

[Chairman: Mr. Kowalski]

[10 a.m.]

MR. CHAIRMAN: Good morning, ladies and gentlemen. This morning we have appearing before the Alberta Heritage Savings Trust Fund Committee, Mr. D. W. Rogers, the Auditor General. For the information of all members, pages 30 to 41 of the 1982-83 annual report of the fund contain documentation submitted by the Auditor General. As well, it is my understanding that the most recent report of the Auditor General is for the year ended March 31, 1982, which was published in the early part of 1983. That might be a secondary document that hon. members might wish to have before them this morning.

Mr. Rogers, welcome. If you have any overview comments that you would like to make, would you kindly proceed now, and then committee members will take the opportunity to raise questions with you.

MR. ROGERS: Thank you, Mr. Chairman. First of all, I would like to acknowledge the gentleman on my left as Mr. David Birkby, a senior principal in our office, responsible for the audit of the Heritage Savings Trust Fund.

Mr. Chairman, as you pointed out, I would like to address, shall we say, the muddy section of the report commencing with section 29 — "muddy" referring to the color only, I hope. These are the statements of management of the administration. They are audited by myself and, of course, the opinion on those statements, in a manner similar to that of the private sector, is on page 30. These were audited in accordance with generally accepted auditing standards and are fair in accordance with the disclosed basis of accounting, which appears on the note to be found on page 36. Note 2(i) says

These financial statements have been prepared in accordance with generally accepted accounting principles . . .

These are the accounting principles applicable to profit-oriented enterprises in the private sector, with two exceptions. One is that

the investment in Alberta Energy Company Ltd., which represents 45% of the total number of issued and outstanding voting shares of the company . . .

is recorded at book value, and there is no adjustment for the fund's pro rata share of retained earnings of the company.

In the private sector, under normal circumstances, 45 per cent of the shares would, in effect, give the parent the ability to control. Therefore you would, in effect, pick up the pro rata share of the retained earnings. However, in the case of the Alberta Energy Company, it has been made clear that the government does not control, and has no ability to control, under the ground rules under which the Alberta Energy Company is operating at the moment. Consequently, it is not reflected at a value other than book value.

A second departure from generally accepted accounting principles is the representation on the balance sheet of the deemed assets. These were a matter of my report in '78-79, I believe it was.

If you refer to the balance sheet on page 31, the deemed assets are seen to be a part of the \$13 billion and are \$1.6 billion. These are not assets in the accounting sense. They are assets in that they have added to the assets of the province, but they are not assets of the Heritage Savings Trust Fund. This is made clear in note (i)(b).

As a result of the audit, Mr. Chairman, I was satisfied with the internal controls as they related to the investment activities of the administration. I do not have any matters to report in accordance with the undertaking I made to this committee last year, that if at any time there was a matter of importance, it would be reported under a special report under section 20 of my Act. There will be no such report this year,

because there were no significant matters. Mr. Chairman, with that brief overview of statements . . .

MR. CHAIRMAN: Thank you very much, Mr. Rogers. We will go then to questions.

MR. MARTIN: I would like to tie in another part of your report where you talk about the unfunded liability in terms of the general revenues of the province. I believe in March 31, 1982, we were over \$3.6 billion in unfunded liabilities. My question, Mr. Rogers, is: could this at some point be registered as a liability against the heritage trust fund?

MR. ROGERS: Mr. Chairman, just for clarification, are we talking about the pension unfunded liabilities?

MR. MARTIN: Yes.

MR. ROGERS: No. If established, those would be liabilities of the General Revenue Fund and would not affect the Heritage Savings Trust Fund but, of course, would also affect the consolidated accounts where the General Revenue Fund and the Heritage Savings Trust Fund figures are all brought together. Those are the accounts of the province. But to answer your question, there would be no effect on the Heritage Savings Trust Fund.

MR. MARTIN: Just to follow up on that so I am clear — the reason I ask it, of course, is that we don't know what the future holds. We've had examples of dwindling revenues coming into the general fund. So if at some future point when those unfunded pension liabilities come due and we still have a heritage account, it will be safe — if I can put it that way — from being registered as a liability and digging into the trust fund.

MR. ROGERS: That is correct, sir.

MR. MARTIN: The third question I have — I may not get another one, so I will go into a different area. I am curious about what happens in the reporting from Alberta Housing; for instance, where there have been a number of foreclosures dealing with the recession, and we still owe a mortgage. If I can use the example that the mortgage was \$60,000 and the property value sank — as has certainly happened in Edmonton and Calgary — to maybe \$45,000, to pull something out of the air. How is this valued in terms of the reporting to the trust fund? Do we have what looks like an asset of \$60,000, or are the true property values represented, with the downturn?

MR. ROGERS: Questions of valuation of assets of the housing corporation only affect the accounts of the housing corporation. We're involved in that right now for the year ended March 31, 1983. The only relationship between the housing corporation and the Heritage Savings Trust Fund is one of lender and borrower and that the basis of those borrowings is not directly the assets of the housing corporation but rather the debentures issued by the housing corporation that were, in effect, purchased by the Heritage Savings Trust Fund.

