services this individual could provide that cannot be provided at the present time through the brokerage houses and their staffs of analysts.

MR. ROGERS: Mr. Chairman, it could well be that one of the brokerage houses provided the report. It could well be that the report would be provided by such an analyst on the staff of one of the brokerage houses. These are the very people we're talking about.

MR. LITTLE: The point I'm making, Mr. Rogers, is why the need for the government or the trust fund to employ such an analyst when the brokerage houses supply these services free. With the amounts of dollars invested by the fund, I'm sure they would put the very best of analysts at our disposal.

MR. ROGERS: To my knowledge, these services are not free. You pay for them. I may be wrong, but that's my understanding.

MR. KESLER: Mr. Chairman, a supplementary question related to the line of questioning. Could the Auditor General tell us what the cost of this report was to the Auditor General's department? I see that it was done by a group from British Columbia, and I'm wondering if there aren't Albertans who have the qualifications to do such an analytical report. I'm also wondering about the cost.

MR. ROGERS: Mr. Chairman, I chose this particular person for two reasons. One was his credentials, and the other was that he was far removed from any direct involvement with Treasury over the last several years. I wanted to ensure that there was objectivity in any information he provided me with.

As to the cost, it is in the order of \$30,000, which involved a great amount of computer operation because of the number of time periods spanned.

MR. CHAIRMAN: Do we have any more supplementaries to do with 5 and its subdivisions? Another primary question, then, from the Member for Calgary Buffalo.

MR. SINDLINGER: Mr. Chairman, I'd like to ask some questions in regard to the accounting in a couple of these reports. The first one is in regard to the Consolidated Cash Investment Trust Fund. The Heritage Savings Trust Fund of course deposits cash in the CCITF, just as 96 other entities do. In the 1980-81 annual report, the balance for the Alberta Heritage Savings Trust Fund in the Consolidated Cash Investment Trust Fund is shown as \$42,857,000. On the other hand, the annual report of the Treasury Department for 1980-81 lists the annual deposit by the Heritage Savings Trust Fund as \$48,710,419. That's a difference of \$5,853,419, almost \$6 million. The question I would put to you, Mr. Rogers, is: could you help us determine why there is a difference of almost \$6 million and where the money is?

MR. ROGERS: Mr. Chairman, I'm afraid I would have to take that under advisement. If I could have the question in writing, I would appreciate it and would do my best to respond to that for the next committee meeting.

MR. SINDLINGER: Mr. Chairman, I have quite a few questions of a similar nature in writing, and they're quite extensive. For expediency's sake and the convenience of the committee, I wonder if I might not submit these committees to you for transferral to Mr. Rogers for consideration for a written response, and that we not take up so much time in committee. I ask in return only that Mr. Rogers make his best effort to respond to the questions as best he can in, say, a week or two weeks' time, so that we could have the information available to assist us when other ministers appear before the committee.

Also, I would respectfully ask if Mr. Rogers would consider reappearing before this committee again so that I may ask supplementary questions if the need arises. I might suggest that a convenient time for that would be when the Provincial Treasurer appears before the committee. The Auditor General has recommended in his special report -- I don't recall exactly where, but the recommendation is contained therein -- that the Auditor General and the Provincial Treasurer appear together before the committee.

I would find it satisfactory to have written responses before us, say, in two weeks' time, and then have the opportunity to ask supplementaries of Mr. Rogers if he would appear again at that time.

MR. CHAIRMAN: I might point out that in the final schedule, the Provincial Treasurer is going to appear in front of the committee on September 13. It's some time away. It's longer than it was initially, because he couldn't appear the third week of August. So there is a fair bit of time, I think.

MR. ROGERS: Mr. Chairman, I will be out of town on that day, although I can -- this takes priority. I would be happy to appear at an earlier meeting, if that were satisfactory, and I certainly will give my best effort to answering the questions of the member.

The point at the top of page 23, to which the member referred, had to do with the package represented by Recommendation No. 5.a, b, c, and d. It was that when the Treasurer had made his statements concerning internal control and the Auditor had given his opinion on that statement, then subsequently, when it was presented to the committee, both the Provincial Treasurer and the Auditor General be in attendance. That was because they were discussing the same wording, the same report. In this case, I would be happy to respond to the questions in as full a way as possible and if there are then any questions, I would be happy to appear before this committee.

MR. CHAIRMAN: To the Auditor General. Would that necessarily be during the fall discussions of the committee prior to our reporting to the Legislature? Would it of necessity be at that time?

MR. ROGERS: Within the two weeks that were mentioned, Mr. Chairman, depending on when this committee meets.

MR. CHAIRMAN: If it's acceptable, perhaps the Member for Calgary Buffalo can submit the written questions through me to the provincial Auditor. Once you've worked at them, we can arrange a suitable date and time for subsequent discussion with the committee.

MR. SINDLINGER: I think that's a gentlemanly arrangement and is quite satisfactory to me. I look forward to receiving responses from the Auditor General within the two weeks. I might also say that should any questions arise in his mind, I would be available to consult with him at any time and discuss the intent of the questions or the extent to which detail is required. I would now like to pass these on to you, please, Mr. Chairman.

MR. CHAIRMAN: In the meantime, are there any further questions that members of the committee have for the Auditor General? In particular, has the Member for Calgary Buffalo any more or are these the remainders?

MR. KESLER: Mr. Chairman, a question to the Auditor General. I know the new commercial investment division, that will be handling \$189 million, was briefly discussed. I wonder if the Auditor General could indicate what security or audit mechanisms are now in place, as it's a new area for the fund. Could he indicate what mechanisms or security are in place to monitor that division?

MR. ROGERS: Mr. Chairman, the investments are made by the same people who make other investments. In this report, I state that I've always found them to be very competent. When we were making our investigations with brokerage houses in the east and with other people in the investment community, we found that they were thought of very highly. These are the people who are making the investments in this new division. It is not a new organization established for the purpose.

MR. KESLER: There is no mechanism in place then for accounting to the Legislature on this division as well?

MR. ROGERS: This division reports in exactly the same way, because it is included in the financial statements. The accountability is identical to the other divisions; there is no difference.

MR. KESLER: Okay. Thank you.

MR. PAHL: Mr. Chairman, in the handout, under Alberta Investment Division, there was an increase in participation in the Syncrude project from \$255 million to \$439 million, and a decrease with respect to the convertible debentures. It would seem to me that the additional equity interest would constitute an increase in participation, but the \$184 million of increased participation would be over and above the increase in equity interest. Is that correct?

MR. ROGERS: The equity interest is increased from 8 per cent to 16.74 per cent. I think that's the figure.

MR. PAHL: How would that be reflected in the balance sheets of the fund? It's really a change in the category rather than anything else, isn't it?

MR. ROGERS: Page 22 shows the participation in the Syncrude project. The notes (d) and (e) give the details.

MR. PAHL: Okay, I'll review it again. Thank you.

MR. R. SPEAKER: Mr. Chairman, I want to go back to an earlier topic I raised with regard to unrealized losses and pursue my questions a little further. I said, have you observed any time when the government may have maintained higher unrealized losses so that the realized losses would be lower? Maybe my question should have been worded, can that actually happen? Through his staff, can the Provincial Treasurer influence the investments as such? Can the Provincial Treasurer influence the timing of the sale of a bond, or is that in the hands of someone else at some distance from the Provincial Treasurer? Can there be intervention by the Deputy Provincial Treasurer or any senior official of the department?

MR. ROGERS: Obviously, if you don't sell a bond you don't incur a loss. That's one way of minimizing the realized losses, but the loss is then reflected in the unrealized loss. As to the strategies, those are set by senior management. But I have no knowledge if it's that specific, as it deals with a specific bond. That's pretty well a matter for the portfolio managers and the dealers.

MR. R. SPEAKER: You're saying that it hasn't happened, but are the procedures so established that it can happen? Can the investment team be so influenced by the Provincial Treasurer, the Deputy Provincial Treasurer, or other senior official to delay the sale of a bond? Can that happen?

MR. ROGERS: That calls for a speculative answer, and I'm really not in a position to give it. I suggest that really that question should be addressed to the Provincial Treasurer. I have no knowledge of it occurring; therefore, I can't really comment further on that.

MR. R. SPEAKER: Mr. Rogers, one of the concerns we have had in this committee is the matter of accountability and that some formal plan and a strategy for investments be in place. I think one of the items in that plan would be the question as to whether the Provincial Treasurer, a political figure, or the Deputy Provincial Treasurer could intervene in whether a bond or commercial investment is bought or sold. I think that would be part of the Auditor General's function, to know whether or not that can happen, whether or not that's in the strategy. I think that would be part of your responsibility, Mr. Rogers, to be able to observe whether or not the strategy allows for that.

MR. ROGERS: It is always possible for the minister and deputy minister who have the responsibility for running a function to intervene. There's no control in existence that can prevent that happening. All controls can be overridden. There would be no way of knowing whether the decision not to sell was on instruction or simply a normal decision. That is why I cannot comment on that. If it did occur, it's something that does not appear. I have no knowledge of it occurring.