MR. CHAIRMAN: Mr. Moore, to be followed by Mrs. Cripps and Mr. Speaker. Mr. Martin, would you like to get back on the list now?

MR. MARTIN: No, thanks. I'll take a look at this now.

MR. R. MOORE: Thank you, Mr. Chairman. Mr. Rogers, I'd like to refer to Recommendation No. 1 on page 9 of the Auditor General's report ended March 31, 1982,

if you have it there. I have difficulty rationalizing or understanding why you would make a recommendation such as that when we have this committee, your department, and the management of the heritage trust fund looking at this. In light of all our concern for getting the most for the dollars spent, why would we put another level of watchdog in here to look over the investment portfolio? Do you think it is necessary to keep putting in more and more levels? Would it improve the investment record of the heritage trust fund to have such things?

MR. ROGERS: I have to say that it wouldn't improve the investment record. The intention of this was to provide this committee with information so the committee could better judge how the administration was performing in this area. I was not advocating a whole new level, if you will, but something along the line which I didn't find to be very expensive. You recall the year before that when I issued that earlier report for the House at the request of the government, I retained the services of an individual competent in this area. He compared the performance of the Heritage Savings Trust Fund with other portfolios that were achieving the same objectives — in other words, maximizing return — and we were able to see the relative performance. This is quite commonly done as a procedure by insurance companies and other investment houses. In other words, they like to see how they are doing in relation to others who are also in the investment business. I was simply suggesting that the Alberta Treasury do the same thing and that if they had that information, they share it with this committee. It was simply another means of monitoring very directly the performance on section 10 investments. This only applies to the marketable securities, of course. But, if you recall, that was very much the focus of attention a couple of years ago.

MR. R. MOORE: Very good.

MRS. CRIPPS: Mr. Rogers, I'd like you to explain exactly how you perceive the role of the Auditor General in relation to the Heritage Savings Trust Fund.

MR. ROGERS: Mr. Chairman, the role of the Auditor General to the Heritage Savings Trust Fund is the same relationship as I have to the General Revenue Fund and all the provincial agencies, and that is prescribed under the Auditor General Act. It is mainly the attest function, and the attest function is discharged in this opinion on the financial statements. I also have the responsibility for ensuring that there is compliance with legislation, and that is more — if I don't say there is lack of compliance, then you can assume there is compliance; for instance, that the allocation of revenue to the Heritage Savings Trust Fund complies with the legislation.

I also have the responsibility for determining that systems that should be in place are there, are working satisfactorily, and are being complied with. These are systems to ensure that the accounting is correct, to ensure that economy and efficiency have been addressed.

As I say, the mandate applicable to the Heritage Savings Trust Fund is the same mandate that applies to all other government activities.

MRS. CRIPPS: Thank you.

MR. R. SPEAKER: Mr. Chairman, to Mr. Rogers. It's with regard to the government as a creditor to Vencap and the auditing of the \$200 million allotted. Does your office have involvement in auditing that debenture of the government and, if so, what involvement would there be?

MR. ROGERS: Of course we're talking of a transaction that has yet to take place in actual fact. But assuming that there is a flow of funds to Vencap from the Heritage

Savings Trust Fund, there will be no involvement of my office, as I understand this will be an investment — a capital project, if you will. I believe it comes under the capital projects division. But at the moment, I'm not aware that there will be any audit relationship with Vencap.

MR. R. SPEAKER: Mr. Chairman, in terms of the government role or the role of the Auditor for the provincial government, what activities would be involved in auditing and overseeing the allocation of this \$200 million loan? In other words, where would that fit into your report to this Legislature?

MR. ROGERS: Again, we're talking about a future year, and things may change as the year 1983-84 is dealt with next year. But, as I see it, it is the purchase of debentures by the government, by the Heritage Savings Trust Fund, and therefore is in the form of an investment. The matter is somewhat complicated in that it's provided for through an appropriation as a capital project, so really the jury's still out on that. I really can't give a final answer on that because things may well happen between now and next summer, for instance — from an audit point of view, that is.

MR. R. SPEAKER: Mr. Chairman, to Mr. Rogers. There will be some involvement, though. Is that process being worked out at the present time, or are discussions being held with regard to that matter?

MR. ROGERS: It's a little early for that, Mr. Chairman, but I think at this time next year I would be in a position to give a more definitive answer on that. At the moment, we have not made any moves because Vencap is still sort of organizing. The audit usually comes along when things have happened. At the moment, I am simply not in a position to say, one way or the other, what our involvement will be. If it is treated simply as an investment, I would say that our involvement will not extend beyond determining that the \$200 million has gone for debentures and that we have debentures for the \$200 million. I don't think our auditing would involve the review of the activities of Vencap — in other words what happens to the \$200 million once it's within Vencap — any more than our activities involve determining what happens to grants or any other moneys once they have got into an entity that is outside the government.

MR. MARTIN: Mr. Rogers, I'd like to come back to my third question, specifically on the debentures of the Alberta Home Mortgage Corporation, so I understand it a little more fully. There's a report of the value of the debentures. I know that there have been a number of foreclosures. Would the foreclosures Alberta Home Mortgage owns now not be included as part of their debenture here in terms of the value?

MR. ROGERS: Yes, but the debenture is an acknowledgement of debt by the housing corporation, and that also happens to be fully guaranteed. If we took the very worst case, let us say the Home Mortgage Corporation was unable — which is not the case, but let us assume hypothetically — to repay the Heritage Savings Trust Fund. There's a government guarantee, so the Heritage Savings Trust Fund would not be the loser. Of course the moneys would have to come out of the General Revenue Fund to implement the guarantee. That is a hypothetical worst-case situation which certainly is not anywhere near the present situation, obviously; that is taking it to the logical extreme. Whatever happens in the Home Mortgage Corporation would not affect the Heritage Savings Trust Fund.

MR. MARTIN: So that would come in another part of your report. The funds are being used well there, but you're just looking at the debenture as owed.

MR. ROGERS: That's right.

MR. MARTIN: I understand. Thank you. That question would be better asked tomorrow then.

The third question I have, Mr. Rogers, has to do with (a), where you say that these financial statements — and you talked about this in your opening remarks — have been prepared in accordance with generally accepted accounting principles except as follows. One case you talk about is 45 per cent in Alberta Energy Company Ltd., where income is recognized only as dividends received or receivable. I guess I'm asking a question. Saying these are not generally accepted principles, would your recommendation be — and I know you've made a straightforward statement here, but should this be? As Auditor General of the province, should you have the right to look into the pro rata share of returned earnings of the company?

MR. ROGERS: The amount of the retained earnings is disclosed on page 41. There's a sentence at the end of note (d) which says,

The company reported retained earnings at December 31, 1982  
of \$177,300,000.

In 1981 the same earnings were \$140 million. It is disclosed. In effect, we have 45 per cent of that \$177 million really sort of coming to us, if you know what I mean. If you look at us as part owners of the Energy Company, that would be our share of the retained earnings if they were distributed.

I'm not advocating anything in particular in this note. Don't forget this is a note of management. It is simply saying that normally, when you own 45 per cent, you would reflect your share of the retained earnings because you would, in effect, be able to exercise control, or have the ability to exercise control, which is what the handbook says. However, that test was not employed in this case because it has been represented, and I have reason to believe that control is not exercised over the activities of the Energy Company. Therefore, again under the handbook, it is possible not to bring in the portion of the retained earnings. The reason for putting it in this note is so that everyone is quite clear as to how we have treated the Energy Company.

MR. CHAIRMAN: Mr. Alexander.

MR. ALEXANDER: That's Mr. Martin's.

MR. CHAIRMAN: No, but you were next on the list. Mr. Martin, you still have one additional one if you want it.

MR. MARTIN: No, I had three. That's okay; go ahead.

MR. ALEXANDER: I just didn't want to be confused with Mr. Martin, that's all.

MR. MARTIN: Both of us are being insulted.

MR. ALEXANDER: We understand.

Mr. Chairman, the Auditor General mentioned earlier that to facilitate comparability with other portfolios of investment companies, pension funds, fund managers, and so, some things have been done within the report to try to give information which would make them comparable. I've had a number of questions from businessmen, and I'd just like to pass them on. To facilitate the comparability of the heritage fund and the management of its assets with other similar portfolios in the country, would it give us a truer perspective on an ongoing basis if, as you've pointed out under Note 2, the items which are carried at book value or at cost were actually valued

at current market? For example, the Energy Company: while I fully understand that you can't bring retained earnings over — that's not done — they can be booked as they are, quite rightly. However, if the asset — as well as the asset in Syncrude, for example, and other assets under the Canada and the Alberta investment divisions — were carried in the report at market rather than at cost, in your view would that contribute to a better understanding on the part of people out there as to how the heritage fund assets are actually being managed on a current basis?

MR. ROGERS: The accepted accounting treatment that I think you'll find in all financial statements in the private sector is cost or, in the case where you're trading, lower of cost or market. In the case of securities that are being actively traded, section 10 securities, we treat those at lower of cost or market. All other assets are treated at cost, which is generally accepted in the private sector. There is a change coming, that would not have had an impact this particular year even if it had been implemented, to amortize any profits or losses over a period in the case of any purchases or sales. That will be coming up next year. Management has adopted that new policy for some of the other funds but, because of the early close-off of this fund, it was not applied here. Even if it had been applied, there would not have been a material change to the financial statements.

In answering your question, no, I don't believe market is generally accepted as a valuation. We are still basically using historic cost. There is no reason why other supplemental statements could not be prepared, if there was any value to it, showing current market values. The problem is that these fluctuate and do not provide a good reporting basis from that point of view.

MR. ALEXANDER: Mr. Rogers, I think what you are saying is true, if you're structuring a corporate financial statement. I have no argument with what you're saying, and I think the practices you have used are, in fact, true of corporate financial statements. However, you did bring up the matter of comparability with portfolios. It's my view that the general public and the people that are talking to me are viewing this as a portfolio. What you have just said, and what you have used in the report, may be true of corporate financial statements, but it's not true of portfolios. Portfolios are valued on a current market basis, essentially, in terms of pension funds or mutual funds. Any kind of portfolio that is managing marketable securities values them probably on both bases. Many times there are two columns: cost, or book value, and current market value.