If I could just comment, the other thing is that in the various investment houses we contacted in the course of preparation of the special report, it is quite normal practice actually to limit the realized losses to a particular figure. In some cases that is actually stated strategy, that they're not to exceed a given figure.

MR. R. SPEAKER: Mr. Chairman, to Mr. Rogers. That figure would be established by the Deputy Provincial Treasurer and senior officials?

MR. ROGERS: I'm talking about other investment houses. There is no such figure in the Treasury organization. I said that in other investment houses, it is not unknown to instruct their staff that they are not to exceed a realized loss of a certain amount. That is so the financial statements won't reflect a loss of a like amount, of course. But there is no such restriction in the operation of the Treasury Department.

MR. R. SPEAKER: Mr. Chairman, to the Auditor General. I think Mr. Birkby is specifically assigned to the Heritage Savings Trust Fund. Under circumstances -- and I'm assuming that direction could come from the Provincial Treasurer or Deputy Provincial Treasurer that bonds not be sold or be sold. Would that type of information be brought directly to the attention of this committee or the Legislative Assembly as an unusual practice?

MR. ROGERS: Again, a speculative and a hypothetical situation which I find very difficult to comment on, because it may well be that was the best way to manage the fund at that particular time. I doubt that we would know of such a situation if such direction was given. There is no way of knowing. If it's not a matter of record, we can't audit it.

MR. R. SPEAKER: The reason I raised the question is that if the fund is open to political influence, then we in this Legislature should know about it. Under the ground rules that have been established, because we can't really see the strategy -- the strategy isn't a public strategy. To this point, we've found it difficult to have a clear picture of what goes on in terms of the internal controls. That type of thing can go on and the public is unaware and I as a member of the Legislature would be unaware. So I raise the question -- it may be hypothetical -- on the basis of who really is that internal watchdog for us in this Legislature and for the general public in terms of political intervention. We're moving closer to an election year -- this fall most likely -- and the government certainly doesn't want high realized losses. They could influence the fund. This is speculation, but how do we as a group get at it? How do we find out whether that kind of thing happens? We do trust in the Auditor General and his staff. I'm trying to answer the question whether you have the capability or would report that kind of thing if it did happen. Maybe we are fortunate in Alberta, up to this point, that we've had relative honesty and integrity in government, but that doesn't exist in all places.

MR. ROGERS: It's very difficult to be able to report on something that didn't happen, because all you're saying is that they would have decided not to sell a particular bond that they might otherwise have sold. It's very difficult to be able to report or even know that the reason that bond wasn't sold was that they were given a direction, unless that direction was in writing, which of course would be a different matter.

MR. R. SPEAKER: Under the present system, the investments in terms of bonds are not necessarily free from political influence. Is that an accurate statement?

MR. ROGERS: Mr. Chairman, I cannot make a statement on that, because to my knowledge there has been no political influence in matters of bond trading. We've not seen any evidence of it. Now that isn't to say it hasn't occurred. I can't say. You're suggesting something of which there is no evidence that it could have occurred. That is highly speculative, and I have no way of knowing how to answer that.

MR. R. SPEAKER: Mr. Chairman, I wasn't suggesting that it has occurred. I'm suggesting that the ground rules under which we are working do allow that type of thing to occur. There are no stops, even the Legislature, because we can't get all the information as to what happens internally; we could be unaware of it. Your observations are very internal. You have greater access to strategies and procedures than we as members of the Legislature have. Is that question with regard to sort of political intervention in the process part of one of the questions or observations that you would make?

MR. ROGERS: This is highlighting the conservative approach that was taken when it was decided that it would not matter whether it was a realized loss or an unrealized loss. Either would affect net revenue in exactly the same way. So really it is immaterial whether it's a realized loss or an unrealized loss. Even if that bond isn't sold, we take into account a provision for unrealized

loss. So the net revenue is affected in exactly the same way, regardless of whether or not the bond was sold.

MR. R. SPEAKER: At that point, I can agree -- at a point in time, that is correct. Over a period of time, it may look at actual dollars, gross dollars or net dollars, a little differently. Mr. Chairman, from the discussion I would make the observation that in the process it is possible that the minister or deputy minister could influence the fund and manipulate it in certain directions. We haven't any controls. It isn't at arm's length from the political system in terms of these special kinds of investments in bonds and as such.