I'm not sure that there's any scope under the Act, but I'm really asking you whether some such suggestion on your part — perhaps even on my part — might clarify the distinction between reporting these matters on a corporate basis, as though this were a functioning private-sector corporation, and reporting them as though it were a portfolio. It strikes me that the community at large tends to think of this as a portfolio of investments of the province of Alberta and, if it were treated as such, it may be treated somewhat differently than if it were a corporation run by the province of Alberta and treated on a corporate basis, which I see is what's done now.

To clarify my question, I have no argument with what you're saying about a corporate balance sheet. However, do you see what I'm saying as far as treating it as though it were a portfolio is concerned?

MR. ROGERS: There are practical difficulties in getting a market value for assets that are not actively traded. You mentioned Syncrude. It would be very difficult to determine a market value for the government's participation in Syncrude, for instance, as a joint venturer. I think there would possibly be a practical problem there.

Any information of that nature as applied to the portfolio of investments would be over and above, if I could use the term, the traditional or constant, if you will, reporting on the historic cost basis. This could well be additional information provided by

management in the annual report generally. If it were wished and there were value in it, it could be included in the financial statements as supplemental information.

MR. ALEXANDER: Not to pursue the point too far, in fact interests in Syncrude traded on the market — not in recent years but two or three years ago — at substantial values above original cost. The market uses, in portfolio calculations, discounted present value of future cash flow, which could be another way of calculating present value of Syncrude.

I guess I see this as a problem because we've had surveys recently of how people understand the heritage fund. Generally speaking, they seem to like it but do not fully understand the mechanics of it. I am really trying to get an answer from you as to whether we could do something like this and whether that would in fact improve people's understanding of what's happening here, if they in fact perceive it as a portfolio managed by the Treasury Department on behalf of the people of Alberta and that the performance level of this portfolio is higher than is perceived in the general public and also higher than is reported, in some cases, in the annual report because of the constraints of Note 2 and the legislation governing it.

MR. ROGERS: This is one area, Mr. Chairman. For instance, in the commercial investment division investments, on page 42 we show the cost in one column and the market value in another. The total investment at March 31, 1983, is \$198,785,000 whereas the market value is \$248,387,000. So we are showing there that although the cost was \$198 million, the market value is \$248 million. Mr. Chairman, is that the kind of information that was being referred to? Perhaps management could see if they could extend that kind of reporting, and I would be quite happy to audit it to the extent possible.

MR. THOMPSON: Mr. Chairman, I'm on the same subject. Most of the questions or points that Keith was making, I was thinking about. Recommendation No. 1 says similar investment portfolios. Just off the top of your head, Mr. Rogers, could you give me a couple of examples of investment portfolios that are as static as we are here in the heritage trust fund?

MR. ROGERS: Realizing that we are only talking about section 10, these are moneys that are not required for any other purpose. During that period when they're not required for any other purpose, the objective is to maximize the return on those moneys, and we're talking about many hundreds of millions of dollars. I think you get that kind of situation in insurance companies and other types of investment companies, where they have a pool of money, and their objective is to maximize the return. These are the kinds of portfolios that I would see comparisons being made with. We are not talking of the heritage trust fund as a whole, because there is no equivalent to that.

MR. THOMPSON: Mr. Rogers, I realize that we're just talking about the investments we have. We don't want to start comparing apples and oranges again. The thing that I have problems with is, are there any other funds that are as static? We are fairly static. We are conservative as the trustees. I would just like a couple of examples, besides insurance companies, that come to mind.

MR. ROGERS: Mr. Chairman, could I draw attention to page 28, the marketable securities, money market securities. The purchases in the year were \$3.7 billion, and the disposals, repayments, and redemptions were \$4 billion, so there is a lot of activity. When the objective is the same — that is, to protect the funds and maximize the return — I don't think you will find there's a radical difference between the investment strategies employed. It is short term, looking for increasing the yield. I think you'll find that the investment portfolios I was talking about — as I say, Sun Life and so on and so

forth — are as interested in retaining the asset as are the people at Alberta Treasury. So I think there is a comparability there. In actual fact, when the comparison was made in that report, if you'll recall, the performance came out very well indeed, compared with other portfolios.

MR. NELSON: Mr. Rogers, do you have the ability to audit a singular large project that is developed under the Heritage Savings Trust Fund, such as the Walter Mackenzie Health Sciences Centre? If so, how do you determine that the project is being developed in a reasonable manner as far as the expenditure of dollars is concerned, considering the large overruns that were experienced, especially earlier in the development?

MR. ROGERS: Mr. Chairman, the short answer to that is yes, we do have the capacity to audit such projects, but it doesn't come under our auditing of the Heritage Savings Trust Fund. It comes under the team of my office that audits the university hospitals, because, as you know, this particular project, of course, is under the hospital board. I think the history of that particular project is known, in that I was asked by the minister to carry out a special investigation, and he reported to the House on the findings of that investigation. The main problems were the controls involved in the construction and design of the hospital. All those have been strengthened, and I believe are satisfactory now. As you know, there was a bad period. Because I'm involved in it even today, since the investigation, I can say that it is under control.

My involvement is not to determine whether or not there was economy or efficiency but, are systems in place that are conducive to efficiency and economy? There is a subtle difference between my mandate and certain other mandates in other jurisdictions. I think it is not a good thing for the Auditor to, in effect, second guess management and say, you could have done that more efficiently if you had done this. I think that is then perhaps taking the Auditor beyond his competence. But when it comes to determining the adequacy of systems and whether or not those systems achieve the objectives they are supposed to achieve, yes, I think an auditor can do that properly. That's what we do.

MR. NELSON: Further to that, Mr. Chairman, are you able to define and develop systems with the department so we can possibly examine costs and see that systems are in place before the project is under way so as to alleviate some of these concerns and problems that are, in fact, happening? We get in after the fact, and it costs us many millions of dollars in moneys that we may have been able to utilize for the good of the public in other areas.

MR. ROGERS: Mr. Chairman, I have made comments in my report on that matter. I believe there should be more information, and I think that is Recommendation No. 46 of the annual report. Perhaps I will read it, because maybe not everyone has it.

It is recommended that, in the interests of improved accountability to the Legislative Assembly and more effective budgetary control, appropriation bills should be supported by more extensive financial information on major capital expenditure projects. This information should include, inter alia, details of the original estimated costs and scope of each project, cost and scope revisions, costs incurred to the end of the previous fiscal year, current year cost forecast, amounts to be appropriated for costs to be incurred in the next fiscal year, estimated future year costs to completion, estimated impact of monetary inflation on past, current and future costs in relation to the original cost forecast, and the total estimated cost for each project.



I'm not talking about multiyear approvals of funds by this House, but rather that more precise information be made available for each capital project. Some of the overruns we've seen are not — they appear as overruns because more money is needed than was originally said to be needed, but very often several things have occurred. One is that the original figure may not have been a hard figure; in other words, not a precise figure. Perhaps the work necessary to determine what the figure should be may not have been carried out at that time, or the project itself may be very different by the time a year or so passes. The scope of the project may have been enlarged, yet it only appears that there's an overrun. That kind of thing has occurred, and that was the point of that recommendation.

MR. R. SPEAKER: [Inaudible] I guess stems from the February 1982 report which was initiated because of a loss of \$60 million in an investment relative to bonds. In your report tabled in the Legislature on April 12, 1983, you update the Legislature in terms of the five recommendations. One recommendation I would appreciate the Auditor's comment on is Recommendation No. 2 with regard to the establishment of an internal audit group. I understand from the report that your discussions had been going on within the Treasury Department, but the official internal audit group had not been established. Has that been established at this point, and is it functioning?

MR. ROGERS: Mr. Chairman, there is now such a group in Treasury, and my people have been reviewing the reports of this group. There have been several now in various aspects of Treasury functions, and this is an ongoing thing, as you can appreciate. But, yes, there is internal auditing now within Treasury; of course, some of it applies to the Heritage Savings Trust Fund.

MR. R. SPEAKER: Mr. Chairman, to Mr. Rogers. One of our concerns in terms of that \$60 million loss was that we as a Legislature had total inability to trace the investment, to see where it was lost — what happened, what dates — and we had to completely rely on your investigation, which we accept. Even in your own investigation, there was a lack of documentation of areas of that trail of investment. Will this internal audit committee now be able to produce that kind of evidence in a more sophisticated, mature, and responsible way? Is that one of the observations you're making with regard to the work of this internal audit committee?

MR. ROGERS: Mr. Chairman, I think the information is of a very detailed nature. I think that whether or not that is released is a matter for management. I think we're all aware of the arguments, pro and con. As Auditor, I don't feel that I can comment on that. The internal audit is designed to determine that the rules and regulations, if you will, laid down by management are, in effect, being adhered to and would not have any impact on any information released. I think that is all I can say on that subject.

MR. R. SPEAKER: Mr. Rogers, are you satisfied at this time that the procedures being used internally supervise the investment portfolio very well, or are there various investments? I recall your report back to the Legislature said that there were possibilities of collusion. I forget if the word "misappropriation" was used, but I know the word "collusion" was. Can we as legislators be satisfied that no investment can take place without you, as a responsible citizen and administrator to the people of Alberta, and without our being able to trail that investment with full confidence? Is that happening now?

MR. ROGERS: Mr. Chairman, I think perhaps the best way I can put it is to say that I am satisfied with the controls that are presently in place and the way those controls are being administered. We don't have any doubts on that whatsoever. If there were any

shortcomings, believe me, we would be reporting them, in view of the importance of the Heritage Savings Trust Fund.

MRS. CRIPPS: As a follow-up to Mr. Speaker's question. At that time you were critical of the investment. What would be your position today on the investment of the Heritage Savings Trust Fund?