The other area that related to my first question was in terms of realized and unrealized losses. We have a lot of funds in terms of the Alberta Home Mortgage Corporation and other corporations that purchase land and property. Are there any calculations there as to potentially unrealized loss? For example, land values have gone down 25 per cent. These corporate groups have purchased using Heritage Savings Trust Fund money. Is there any kind of calculation there for unrealized loss?

MR. ROGERS: The point is that they don't trade in the land. The generally accepted accounting principles would call for the Housing Corporation, for instance, to show land that it had purchased at cost. Of course, some of that land was bought a considerable time ago, so the market value would have to be a subject of appraisal. But the financial statements would not show any appreciation or depreciation of the land, which is reflected at cost.

But I would like to reiterate that in the course of very extensive work relating to the investment area of the Heritage Savings Trust Fund, we have found no evidence at all of any intervention which caused trading patterns to be other than those dictated by the investment people on a day-to-day basis, absolutely no evidence at all. You asked me if it could happen. Well, anything can happen. It would be a very foolish auditor who said that controls were such that such and such could never happen. That is not supported by history. The best controls in the world have been overridden, as we all know. One of the safeguards provided by the internal auditor is that you usually get a professional person who has allegiance, if you will, and a duty to his profession, who is not going to take kindly to matters happening that he finds distasteful. So one of the advantages of the internal auditor, which was also recommended, was that this is a further safeguard against this kind of thing happening, if indeed it did, which, as I said, we have no evidence of at all.

MR. ZAOZIRNY: A supplementary. First, a point of clarification, Mr. Rogers, because I think a certain amount of muddying of the waters just occurred with respect to any incentive for becoming involved in the process of decision-making on the sale or retention of certain assets. Am I correct in saying that, given the manner in which the financial statements are prepared and reported, there is absolutely no incentive, if one were of that mind, to interfere with that normal decision-making process, because the potential unrealized loss is reported in exactly the same manner as a realized loss would be reported? Is that correct?

MR. ROGERS: That is absolutely correct, Mr. Chairman, in that the revenue for the year is unaffected, if you will, as to whether it's a realized loss or an unrealized loss. They both have the same effect on net revenue for the year. If a bond is not sold, the fact it has decreased in value is reflected in the provision for unrealized losses.

MR. ZAOZIRNY: A further question, sir, if I may, which relates again to point 5 of your document entitled Major Fluctuations, where you speak of this matter of when interest rates are rising, the value of bonds will decline. We had discussed earlier the converse; namely, when interest rates are declining, the value of bonds will increase. While you indicated that you didn't have in hand information as to prevailing interest rates as at March 31 in comparison with today's rates, do you know whether any calculations have been made to provide at least a rule of thumb, if you will, as to either the positive or negative impact of, say, a 1 per cent change in prevailing interest rates upon the fund in its totality, particularly with respect to bonds? If there is, say, a 1 per cent decline in interest rates -- and I'm asking specifically, because over the period of the last weeks there has been a significant decline in interest rates -- could the committee have the benefit of any calculations that might have been made as to the positive impact that may have on the value of bonds presently held in the Heritage Savings Trust Fund?

MR. ROGERS: I don't have any such figures, Mr. Chairman. Other complications are involved, supply and demand and so forth. They don't move exactly as do the interest rates, but they tend to follow interest rates, if you will. So any computation would of necessity be only an indicator, a rule of thumb kind of thing. We do not have such figures. But again, I would suggest that management could probably give those figures very easily.

MR. ZAOZIRNY: Is it your understanding that such figures are on hand with management at this time, or are you simply saying that if management directed its mind to it, that calculation could readily be made?

MR. ROGERS: There was a release. The reason I said it could be provided by management, the minister released a graph of this type which shows the bond yield averages of 10 provincial bonds and chartered bank rate on prime business loans and Treasury bills. It shows that they move generally in relation to each other, but not precisely. It would be possible to compute from this the effect, if you will, on holdings of marketable securities.

MR. ZAOZIRNY: That's fine, thank you.

MR. CHAIRMAN: Is there anybody else with any questions for the Auditor General or have we run out?

I'd like to thank Mr. Rogers, Mr. Salmon, and Mr. Birkby for coming this afternoon, fielding quite a bunch of questions, and giving us some fairly detailed answers. Subsequent to the time you spend on the written questions submitted by Mr. Sindlinger we can arrange a further appearance in front of the committee to discuss the questions and answers that are involved there.

If nobody else has any other business, the committee stands adjourned until 2 p.m. a week from today.

The meeting adjourned at 4:55 p.m.