MR. ROGERS: At the time, I was critical on the need for additional controls. Those controls have all been put in place; there has been a change in the systems employed. I don't have those complaints that I had at the time that letter was written originally, which is now — what? — two and a half years ago or thereabouts. The situation has changed, and I'm satisfied at this point with that particular part of the administration of the Heritage Savings Trust Fund.

MRS. CRIPPS: I expect that as Auditor General you are probably meeting on occasion with your peers. What is the perception of the fund by others in your line of work? Do you get questions on the method of operation of the fund? I ask the question because the concept has been picked up and emulated by other jurisdictions.

MR. ROGERS: In various conversations with auditors of other jurisdictions, yes, I've been asked. There was quite a bit of interest at the time of the release of this particular report, if you recall. It was followed with great interest by some of my colleagues in other jurisdictions. I think they wish they had similar problems. But I think that generally they feel that following generally accepted accounting principles is a good approach as a way of measuring what has occurred in the fund.

MRS. CRIPPS: Just a supplementary then. I take it from your suggestion that they wish they had the same problem, that they really do feel that the heritage trust fund is effective in concept.

MR. ROGERS: Our job as auditors is really not to question policy, as you know. But, as individuals, we obviously have opinions. I think I can say that the feeling is, yes, from a policy point of view, it is excellent policy.

MR. R. SPEAKER: Mr. Chairman, to Mr. Rogers. Who are the people on the internal audit group of the Treasury Department? Are they Treasury people? Are they outside people? Is there some independent consultant? Are there people with independence and neutrality, as exists with some members of the Legislature at the present time, so they can stand alone and make reports as necessary without worrying about their own jobs or their futures being jeopardized, or worrying about their position at some time, as occurs in the bureaucracy, where people sometimes compromise their principle, or their concern, because of their relationship to others in that particular group? That's why I'm interested in who would be in this group.

MR. ROGERS: Mr. Chairman, I have a feeling that really should be addressed to the Provincial Treasurer, as I feel that I'm a little out of place commenting on the qualities of his staff. But I can say, in this particular case, that you have to look to the individuals and their professional integrity, if you will, and I don't have any worries in that area.

MR. R. SPEAKER: My question was: who are they? That's what I'm interested in. How many are there, or who are they?

MR. ROGERS: I think that details of that nature, Mr. Chairman, really should come from the Provincial Treasurer. It is a group within Treasury. I didn't answer that part of

it. They are Treasury employees, admittedly. But when you get people who are also professionals in their own right and have a professional responsibility, I think that the problems that are suggested could be there, are not there.

MR. R. SPEAKER: Mr. Chairman, to Mr. Rogers. I guess it's my job to find out if that's there or not. How many people are there? That's a very objective question. Who are some of those people? I don't think that naming them creates any kind of attitude one way or the other.

MR. ROGERS: Mr. Chairman, I have given my opinion on the quality of those people and the quality of their work. When it comes down to naming them, perhaps that should be done by the Provincial Treasurer.

MR. R. SPEAKER: To the Auditor General. Are you aware of who they are? We can name 40 members of the Legislature — so what? Naming them doesn't say that they're bad or good. I would most likely agree with you. Hopefully they are doing their job. Are there 10, are there five, or are there three?

MR. ROGERS: Mr. Chairman, I go back to the fact that I feel that this information should really come from the Provincial Treasurer. But I don't feel that I'm out of place in saying that there are about half a dozen people. They are led by a man who was a partner in a major accounting firm, and they periodically employ outside assistants from firms in the public accounting sector. I think it's being run as a professional operation. Beyond that, I don't think I can name the names. That really should come from the Provincial Treasurer.

MR. R. SPEAKER: To the Auditor General. We're creating an issue . . .

MR. CHAIRMAN: [Inaudible] the question at this point. I have no problem at all, as the chairman of this committee, sending a letter to the Provincial Treasurer on behalf of the committee member, requesting that information.

MR. R. SPEAKER: My questioning leads to the point, Mr. Chairman, that I want to know that the Auditor General knows who those people are, how many there are, and who is doing the job. If the Auditor General is aware of them, then what's wrong with saying, look, here are five people I meet with? With all due respect to the Auditor General, he's adding some suspicion to my questions which really were not initiated with any kind of intent of malice or of severely reprimanding somebody in the Treasury Department. However, if they are not doing their jobs and if I see a possibility of a conflict of interest, we will certainly raise that again in the next arena, which is going to open on October 19. But our job is to ask those questions here.

MR. CHAIRMAN: I certainly agree with you. I have no problem at all with that, Mr. Speaker. I notice Mr. Moore's hand and Mr. Alexander's hand.

Mr. Moore, Mr. Alexander is next on the speaking list. Is this a special point you want to make?

MR. R. MOORE: I just want a comment from Mr. Rogers on one area. But if I can come in after Mr. Alexander, fine.

MR. ALEXANDER: Mr. Chairman, it is partially a point and partially a question. My hon. friend from the deep south — far be it from me to prevent him from setting up another Alamo here, but when one begins with the possibility of collusion which arose a couple of years ago and then purports not to be raising any shadows, you will pardon me for being somewhat suspicious that in fact the shadows are more substantial than the real

question. I think the Auditor General is absolutely right in not answering that question, because it is a question which tends to raise suspicion about the qualifications. I'm not sure that it is ever the Auditor General's job to ask who's doing the job.

I raised this question once before in this group, Mr. Chairman, as far as the questioning of senior executives of the Alberta Opportunity Company. In my view, in terms of appropriate corporate practice, that was out of bounds. I also think this one is out of bounds.

I am having a hard time figuring out how I'm going to ask a question here as far as the Auditor General's answer is concerned. Perhaps he can formulate a question to my answers. I think he's right; I do not think he should answer those questions. I think they are questions which are raised not from the statements at all. The Auditor General's notes are there, and they have been fully explained. On a national basis in terms of the investment community, the people who run the heritage fund are held in extremely high regard. They do a competent job; the evidence is there. Quite frankly, I hope the Auditor General maintains his position because I suspect, as I did two and a half years ago, that the question raised is out of bounds.

MR. CHAIRMAN: I can only assume, Mr. Alexander, that what you were doing was raising a point of order. In fairness to Mr. Speaker, I think he would want to get in. Nobody has identified this as a point of order. I am just assuming inherently that this is what we're on to right now.

MR. R. SPEAKER: On the point of order and why I raised the question. In Recommendation No. 3, 1980-81, the Provincial Auditor recommended that "the Treasury Department establish an internal audit group". That is recommended. The Provincial Treasurer responded in September 1982, just prior to the last provincial election, that he thought the idea was good. Following that, at the date of this report — and this report was tabled in the Legislature on April 12, 1983. It says:

... a committee has been established which is planning the structure, scope and responsibilities of a proposed internal audit unit.

In my question, I followed that up by asking: have those discussions by the committee concluded, and has an internal audit group been appointed? My direct question — and certainly I added a few other phrases. The \$60 million discussion that went on in this Legislature was the route that initiated this plan and these ideas, these five recommendations. This is why they came forward. At that time, the Auditor General's report said there was possibility for collusion. The other word doesn't come to my mind at the moment. So I am only quoting. I am saying that at this point in time, if the committee has been established, who is on it? There are maybe six. That's not good enough from the Auditor General of this province. I am asking: who are they, what are their names, and what are their professional capabilities? Then I will make a judgment from there, Mr. Chairman, whether there is any possibility of compromise, any possibility — and it happens in political governments — of cover-up. I said that I will make that judgment in the arena on October 19 and later.

The questions to the Auditor General, after you've cleaned away all the rest of the aside comments that I've made, are: how many; who are they? And I think if the Auditor General is communicating with these people, that's a very easy answer. That's my case for that matter.

MR. THOMPSON: On the point of order.

MR. CHAIRMAN: I have to recognize Mr. Martin before you, Mr. Thompson.

MR. MARTIN: On the point of order, I'm not sure who the names should come from, but

the hon. Member for Edmonton Whitemud talks about established corporate practice. I remind the member that this is still the Legislature. Whether Mr. Rogers should answer the question or not, I'm not prepared to say. I understand he's uneasy about the six members being named. I can't see why it would be such a secret. If Mr. Rogers doesn't feel he can do it, I hope then that at least we will follow up and quickly get the information that Mr. Speaker is asking for. I don't think we can hide behind established corporate practice. It's a different institution. Whoever gets that information, I think we should clearly have the information.

MR. THOMPSON: On the point of order. The Auditor has said that the committee has been established. He has also said that he is satisfied with the job it's doing. The chairman has said that he would write a letter requesting the names of these people from the Provincial Treasurer, whether we get it or not. So I really don't see that the committee can do much more, because Mr. Rogers refuses to tell us the names, for what I think are very good reasons. But I don't see any point in sitting here beating the bush over this thing.

MR. CHAIRMAN: I think maybe it's time for a ruling on this matter. As I recall . . . Mr. Alexander.

MR. ALEXANDER: I want to make one more observation on the point of order, and I think this was clearly demonstrated before. There is a clear presumption here that there is some capability of making a judgment on the qualifications of people who sit on an internal audit committee. I think what I'd like to make quite clear here is that it's one thing to declare that I will make a political statement in terms of the qualifications, but I really wonder whether anybody here is capable of judging the qualifications of the members of an internal audit committee in the Alberta Treasury. Therefore, I simply reinforce once again what the Auditor General is saying in not naming the names. But I also question the capability of us, outside the political arena, making judgments about the qualifications of internal auditors. You may make a political judgment and say: oh, those people are compromised because they work for the department. I think that casts certain aspersions on those people, but it in no wise whatever makes a judgment about their qualifications to do the job. If they have satisfied the Auditor General that the committee has been set up, their work has been effected — that was what was recommended in the phrase that Mr. Speaker read — they've done their job. As far as I can see, the qualifications matter is beyond the pale of this particular discussion, and I commend the Auditor General for saying so.

MR. CHAIRMAN: I understand that several questions were raised by Mr. Speaker to Mr. Rogers. One, was a committee set up? The response was yes. Number two, approximately how many? The response was half a dozen, or six. And the third question basically was, can you name the individuals who sit on this committee? Mr. Rogers has indicated that in his view it's not appropriate for him to. At that point, Mr. Speaker insisted they should be named, and we then proceeded to a series of points of order with debates and argument for both.

I made a suggestion along the way that as chairman of this committee I have no difficulty whatsoever in sending a letter to the Provincial Treasurer, to whom these unnamed persons, at this point in time, report. I'd be very happy to do that, if it would meet with the general acceptance of the members of the committee. Mr. Speaker, you initiated it. Would that be satisfactory to you?

MR. R. SPEAKER: Mr. Chairman, certainly I can get the names that way or other ways. We leave the discussion, though, by doing it that way. The reason for Mr. Rogers not giving the names is still unclear to me, and I think we're making an issue out of

something that really didn't have to become an issue. Naming them and saying, here's who I relate to in the Treasury Department, answers the question. I don't think Mr. Rogers will not protect and defend them. If they're not doing their jobs, he's going to say it; he's done it before. In this case he'd do the same. I certainly know that if people are doing their jobs, he respects that; he will protect their professionalism. That's good, and they know that. I don't think naming them here casts any type of reflection on them one way or the other. I worry that we are kind of starting to limit the information coming from the Auditor General; that isn't necessary.

MR. ROGERS: Mr. Chairman, perhaps I could just make a comment. I think there may be some confusion. We're talking about a committee. When I said there are six people involved, we're talking about a working group that reports to the committee. I think it should be clear that we are talking about two different things. But the point is that this is internal in the Department of the Treasury. I feel that when it comes to talking about the qualifications of individuals in the department — who they are, so on and so forth — and their relationships within the department, this is really a matter for the man responsible for the department; that, of course, is the Provincial Treasurer.

I just want to say that I can't even give you the names of all six people; I believe it's six. I know the man in charge and have great respect for the individual, but I'm afraid that just off hand, I couldn't even give the names of the other people working for him if asked to by this committee. If the committee wishes, I will certainly get that information another way. I'm not trying to withhold any information from the committee.

But I will say that to the best of my knowledge, the work of this group — which incidentally is not just that they do a job and that's it; it's an ongoing thing, and they obviously look at various areas in rotation. From the reports we have looked at and then followed up as part of our audit work, we feel it is a very positive move by Treasury as a response to the recommendation in my report. I believe that the response, though, really should come from the Provincial Treasurer. Mr. Chairman, with the agreement of the committee, I would like to leave the matter at that point.

MR. GOGO: I just make the comment that I've listened to this with a great deal of interest, and clearly the Auditor General's comments are based on long established practice that with regard to personnel within any department, it's always been the prerogative of the minister responsible for that department. I have no quarrel with that at all. I find it a little ironical that for the first time in my experience in this House, Mr. Ray Martin is sitting on my right. I'm a little perplexed by that, but I find it a little comforting.

MR. CHAIRMAN: As if that has anything to do with the matter at hand. Mr. Moore.

MR. R. MOORE: Mr. Chairman, I'd just like to get a comment from Mr. Rogers on how we evaluate administrators of investment portfolios, to give us a little more of a handle on what is going on.

MR. CHAIRMAN: I'm sorry, Mr. Moore. We're not quite finished. Are you on this matter that we're talking about, the request for information?

MR. R. MOORE: I thought that had been talked out completely.

MR. CHAIRMAN: I just want to then come full circle. As I understand it then, I would be sending a letter to the Provincial Treasurer requesting the names. If the names are forthcoming, then, of course, any member of this Assembly has complete rights within his mandate as an elected person to make any value judgment on the performance of

those individuals. Mr. Alexander was next on the list. He's now departed, so Mr. Moore.

MR. R. MOORE: In any investment portfolio, Mr. Rogers, there are certain times when you restructure that portfolio, reassess it, and change direction. Any time you do that, there's a cost factor involved. There's always a cost factor; there are penalties and so on. But over time, when you evaluate that portfolio again and find it is in a better position than it was when it was restructured, even if you take into consideration the cost factor that was involved, would you say that the administrators of that portfolio had done a good job in looking after that portfolio, restructuring it, and putting it in place, when the overall assessment — as I say, over time — shows that it's in a better position than it was when it was restructured?

MR. ROGERS: Mr. Chairman, if the yield were increased, yes, I think you could say the people involved in the investment activity did a good job.

MR. R. MOORE: Very good. That's the way I would assess administrators. I think that's the way we should look at some of these cases.

MR. CHAIRMAN: Are there additional questions forthcoming from members of the committee? I've now exhausted my list. Then, Mr. Rogers, I do thank you very much. I sincerely hope that in the fiscal year 1983-84 there will be no need for you to come forward with a special report, as there was no need for you to come forward with a special report in the fiscal year 1982-83. Thank you.

Ladies and gentlemen of the committee, we'll now adjourn and reconvene tomorrow morning at 10 a.m., when we meet with the Hon. Larry Shaben, Minister of Housing.

[The meeting adjourned at 11:17 a.m.]

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